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**HOW DO LABOR
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INEQUALITY AND
EFFICIENCY**

IN LATIN AMERICA AND THE CARIBBEAN?

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HOW DO LABOR UNIONS AFFECT INEQUALITY AND EFFICIENCY

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Abstract

This paper posits that we have a limited understanding, both theoretically and empirically, of how labor unions affect welfare in the LAC region. Alternative approaches developed in other contexts, such as the neoclassical insider-outsider theory or a Marxist perspective, do not easily translate to the region. The private sector is more concentrated than on other continents, and most countries have a strong executive power at the expense of a politicized civil service and weak political parties. Furthermore, non-compliance with laws is pervasive. In such a context, both public and private sector labor unions have more room to improve welfare, but are also more likely to be co-opted by powerful political and economic elites. In addition, the available empirical evidence is relatively small and difficult to interpret due to endogeneity concerns. Given this situation, I attempt to contribute to the literature in three dimensions: First, I emphasize the importance of enforcement and compliance. Second, I devote substantial space to the political arena, mainly because this is where labor unions in the region tend to exert more influence over efficiency and equity. Finally, I provide a few novel metrics to a subject that is difficult to quantify.

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1. Introduction

Latin America and the Caribbean (LAC) is characterized by relatively high levels of market concentration. A few local business groups, usually managed and owned by traditional families, along with multinational companies (MNCs), extract large rents thanks to their market power. Those economic rents usually allow them to buy substantial political power and the capacity to manipulate policies, taxes and regulations in a way that contributes to maintaining the status quo. The outcomes are unequal societies with quite inefficient economies (Schneider 2009).

The main objective of this report is to analyze whether workers, particularly organized labor, play any role in the vicious cycle of inefficiency and inequality. To do so, labor unions need a minimum amount of strength. Therefore, I first summarize the available metrics and present some new ones. Unions in the region are on average weak, but there is substantial heterogeneity across countries and sectors. Then, the paper presents potential channels of influence. They are many, and theoretically ambiguous. Do labor unions in LAC strive to represent and defend the most vulnerable workers in the economy, or do they exclusively focus on the big local and multinational businesses described above? How does the presence of labor unions affect the rents (either in the product market or in the labor market) obtained by corporations? Which are the mechanisms? Does collective bargaining and the presence of labor union delegates on the shop floor oblige big firms to share part of their rents with workers? How do they affect firm productivity? Does organized labor support policies that reduce internal and external competition perpetuating big business in power? How do labor unions relate with the large informal sector? Do unions segment the labor market? or do they transfer resources to informal workers and help them become organized?

Answering these questions helps assessing the effects of trade unions on efficiency and inequality in LAC. However, they provide a partial answer since they only cover situations where unions deal with private sector businesses. Which role do labor unions play in the policy arena? Does their influence—through their own congressional representatives and their political alignments—contribute towards the eradication of monopolies and other market failures? Do they promote progressive labor and social security regulations and their effective universal enforcement? Or do they narrowly defend the benefits of their members even at the cost of causing large pension deficits and macroeconomic instability? Which is the role of public sector unions? Do they promote the quality of public services such as education and health care? Finally, do trade unions have an indirect effect on growth and inequality through their impact on the political regime? Are unions consistent champions of democracy? Summing up, do labor unions in LAC reduce or increase efficiency and inequality?

The main objective, then, is to make an educated guess of the average impact of organized labor on efficiency and inequality in the region. But equally important, we want to know about variation across countries, sectors, and mechanisms. Workers in LAC have had different historical experiences and operate in diverse political and economic environments (Collier and Collier 2002), suggesting substantial variation in traditions, resources, partisan links, and objective functions across labor organizations.

Despite a valuable literature, we have quite incomplete answers to the above broad questions. This is in part because of conceptual complexity. Theoretically, we only have a partial understanding of how labor unions affect society in the LAC institutional setting. The alternative approaches developed in other contexts (such as the neoclassical insider-outsider theory, the organizational view, or the Marxist perspective) do not easily translate to the

region. The private sector is more concentrated than in other regions as described above, and some LAC countries are characterized by a strong executive power, at the expense of a politicized civil service and weak political parties. Moreover, the rule of law is easily breakable in the region. In this institutional context, can labor unions bring a longer-term perspective to otherwise short-term policymakers? Can organized labor increase compliance with legally mandated labor regulations enhancing the rule of law? Would stronger labor unions in the public sector promote a Weberian bureaucracy that implements efficiency enhancing antitrust regulations? Or are trade unions in this context more likely to become politicized, and their leaders corrupt, at the expense of the workers they supposedly represent? Some of these important questions have not even been formulated in the literature.

We also have incomplete answers because providing robust empirical evidence is extremely difficult. Data are usually limited and causal inference particularly challenging. For example, the empirical literature we review below is plagued by endogeneity concerns. Moreover, effects occur in different arenas and can go in opposite directions. There is evidence that suggests that stronger unions can promote both efficiency and equality in some cases. For example, the relative success of the Great Banana Strike organized by labor unions in 1934 against the abuses of power of the United Fruit Company was an important step that contributed to a more equal society in Costa Rica (Booth 2008). In other cases, however, stronger unions could imply less possibility to introduce policies that improve human capital accumulation among the most vulnerable members of society, such as in the public educational sector in Argentina or Mexico (Jaume and Willén 2019; Álvarez, Moreno, and Patrinos 2007).

Finally, we know little simply because relatively little research has been conducted analyzing unions as economic actors. When Peter Kuhn and Gustavo Márquez published, in 2005, *What Difference Do Unions Make? Their Impact on Productivity and Wages in Latin America*, empirical studies estimating the effects on economic outcomes in the region were pretty much absent. Fifteen years later, the situation has improved marginally.

This paper attempts to contribute to the difficult task set out above by reviewing the existing literature, theoretically discussing alternative mechanisms and channels of influence, and offering some novel illustrative evidence. Following Schneider and Karcher (2010), I try to integrate the labor politics and labor economics literatures. This paper also builds on Richard Freeman's (2010) comprehensive review of the literature published in the *Handbook of Development Economics*. I attempt to extend his work in three dimensions: First, I emphasize the importance of enforcement and compliance in understanding the effects of labor unions in the LAC institutional setting. Second, I devote more space to the political arena, mainly because this is where labor unions in the region tend to exert more influence over efficiency and equity. Finally, I provide a few novel metrics to a subject that is difficult to quantify.¹ Because the interest is on the actual effects of trade unions, the paper does not cover the rich history of organized labor in the region.²

The paper is organized as follows. The second section documents the existence, strength and sectoral distribution of labor unions in LAC. Using secondary sources as well as novel data,

¹ This paper is less ample compared with Freeman (2010) in other dimensions. I do not include other developing countries beyond LAC, and I do not cover other labor market institutions and social policies (unless they are influenced by trade unions).

² Classic work on the history of organized labor in LAC includes Bergquist (1986), Collier and Collier (2002), James (1988), and Spalding (1977).

I provide measures of labor union strength that vary by country and over time. I also explore, within countries, whether labor unions are more likely to be present in firms with or without market power and representing high- or low-skilled workers. The third section presents stylized facts that describe the main characteristics of labor markets and labor market institutions in the region. I pay particular attention to the enforcement of labor regulations because this is a key determinant of worker welfare and has usually been ignored. The fourth section conceptually explores the main channels and instruments through which labor unions affect the rents of big business as well as economy-wide efficiency and inequality. The effects of these channels act in opposite directions, and some operate at the firm level, such as labor union delegates enforcing labor benefits set in the collective agreement, while others operate in the political arena, such as unions lobbying regulatory and enforcement agencies. The section also illustrates which of these mechanisms are effectively more prevalent in the region, using qualitative data and describing salient case studies. Finally, a special section is devoted to analyzing labor unions in the public sector, particularly in public education. They also affect economy-wide inefficiency and inequality, but through other channels. The conclusion discusses potential avenues of future research.

2. Labor unions in Latin America and the Caribbean

This section provides basic descriptive statistics on organized labor across sectors and countries in the region. We are interested, first of all, in measuring labor union strength. This is important because, without a certain amount of power, labor unions would not have the capacity to affect inequality and efficiency. Table 1 presents alternative objective and subjective measures of labor union strength in the region, including labor union density, the coverage of collective agreements, the share of firms unionized, the number of strikes, and whether people consider trade unions to be powerful institutions. We include as many countries as possible and use various sources, including the Enterprise Surveys (ES), International Labour Organization (ILO) statistics, the International Social Survey Program (ISSP), and the Latinobarómetro (LB).³ Despite the limitations of each proxy (which are discussed in Appendix I), several stylized facts emerge:

- Labor unions in LAC are on average weak, compared both with other institutions in the region (e.g., government and businesses) and with their counterparts in the developed world.⁴ There is, however, heterogeneity across countries and sectors.

³ See Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, <https://www.enterprisesurveys.org/>; ILOSTAT (dashboard), International Labour Organization, Geneva, <https://ilostat.ilo.org/>; ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, <http://issp.org/data-download/by-year/>; Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

⁴ This has been recognized by social scientists from different intellectual traditions, such as Anner (2008); Freeman (2010); Heckman and Pagés (2004); Schneider and Karcher (2010).

In a few countries, trade unions are relatively strong, mainly in Argentina, and, to a lower extent, in Bolivia, Brazil, Costa Rica, Mexico and Uruguay.⁵ In these countries, labor union density is usually above 20%, and, because of *erga omnes* (i.e., rights and obligations apply to all), more than half the workforce is covered by collective agreements.⁶ This is similar to developed countries, which have an average density of 30% and extensive agreement coverage, and higher compared with other developing countries in Africa and Asia where union density is below 20%, and coverage is quite limited (Freeman 2010; Blanchflower 2006). Furthermore, in these LAC countries, labor union leaders tend to occupy important positions in the executive or the legislative power, have influence over key policy areas, such as labor regulation and industrial policies, and, in some cases, control substantial funds, such as compulsory health insurance in Argentina. But, even in this group of countries, labor union leaders are—compared with other actors and institutions, such as politicians and businessmen—substantially less powerful.

In most countries in LAC, labor unions are relatively weak, with density rates around 10%, low collective bargaining coverage, and little capacity and resources for collective action, except in some particular sector of activity (usually, the public sector). Finally, in a few LAC countries, there are no effective labor unions or those that do exist are economically and politically irrelevant, such as in Guatemala and Haiti (Terrell 1993).⁷

The last two columns in Table 1 present the opinions of Latin Americans regarding the relative power of institutions in their countries. People were asked to select the three most powerful institutions out of a list of eight (i.e., big business, labor unions, banks, government, political parties, congress, media, and the military). One column shows the share of the population that selected labor unions as one of the three most powerful institutions, and the other column shows how labor unions rank out of the eight institutions. Labor unions are more likely to be considered powerful in Argentina, with almost 30% of the population selecting them. But, even in that country, labor unions rank in the fourth position behind big business, the government and political parties. In most countries in the region, people placed labor unions as the least powerful institution. Furthermore, if we take the regional average, labor unions appear as the least powerful institution among the eight options. Only 12% of Latin Americans selected labor unions as one of the three most powerful institution, compared with almost 50% who selected the government and 46% who selected big business (Figure 1). The political and economic irrelevance of labor unions is apparent in Chile, El Salvador, Guatemala, and Honduras, where only 5% or less of the population considers organized labor as one of the three most powerful institutions in the country.

⁵ ILOSTAT data indicate that Cuba has the highest union density rate in LAC, equal to 81.4% of employees in 2008. And, in the large informal sector, the Central de Trabajadores de Cuba claims that union density is above 70% (Pérez Cruz 2013). Based on these figures, Cuba should be considered a country with strong labor unions. Other studies, however, find density rates below 20% in this sector (Izquierdo Quintana 2015). Given the lack of better data and the additional complexities blocking a clear understanding of the effects of labor unions in a socialist economy, I leave the analysis of Cuba to further research.

⁶ Enterprise Survey (ES) data indicate that union density among employees working in registered firms is quite high. Business owners of registered firms in Argentina, Brazil and Costa Rica report that more than half of their labor force is unionized. This is substantially higher than the share obtained from household surveys (such as ISSP) for two main reasons: first, because the ES does not include informal workers (where unionization is nil); second, because business owners presumably report in the ES the share of workers for whom they pay compulsory union dues set in the collective agreement, while only workers who actively participate in labor unions tend to consider themselves union members in household surveys. This interpretation of the sharp differences in the metrics is, however, speculative.

⁷ The categorization of countries into three groups is for illustrative purposes only. Category limits are subjective.

Table 1. Measures of Labor Union Strength, circa 2010s

Country	Union density (%)				Unionized firms	Collective bargaining	Strikes, no.	Powerful institution	
	ILO	ISSP	LB	ES	ES (%)	ILO (%)	ILO	LB (%)	Ranking
Argentina	30.1	10.5	9.2	65.7	86.8	52.4	958	29.8%	4
Bolivia	26.6	-	19.8	10.6	13.9	-	-	23.5%	6
Brazil	18.1	22.9	12.0	55.1	81.2	58.8	446	10.6%	8
Costa Rica	18.6	-	10.2	67.5	97.9	4.6	6	17.7%	5
Mexico	14.2	9.1	9.9	24.5	32.4	10.2	11	21.9%	5
Uruguay	28.8	9.6	14.6	10.8	30.8	98.5	150	17.4%	7
Bermuda	20.4	-	-	-	-	-	-	-	-
Chile	15.8	7.2	11.3	14.2	30.8	25.0	184	1.8%	8
Colombia	9.4	-	6.3	0.4	1.1	0.7	3	11.0%	8
Dominican Rep.	9.3	11.8	24.6	3.0	20.4	-	0	12.8%	7
Ecuador	-	-	7.6	2.5	6.6	-	2	11.5%	8
El Salvador	15.2	-	9.2	1.1	3.2	4.7	13	1.9%	8
Guyana	12.1*	-	-	6.1	47.2	-	177	-	-
Honduras	-	-	11.3	1.6	2.8	5.6	63	3.9%	8
Jamaica	16.3*	-	-	7.1	34.0	-	7	-	-
Nicaragua	5.3	-	7.1	3.6	6.5	9.0	1	3.6%	6
Panama	11.0	-	11.6	9.3	15.6	1.1	6	13.4%	6
Paraguay	7.2	-	10.8	3.2	7.2	0.8	-	8.0%	7
Peru	4.0	-	11.0	1.2	4.1	3.9	83	8.7%	8
St. Vincent and the Grenadines	4.9	-	-	-	-	14.0	3	-	-
Suriname	-	11.0	-	-	-	-	-	-	-
Trinidad and Tobago	21.0	-	-	-	-	-	4	-	-
Venezuela	0.2	4.4	21.2	-	-	1.5	35	9.3%	8
Belize	9.5	-	-	-	-	9.5	0	-	-
Guatemala	3.2	-	8.4	0.6	2.5	-	-	6.0%	8
Haiti	2.0*	-	-	-	-	-	-	-	-

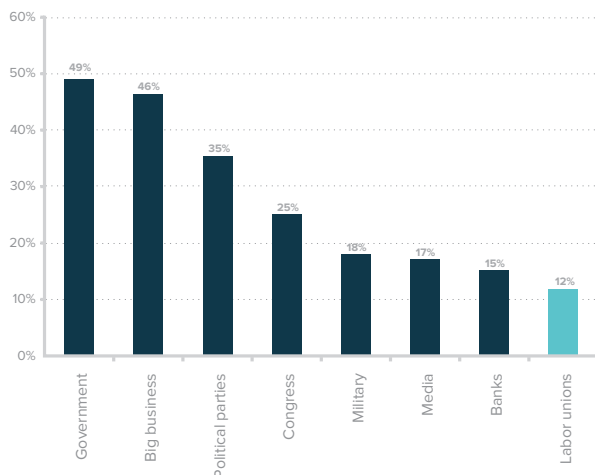
Sources: ES, various years = Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, <https://www.enterprisesurveys.org/>. ILO, 2020 = ILOSTAT (dashboard), International Labour Organization, Geneva, <https://ilostat.ilo.org/>. ISSP, 2016 = ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, <http://issp.org/data-download/by-year/>. LB, 2005 and 2007 = Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>. Other sources (*) are Guyana: BoS 2018; Haiti: Aidt and Tzannatos 2002; Jamaica: IDB 2003. For Cuba, see ILOSTAT; Izquierdo Quintana 2015; Pérez Cruz 2013.

Note: — = not available.

- Labor unions in LAC usually lost power with the abandonment or exhaustion of the import substitution industrialization (ISI) strategy.

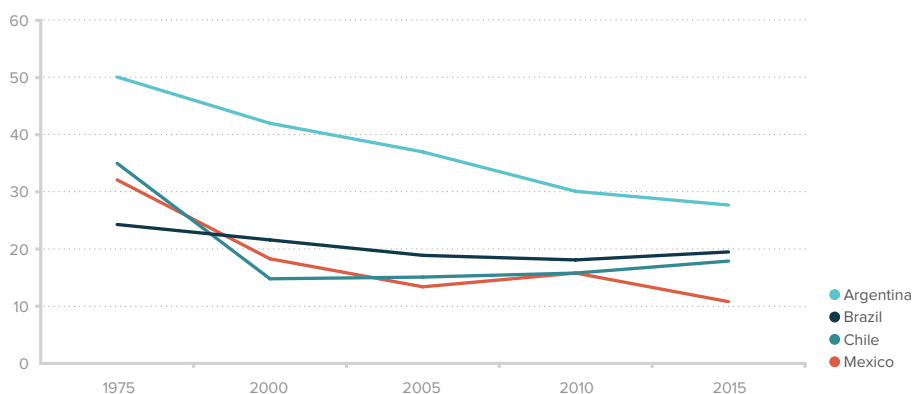
Figure 2 illustrates trends in union density in a few countries based on various sources. Despite the lack of perfect comparability across countries and over time, the figures tend to capture reasonably well the picture painted by the qualitative evidence: all countries experienced a decline in union density during the 1980s and 1990s with the abandonment of ISI (Anner 2008; Roberts 2007; Carnes 2014).⁸

Figure 1. Most Powerful Institutions in LAC, Public Opinion Survey



Source: Elaboration based on data on 2005, Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

Figure 2. Trends in Labor Union Density, Selected LAC Countries



Source: Elaboration based on Roberts 2007; data on 2020, ILOSTAT (dashboard), International Labour Organization, Geneva, <https://ilostat.ilo.org/>; data on 2016, ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, <http://issp.org/data-download/by-year/>.

⁸ The decline was heterogeneous across sectors. Cardoso (2001) shows that, in Brazil, union density declined strongly between the 1980s and 1990s in the tradable sector (particularly manufacturing), but it actually increased in non-tradable sectors such as education, health care and public administration.

In some countries, the decline continued during the 2000s, while, in others, density remained constant or even recovered a little, such as in Brazil and Chile. Etchemendy and Collier (2007) convincingly argue that labor unions in Argentina gained substantial power during the 2000s compared with the 1990s. Their actual strength, however, is substantially lower relative to the postwar period when labor unions were the backbone of Peronism (Levitsky 2003).⁹

- While labor unions in LAC are on average weak, in many countries they are key veto players in specific sectors of the economy, usually in the public sector and among state-owned enterprises. Labor union members are, on average, relatively skilled workers. Trade unions usually do not represent the poorest members of society. This evidence rules out an orthodox Marxist perspective.

There is large variation across sectors in the strength of trade unions. Similar sectorial patterns occur across countries. First, in all LAC countries, workers in the public sector are better organized than workers in the private sector (except in those activities where unions are usually legally banned, such as the police and the military).¹⁰ Union density is, on average, three times higher in the public sector (Table 2). A notable example is the Sindicato Nacional de Trabajadores de la Educación (SNTE) in Mexico, the largest labor union in the region, with 1.4 million affiliates.

Table 2. Ratio of Union Density in the Public Sector to the Private Sector

Country	Latinobarómetro	ISSP	Country	Latinobarómetro	ISSP
Argentina	3.04	2.72	Honduras	2.88	-
Bolivia	1.15	-	Mexico	2.82	6.20
Brazil	2.84	1.18	Nicaragua	5.59	-
Chile	1.48	1.94	Panama	1.71	-
Colombia	5.59	-	Paraguay	5.21	-
Costa Rica	4.72	-	Peru	3.30	-
Dominican Rep.	1.53	1.97	Suriname	-	6.54
Ecuador	2.50	-	Uruguay	2.41	3.16
El Salvador	2.36	-	Venezuela	1.79	2.01
Guatemala	1.16	-	Simple Average	2.89	3.22

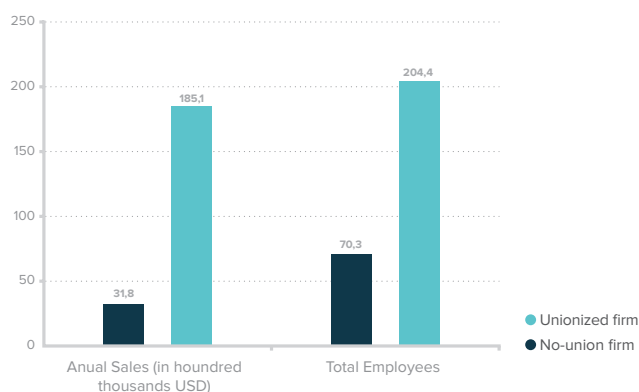
Source: Elaboration based on data on 2016, ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, <http://issp.org/data-download/by-year/>; data on 2007, Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

⁹ In recent decades, social movements have emerged in various countries in the region. These territorially based movements are usually comprised of low-income women who are mostly categorized as inactive using the traditional definitions employed in labor force surveys. If one takes a broad definition of organized labor that includes both traditional labor unions and social movements, it is not that clear that organized labor lost strength. We return to this issue below.

¹⁰ Police labor unions are allowed in most European countries and the United States. In Latin America, however, there are explicit prohibitions to collective organization among police. Only Brazil and Uruguay permit the existence of police labor unions. See Calandrón, Galar, and Da Silva-Lorenz (2020) on the case of Uruguay.

Second, within the private sector, workers are more likely to organize effectively in firms that are larger and enjoy higher rents. Figure 3 compares the average annual sales and the average size (measured by the total number of employees) of unionized and non-unionized firms in 19 Latin American countries using Enterprise Survey data. Total sales are six times higher in unionized firms compared with non-unionized firms, and the number of employees is three times higher (differences are statistically significant at the 99% level). These figures, however, underestimate the phenomenon because the ES only covers registered firms. Informal firms in LAC have few employees, make few sales and little profit, and their workers are hardly ever unionized.

Figure 3. Sales and Size of Registered Firms in LAC, by Unionization



Source: Elaboration based on data on registered firms in 2002–2006 in Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, <https://www.enterprisesurveys.org/>.
 Note: Sales are converted to US dollars at the official exchange.

Table 3 shows union density rates by worker educational attainment. Unlike in Canada and the United States, unionization is greater among more well educated workers in all LAC countries, a feature that was already emphasized in the studies reviewed by Kuhn and Márquez (2005).

Table 3. Unionization Rate, by Worker Educational Attainment, ISSP

Country	Complete primary or less, %	Complete or incomplete secondary, %	Some tertiary or more, %
Argentina	6.7	11.4	22.7
Brazil	20.7	20.1	33.9
Chile	4.5	7.3	10.2
Dominican Rep.	14.0	10.3	15.8
Mexico	5.9	14.7	23.3
Suriname	5.9	16.2	23.7
Uruguay	7.1	10.1	34.7
Venezuela	4.2	7.4	8.0
Simple average	8.6	12.2	21.5

Source: Elaboration based on data on 2016, ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, <http://issp.org/data-download/by-year/>.

All the previous evidence shows that labor unions have not been successful at representing the least skilled workers in the region. Furthermore, labor unions are almost non-existent in the organization of the most vulnerable occupations (such as domestic servants) or among the large subsistence self-employment sector.¹¹ These facts run against an orthodox Marxist perspective in which the basis of the labor union movement is a struggle against capital for a more decent life for the masses of people. Labor unions, according to Marx and Engels ([1848] 1965), unite all workers and help end competition among them.

In LAC, labor unions do not perform this role. They represent relatively skilled workers, particularly in large firms and the public sector. Their interests sometimes collide with those in the informal sector. A clear example is offered by the main Argentine trade federation, the Confederación General del Trabajo (CGT), which organized general strikes in 2012 and 2014 against increases in the income tax, which finances non-contributory social programs the poorest (Anigstein 2019).

Furthermore, some Marxist authors claim that labor unions develop class consciousness and shake the foundations of capitalist society (Draper 1970).¹² Again, the evidence from LAC and from other regions as well suggests that labor unions have reached an agreement with capital and the state (Bergquist 1986; Pérez Sáinz and Mora Salas 2006). They are thus more accurately characterized as social service providers rather than revolutionary organizations (Novick 2001; Marshall and Perelman 2004).¹³

- Few Latin Americans trust labor unions, but the large majority consider labor unions as a necessary institution to defend workers from employers' abuses of power.

Only about one third of Latin Americans have much or some trust on labor unions (while the remaining two thirds have little or no trust).¹⁴ These figures changed slightly between 1995 and 2015 (Table 4). Moreover, most Latin Americans consider that there is substantial corruption in labor unions. Thus, on a scale of 0 to 10, where 0 is no corruption, 70% of people chose a value between 6 and 10. The same survey, however, indicates that almost 80% of people believe that workers need strong labor unions to defend their working conditions and wages. A potential explanation for this seeming paradox is that people do not trust labor union leaders, but support labor unions as equalizing institutions in a context in which employers enjoy substantial power, but antitrust and competition policy is absent.

¹¹ There are exceptions. See Blofield (2012) for a discussion of domestic workers and labor unions in LAC.

¹² Prominent Marxists, such as Antonio Gramsci, however, have a different view (Annunziato 1988).

¹³ See de la Garza Toledo (2001) for a description and categorization of labor unions as class or revolutionary and corporatist organizations.

¹⁴ Trust in other institutions is also quite low in the region (Lagos 2001).

Table 4. Trust in Labor Unions

Country	Labor unions are necessary to defend workers, %	Corruption is substantial, %	Trust (2015), %	Trust (2005), %	Trust (1995), %
Argentina	59.8	87.6	25.5	13.8	18.8
Bolivia	82.2	59.6	33.6	31.3	-
Brazil	88.6	76.6	35.7	40.8	38.2
Chile	85.7	49.5	59.0	31.2	46.2
Colombia	65.9	73.1	32.0	32.4	-
Costa Rica	79.5	72.9	33.1	25.5	-
Ecuador	59.7	68.0	30.1	31.0	-
El Salvador	72.5	59.1	33.2	21.4	-
Guatemala	79.5	76.4	18.5	16.3	-
Honduras	76.9	71.5	32.4	16.4	-
Mexico	74.5	66.8	26.2	29.9	41.7
Nicaragua	90.4	78.7	31.5	25.1	-
Panama	73.9	60.7	30.2	21.8	-
Paraguay	75.0	72.2	35.7	19.8	40.9
Peru	79.0	76.3	29.4	23.2	32.0
Uruguay	78.4	63.7	42.7	46.8	39.8
Venezuela	72.3	84.2	15.1	29.1	18.7
Average	76.6	70.7	31.8	27.1	34.5

Source: Elaboration based on data on 1995, 2002, 2005 and 2015 in Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

- Informal and unemployed workers (i.e., outsiders) express support for labor unions and for employment protection legislation (EPL). This evidence rules out a simplistic neo-classical insider-outsider interpretation of labor markets in the region. Moreover, there are some cases where trade unions support the organization of informal workers and collaborate with social movements.

The insider-outsider theory claims that labor unions and EPL are the main culprits behind outsider strain. The theory assumes the inexistence of market failures. In which case, the emergence of labor unions and EPL provides benefits to insiders (i.e., workers with formal jobs) above their productivity, but at the cost of reducing the demand for labor and overall welfare. This economic equilibrium is also a political equilibrium because the model assumes that insiders are overrepresented in the policymaking process (e.g., thanks to the lobbying of trade unions).¹⁵

¹⁵ See Persson and Tabellini (2002); Rueda (2006); Carnes (2014); Berens and Kemmerling (2019).

Relaxing the extreme Marxist assumption of homogeneity of interest among workers is certainly useful. However, arguing that the suffering of informal workers (outsiders) is mainly caused by formal workers (insiders), thereby ignoring distributive conflicts between labor and capital seems inadequate to the realities of the region. Let us analyze the evidence. The belief that labor unions are necessary to defend working conditions and wages is equally held among insiders and outsiders. Almost 80% of insiders—that is, of those employed workers who receive labor benefits—support labor unions as expected (Table 5). However, contrary to the insider-outsider perspective, a similar share of unemployed and self-employees—that is, of outsider workers who are supposed to be hurt by labor unions and EPL—support labor unions.

Table 5. Worker Opinions about Labor Unions, by Type of Employment

Type of employment	Labor unions necessary to defend workers
Self-employee	0.7554
Employee, public sector	0.7680
Employee, private sector	0.7822
Unemployed	0.7854

Source: Elaboration based on data in Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

In recent work with Ravi Kanbur and Santiago López-Cariboni, we provide more evidence showing that most outsiders in LAC and other developing countries support, rather than oppose, protective labor regulations (Ronconi, Kanbur, and López-Cariboni 2019). This evidence holds across different types of protective labor regulations (i.e. severance payment, minimum wages, working time) and different categories of outsiders (i.e. unemployed workers, employees without access to legally mandated labor benefits, and the low-skilled self-employed). EPL and labor unions might not be as detrimental for informal workers as the insider-outsider model predicts (Ronconi, Kanbur, and López-Cariboni 2019). One potential reason is that, in the absence of unions and EPL, employers enjoy substantial monopsony power in the labor market.¹⁶

Another potential explanation is that labor unions (sometimes) support and collaborate with emerging social movements that (partially) represent the interests of the outsiders; that is, income sharing between insiders and outsiders makes the latter support regulations that redistribute from capital to labor. The Central de Trabajadores de la Argentina (CTA), which is mainly comprised of public sector employees, redefined the neighborhood as the new factory and organizes territorially based groups of unemployed. Even the traditional CGT has recently organized activities with social movements in Argentina and is providing job training to outsiders (Jacinto 2015). The collaboration is presumably stronger in Brazil. Organized labor sought to extend its influence beyond the struggle for wage increases and to reach outsiders. The Workers' Party (PT) emerged as a result of the approach between the

¹⁶ Other potential reasons that could explain outsiders' support for protective labor regulations are (1) transitions between insider and outsider status; (2) income sharing between insiders and outsiders (e.g., they belong to the same household); (3) the prevalence of fair-minded or overly optimistic informal workers instead of homo economicus. These arguments are developed by Ronconi, Kanbur, and López-Cariboni (2019).

Central Unica dos Trabalhadores (CUT) and the old Brazilian left-wing, and the CUT and the Movimento dos Trabalhadores Rurais Sem Terra (MST) fought to incorporate popular sectors (Ramalho 1999; Collier 2018; Rossi 2017).¹⁷

3. Labor markets and regulations in LAC

Latin American labor markets are segmented, with substantial informality, high wage inequality, low human capital, discrimination, large public sector wage premiums and large wage premiums among workers employed in big private firms. This section briefly describes the main characteristics of labor markets and labor market institutions in the region. Most of the key stylized facts are well known, so I devote little space to them. The analysis of enforcement, however, is relatively novel. The enforcement of labor regulations and the influence labor unions have on the levels and distribution of enforcement are an important and overlooked issue in understanding the functioning of labor markets in the region (Anner 2008; Murillo, Ronconi, and Schrank 2011). Therefore, I devote a disproportionate amount of space to this issue. The LAC region (despite some heterogeneity) can be characterized as follows:

- Employment law is relatively protective in the region, and benefits for employees are usually de jure universal, although there is variation mainly because of legal origin, whereby former British Caribbean colonies tend to have less protective laws compared with civil law countries. But effective regulation is much weaker because public enforcement is low and produces substantial noncompliance. The few inspection resources are usually devoted to enforcing labor benefits in large corporations (both local and international).

The first column in Table 6 shows that the letter of labor codes in LAC is, on average, more protective or rigid than in East Asia and the United States and as protective or rigid as in Europe. The index measures the protection of employment laws as the average of five variables: alternative employment contracts, costs of increasing hours worked, costs of firing workers, dismissal procedures, and minimum wages. These variables are from the World Bank Doing Business initiative.¹⁸ Latin American countries, however, devote few resources to public enforcement (i.e., inspectors and inspections), and have little trust in courts. In LAC countries, effective employment regulations (i.e., the combination of in-form protections and enforcement) are therefore not as protective or rigid as the labor code suggests.

Figure 4 shows the heterogeneity in the level of formal protection in the region. LAC countries that were British colonies (white dots) have substantially less protective employment laws nowadays compared with countries that were French, Portuguese, or Spanish colonies (black dots). Countries with more protective employment laws tend to enforce less. Bolivia and Venezuela, the two countries with the most protective de jure legislation in the region, are at the bottom of the enforcement ranking (i.e., in positions 29 and 30 among 31 countries).¹⁹

¹⁷ Trade unions have also developed a continental coalition with social movements against the Free Trade Area of the Americas and other projects (von Bülow 2010).

¹⁸ See Doing Business (dashboard), International Finance Corporation and World Bank, Washington, DC, <http://www.doingbusiness.org/data>.

¹⁹ The strong negative correlation between enforcement and the letter of the law is important from a policy perspective. It indicates that estimates of the effects of labor regulations that rely on a de jure measure (as most of the evidence does) are biased. Hence, the cross-country evidence that labor unions reduce efficiency because of lobbying for distortionary EPL is not robust (See Botero et al. 2004; Kanbur and Ronconi 2018). We return to this issue below.

We now turn to analyze compliance with labor regulations and how it varies across countries and particularly by firm size. Columns 1 and 2 in Table 7 show that there is widespread violation of labor and social security regulations in the region. While the letter of the law requires employers to provide a number of benefits (such as not paying below minimum wage, providing a labor contract, contributing to the social security system, offering paid vacations, and paying severance in case of dismissal), only a share of the workforce receives them in practice. Estimates suggest that half of private sector employees in the region do not receive the benefits to which they are legally entitled, and this problem has not decreased over time (Gasparini and Tornarolli 2009).

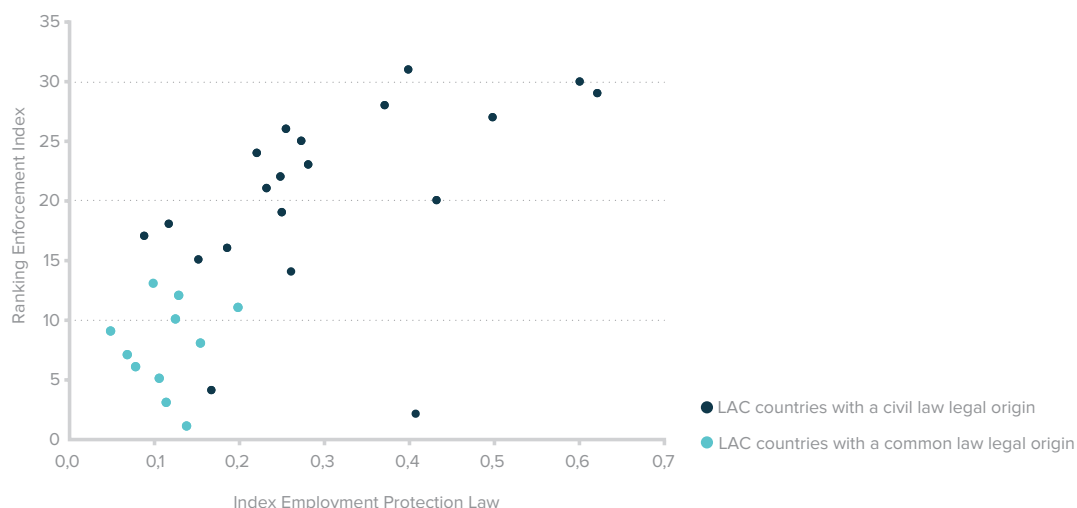
Table 6. Effective Labor Regulation, Laws and Enforcement

Region	Index employment protection law	Labor inspector per worker	Inspections per year per worker	Fines	Trust in courts
North America	0.06	4.72	62.91	64130	47.3
East Asia & Pacific	0.19	6.18	61.90	47341	64.7
Middle East & North Africa	0.21	7.77	98.00	8232	41.1
Central Asia	0.26	3.09	7.18	274	36.8
Latin America & Caribbean	0.28	3.97	54.42	9230	6.5
Europe	0.29	9.30	90.75	3607	34.7
Sub-Saharan Africa	0.30	2.35	31.61	6169	36.2
South Asia	0.34	2.42	31.35	3364	49.6

Source: Kanbur and Ronconi 2018.

Note: All variables are simple averages across countries. The number of labor inspectors is per 100,000 workers, and the number of labor inspections conducted per year is per million workers. Inspection figures are for 2000–2012. Fines are de jure medium total penalty, as of 2011, in case of noncompliance with the minimum wage (US dollars). Trust in the courts represents the share of the population that has a great deal or quite a lot of confidence in the courts, minus the share that does not have any confidence at all (from the World Values Survey). Countries with a population below one million in 2011 are excluded. See WVS (World Values Survey) (dashboard), King's College, Old Aberdeen, United Kingdom, <http://www.worldvaluessurvey.org/wvs.jsp>.

Figure 4. Labor Regulations and Enforcement in LAC



Source: Based on Kanbur and Ronconi 2018.

The last three columns in Table 7 show that there is a substantial difference in the behavior of big firms compared with small firms in compliance with legally mandated labor benefits. In almost every country in the region, large firms are much more likely to comply with social security contributions, compared with medium and small firms (the Bahamas is the only exception). For example, in Panama, 94% of people working in big firms receive the legally mandated contribution to social security, compared with only 23% of employees in small firms. On average, big firms in LAC pay the contributions to social security for about 90% of their employees (i.e., a 10% rate of noncompliance), compared with only 30% of compliance among small firms.

Table 7. Compliance with Legally Mandated Benefits, by Country and Firm Size

Country	Employees without labor contract (%)	Employees without social security contributions (%)			
		Total	Large firms	Medium firms	Small firms
Argentina	-	33.77	8.75	28.59	70.06
Bahamas	41.97	6.87	0.00	13.84	1.43
Bolivia	53.31	57.17	20.58	44.67	88.49
Brazil	-	22.03	7.63	24.91	53.75
Colombia	31.89	30.80	4.38	30.28	76.82
Chile	14.25	16.11	12.06	29.08	45.75
Costa Rica	-	21.27	5.06	20.10	52.31
Ecuador	22.56	39.26	4.18	42.33	73.79
El Salvador	56.01	54.97	17.74	53.38	93.54

Guatemala	65.40	66.86	24.58	63.11	94.94
Guyana	59.90	36.52	6.74	36.52	70.50
Honduras	51.46	66.39	12.04	66.76	97.56
México	53.45	59.71	23.06	53.01	90.26
Nicaragua	-	58.76	-	-	-
Panama	18.24	22.99	6.21	28.85	77.02
Paraguay	48.88	60.67	24.47	48.41	87.55
Peru	46.46	56.79	22.28	65.63	94.98
Dominican Republic	27.29	30.79	3.92	32.88	84.99
Surinam	74.63	36.10	0.00	16.46	35.63
Uruguay	-	10.90	0.67	8.98	40.55

Source: Data of SIMS (Labor Markets and Social Security Information System) (dashboard), Inter-American Development Bank, Washington, DC, <https://www.iadb.org/en/sector/social-investment/sims/home>.

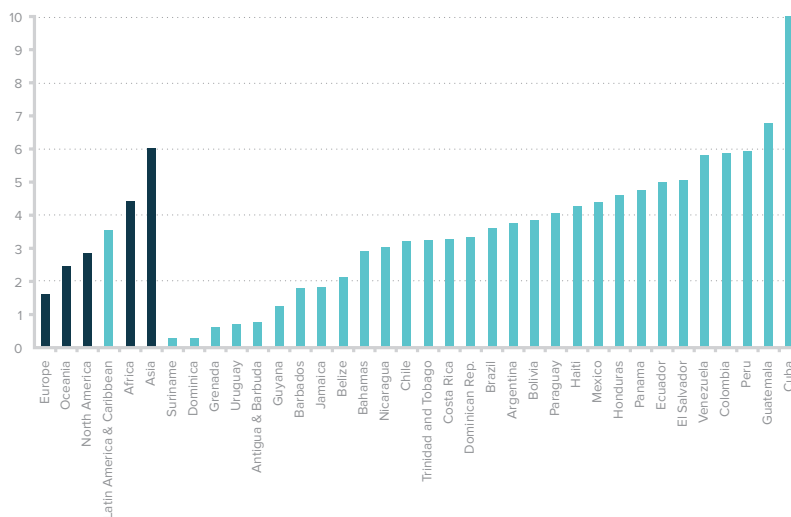
Note: Data for the Bahamas and Nicaragua refer to 2014. Data for Mexico refer to 2016.

A potential interpretation is that big firms comply with regulations in part because of the existence of labor unions, and unions target those firms because the firms enjoy rents. Trade unions can use many mechanisms to achieve compliance. One is monitoring, such as the presence of labor union delegates on the shop floor. (Trade unions are usually not present in small firms.) A second mechanism is that labor unions can put pressure on the public inspection agency to target large firms because that is where their members work. A third mechanism is a corporatist agreement between big business and organized labor unions whereby the rents obtained in the product market are shared with workers in the form of labor benefits. Labor unions, in exchange, do not demand greater competition and could even collude with big business to defend the market power that the firm enjoys by helping block attempts to deregulate or open the economy to foreign competition. We provide below some evidence suggesting that the three channels play a role in explaining the substantially higher rate of compliance among bigger firms.

- Labor relations legislation and the application of the legislation are quite heterogeneous across countries in the region, facilitating the formation of labor unions in some countries, such as Uruguay, but impeding it in many others, such as Cuba and Guatemala. In most countries, such as Argentina and Mexico, the elected government has significant control over labor relations usually resulting in the politization of labor.

Kucera and Sari (2019) recently developed an index of labor relations rights that provides a useful measure of concepts that are otherwise difficult to quantify. Coding data on violations, in both form and practice, of the rights of freedom of association and collective bargaining, Kucera and Sari find that violations are more frequent in Latin America and the Caribbean than in Europe, Oceania, and Canada and the United States, but less frequent than in Africa and Asia (Figure 5).

Figure 5. Index of Violations of Freedom of Association and Collective Bargaining Rights



Source: Kucera and Sari 2019.

Note: Figures are an average of the overall index between 2000 and 2017, defined as the normalized score of the sum of weighted violations in law and in practice. The index is normalized to a range in value from 0 to 10, the best and worst possible score, respectively.

The index also highlights the substantial heterogeneity across countries in the region. There are almost no violations in several small Caribbean countries or in Uruguay. The opposite occurs in Cuba, where there is, in practice, a prohibition against establishing or joining an organization and against collective bargaining; in Guatemala, where anti-union discriminatory measures, particularly in export processing zones, are widespread; and in Colombia, where the murder or disappearance of trade unionists because of their professional activities is regrettably quite frequent.

In most LAC countries, the elected government (not a Weberian bureaucracy) has significant control over labor relations. For example, elected officials provide state recognition to unions (a necessary condition for operations); they decide which labor union has monopoly representation, whether collective agreements in the private sector are acceptable, and whether strikes are legal. This level of intervention has contributed to the politization of labor (O’Connell 1999; Murillo 2001; Murillo and Ronconi 2004; Schneider and Karcher 2010).

- Trade unions in Latin America are usually weak on the shop floor, but stronger in the political arena.

Labor economists usually find that labor unions in LAC are weak at the firm level. Marshall and Perelman (2004) argue that countries that grant a trade union monopoly of representation tend to deter unions from implementing more active recruitment strategies on the shop floor as long as the monopoly of worker representation reduces competition. This happens in Argentina and Mexico. However, two countervailing factors make labor unions in Argentina stronger at the firm level. First, the Argentine labor code explicitly stipulates the number of union delegates that should be present at the workplace, while, in Mexico, this is not

legally regulated (Marshall and Groisman 2005; Bensusán 2000).²⁰ Second, in Argentina, granting trade unions control over the obras sociales, the compulsory health insurance for employees, greatly facilitated the communication between labor union organizations and their potential members (Perelman 2006). Political scientists, however, find that trade unions are quite relevant actors in the political arena (Cook 1998; Madrid 2003; Murillo 2001). We return to this issue below.

4. How labor unions affect efficiency and equity

This section describes several potential channels for the influence of organized labor on efficiency and equity and attempts to measure the magnitude of the effects. Because labor unions tend to be weak in the region, it is likely that the actual effects that unions have on productivity and inequality in LAC are moderate.²¹

First, at the firm level, trade union leaders and delegates bargain with business owners to share the rents obtained in the product market, and they seek not to allow employers to exploit their power in the local labor market. Both the former and the latter forces reduce inequality (between capital and labor), but the latter can also improve efficiency by bringing salaries closer to the value of labor productivity. However, this is only true if union leaders respond to the interests of workers and if business owners enjoy rents (i.e., operate in markets that are not perfectly competitive). If the labor union leader is corrupt, he will not share with workers the fruits of bargaining, and the positive effects on equality and efficiency tend to disappear. If markets are in perfect competition, then unions bring inefficiencies thereby reducing productivity and investment.

Second, at the sectoral level, team-spirited labor unions can use part of the rents obtained from large businesses to subsidize social services for workers employed in small or informal firms thereby reducing inequality within sectors.²²

Third, in the policy arena, there are three instruments to consider: (1) Labor unions can collude with big business and use their political power to reduce internal and external competition or obtain special tax treatment, subsidies and privileges, thereby perpetuating and exacerbating inequality and inefficiency. This channel is, regrettably, quite usual in LAC, but it used to be even more so during the ISI period. (2) Labor unions can use their political power to introduce universal de jure protective regulations such as minimum wages and severance payments. But, at the same time, they can capture the state inspection agency and use those resources to enforce only protective labor regulations in big business (where their affiliates are employed), leaving informal workers without any real protection. This channel can reduce inequality between capital and labor, but exacerbates it within labor. (3) Organized labor can oppose, delegitimize, and destabilize military dictatorships, or it can collaborate with them.

²⁰ The Argentine law requires that establishments with more than 9 and less than 51 employees must have at least one trade union delegate; in those with 51 to 100 employees, two representatives; and, in those with 101 employees or more, one additional delegate for every 100 workers.

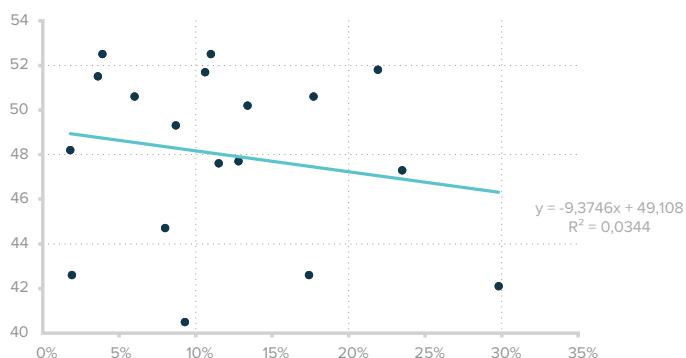
²¹ There is a large literature that conceptually discusses other potential effects and mechanisms. It is summarized in Freeman (2010); Kuhn and Márquez (2005); Tzannatos and Aidt (2006).

²² For example, in Argentina, labor unions usually provide the same social and health benefits to all workers in their sector, but collect more funds from those who earn higher wages (Danani 1998).

Providing solid evidence is challenging for several reasons. In many cases, the correct level of analysis to test hypotheses is at a very aggregate level, such as the country level; conducting randomized controlled trials is usually not feasible; and measuring the main explanatory variable, labor union strength, is difficult. There are, however, some informative results.

Figures 6 and 7 illustrate the relationship between (an objective and a subjective) measure of labor union strength and income inequality across countries. Both figures show that countries in which labor unions are stronger tend to have slightly lower levels of income inequality, although the estimates are imprecise, and the correlations are certainly far from confronting the many endogeneity concerns.²³

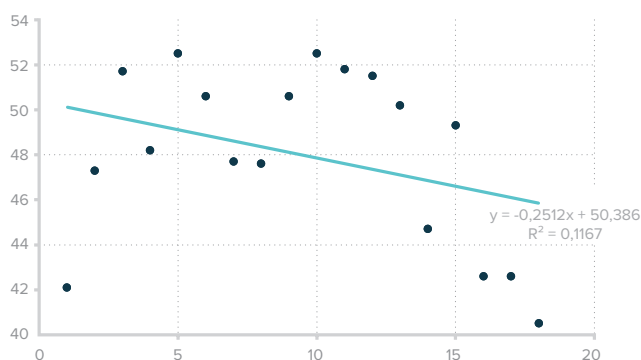
Figure 6. Income Inequality and Subjective Union Strength



Sources: Elaboration based on data in Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>; Sociómetro-BID (Statistics on Poverty and Income Inequality in LAC; 18 Countries), Inter-American Development Bank, Washington, DC, <https://www.iadb.org/en/research-and-data/poverty%2C7526.html>.

Note: Union strength is the share of people who consider that labor unions are among the three most powerful groups in their country (from Latinobarómetro). Inequality is measured using the Gini coefficient based on household surveys in 2013–2014 from Sociómetro-BID.

Figure 7. Income Inequality and Labor Union Density



Source: Data of Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, <https://www.enterprisesurveys.org/>.

Note: Union density is the share of employees in registered firms that were unionized in 2002–2006.

²³ Furthermore, measuring income inequality using household surveys produces large measurement errors because the wealthier members of society either fail to answer the questionnaire or misreport their own incomes. In Argentina, the Permanent Household Survey (which is used to compute the Gini coefficients) only captures one third of total income.

A useful methodology is to exploit the variation in labor union strength over time. A lack of reliable data prevents the exercise. Gasparini and Cruces (2010) mention that labor union strength appears to be a relevant force in reducing income inequality in Argentina. They note that, during the 1990s, union strength decreased and inequality increased, while the opposite occurred in the 2000s. But, as they emphasize, it is difficult to establish causality.²⁴ The wages set in collective agreements signed during the 2000s—that is, during a period of growing union strength—are more equality distributed within and across industries compared with the wages set in the collective agreements signed previously (Ronconi 2013). Yet, it is difficult to rule out other interpretations, such as the endogeneity of collective agreements to changes in the macroeconomic situation.²⁵

A number of historical events involved a major change in trade union strength in the region, and some of those events did not occur too long ago. Perhaps the most notorious occurred when Pinochet assumed power in Chile following a coup d'état in 1973. Pinochet banned the labor union movement.²⁶ Most analysts would agree that, in the medium run, productivity and inequality increased in Chile. Could we conclude, then, that labor unions in Chile helped reduce inequality, but at the cost of lowering productivity? It is difficult to disentangle the effects of banning trade unions because of the many other changes after Pinochet took power, including the political regime and a deep economic liberalization.

Rios-Avila and Hirsh (2014), using microdata and self-reported measures of union membership in Bolivia and Chile, find that, in both countries, labor unions reduce wage inequality, mainly by reducing right-tail (not left-tail) wage dispersion. Fairris (2003) finds that unions reduce wage inequality in Mexico although the equalizing force has been declining. Ugarte, Grimshaw, and Rubery (2015) focus on gender pay differences and find that, relative to Chile, the stronger labor unions and industrial relations system narrow gender pay differences to a greater extent in Argentina.

But, Arbache and Carneiro (1999) find that wage dispersion is far greater in the unionized sector in Brazil; Cuesta (2005) estimates a positive effect of unions on inequality in Colombia; and McGuire (1999) obtains negative ordinary least squares estimates of labor union strength on income equality and human development using a sample of 16 Asian and Latin American countries. He interprets the results as capturing the objective function of labor unions that press governments to support the relatively well-off insiders at the expense of the outsiders (e.g., rural poor and shantytown dwellers).²⁷

Unions have both positive and negative effects on productivity in the private sector. Four relevant studies in Kuhn and Márquez (2005) exploit a panel of firms. On the one hand, Saavedra-Chanduví and Torero (2005) on Peru and Urizar and Lée (2005) on Guatemala find that

²⁴ Marshall (2002) focuses on the industrial sector in Argentina during the 1990s and finds that the decline in union strength is related to the increase in wage inequality. Calvo (2001) extends the analysis to other Latin American countries and also finds that labor union density is negative correlated with wage inequality in the industrial sector. An obvious concern is how union density affects overall inequality.

²⁵ Failure to control adequately for potential endogeneity is also prevalent in the trade union research that covers developed countries (Doucouliagos et al. 2018).

²⁶ Major changes include the de facto suspension of union activity in 1973–1975; in 1978, rural labor federations were made illegal; and, in 1979, new legislation promoted firm-level bargaining (at the cost of industry level bargaining), and union membership ceased to be compulsory among workers in unionized enterprises (see Zapata 1974; Frías 1993).

²⁷ The paper, however, also finds that labor union strength has a positive effect on growth. The results are contradictory and difficult to interpret as causal effects because of unobserved heterogeneity and sample selection.

trade unions reduce profits and productivity, although the negative effects on productivity are not robust to the inclusion of fixed effects. On the other hand, Menezes-Filho et al. (2005) find that, in Brazil, union density seems to have an inverted U-shaped effect on productivity and employment and no significant effect on investment; and Cassoni, Labadie, and Fachola (2005) find that unionization raises productivity in Uruguay. All four studies, however, conclude that unions raise employment.

More recent studies also find results that go in opposite directions.²⁸ Rios-Avila (2017) uses a sample of registered manufacturing firms in six LAC countries (Argentina, Bolivia, Chile, Mexico, Panama, and Uruguay). He finds that unions have small and positive effects on productivity, with the exception of Argentina, with a large negative effect, and Bolivia, with no effect. Lamarche (2013) exploits the government-induced framework for productivity-based negotiations between firms and unions at low levels of organization that occurred in Argentina in the 1990s and finds that it had a positive effect on productivity compared with the traditional industry-level negotiations. As Kuhn and Márquez (2005) suggest, a plausible interpretation is that the different effects observed reflect true heterogeneity in union effects.

The third sphere of influence and probably the most important is the political arena.²⁹ Labor unions in the region have used their political power to introduce universal *de jure* protective regulations, such as minimum wages and severance payments; or to block attempts to flexibilize the labor market (Cook 1998; Madrid 2003; Murillo 2001). It is not obvious, however, how EPL affects inequality and efficiency. Theoretically, effects are ambiguous. If the labor market is in perfect competition and business owners have no political power, as assumed in a simplistic neoclassical insider-outsider model, then EPL reduces efficiency and increases inequality by benefiting formal workers at the expense of informal workers. On the other extreme, if employers have monopsony power and there is solidarity among members of the working class, as assumed in a simplistic Marxist approach, EPL increases efficiency and equality by distributing from rentier capitalists to workers in general and the most vulnerable in particular.

In my opinion, however, the available evidence does not support either of these two simplistic and extreme approaches. First, while it is a fact that, in LAC, unions are more likely to represent more well educated workers, it is not obvious that EPL only benefits this group of insiders. Why do about 70%–80% of outsiders (i.e., the unemployed, informal employees and low-skilled self-employees) support rather than oppose EPL, if protective regulations hurt them as claimed in the insider-outsider model (Ronconi, Kanbur, and López-Cariboni 2019)? Second, there is substantial debate about the economic effects of labor regulations, such as the minimum wage, not only in the developed world (Card and Krueger 1995; Neumark and Wachter 2006), but in LAC as well (Gindling and Terrell 2005; Bosch and Manacorda 2010). Freeman’s (2010) review of the literature indicates that most studies find that minimum wages in developing countries reduce employment sufficiently modestly so that minimums generally help the less well paid.³⁰

A relatively unexplored mechanism of the influence of trade unions is enforcement. This is

²⁸ Fairris (2006) compares unionized and non-union firms in Mexico and finds higher job training and productivity in the former. In contrast, Maloney and Ribeiro (1999) find a negative correlation between unionization and productivity in Mexico.

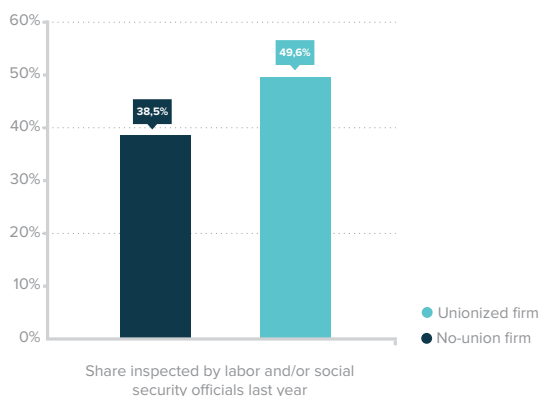
²⁹ As pointed out by Schamis (1999), organized labor was part of the broad coalition (also formed by domestic-oriented manufacturing and the urban middle sectors) that sustained ISI for most of the postwar period.

³⁰ Similar results were found during the last decade by, for example, Alaniz, Gindling, and Terrell (2011); Maurizio and Vazquez (2016); Sotomayor (2021).

somewhat surprising given the low rates of compliance in the region. Schneider and Karcher (2010) point out that one of the negative complementarities that characterize labor markets in LAC is that the weak representation of labor unions at the plant level implies little enforcement and, hence, high informality (and informality makes organization difficult). Labor unions can also promote compliance with worker benefits by lobbying the government to devote more resources to public enforcement. This mechanism has received some recent attention. Using a panel of 18 LAC countries, Ronconi (2012) finds that, when labor union density is higher, state agencies conduct more labor inspections, although the estimates are imprecise. Amengual and Fine (2017) describe how workers organizations can cooperate with provincial labor inspectors in Argentina to produce co-enforcement. Both studies suggest that labor unions can increase overall enforcement, but they say little about the potential reallocation of public enforcement resources from the non-union to the unionized sector. This is a concern because, while labor unions usually press for universal regulations, they can capture the state inspection agency and use the resources to enforce regulations only in firms in which their affiliates are employed, leaving informal workers without any real protection.

Figure 8 compares the rate of labor inspections between unionized and non-unionized firms located in LAC using the Enterprise Survey. Consistent with the above hypothesis, unionized firms are effectively more likely to be inspected. The difference is statistically significant at the 99% level, but economically small. Almost 50% of firms with unionized workers are inspected every year, compared with 39% among non-union firms. This figure presumably underestimates the relationship, however, because the sample only includes registered firms, and informal firms are rarely inspected (Almeida and Ronconi 2016).

Figure 8. Labor inspections in Unionized and Non-Unionized firms in LAC



Source: Data of Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, <https://www.enterprisesurveys.org/>.

Note: The LAC countries on which inspection data are available are Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua and Peru.

Labor unions have been relevant actors in the stability and type of political regimes. But there is substantial controversy among political scientists on the direction of the influence. According to Rueschemeyer, Stephens, and Stephens (1992) and others, labor unions in Latin

America are a consistent champion of democracy.³¹ If this were indeed the case, then there is a channel through which labor unions could reduce inequality. This is because democracies are more likely than authoritarian regimes to redistribute.³² Several influential political scientists, however, argue that the record of labor unions in the region with respect to democracy is mixed. Levitsky and Mainwaring (2006: 21) point out that “in several countries, including Argentina, Mexico, Nicaragua, and Peru, labor movements actively backed nondemocratic regimes during the latter half of the twentieth century. In other cases, unions either supported coups against elected governments (Argentina, Bolivia) or engaged in maximalist strategies that put democratic regimes at risk (Chile, Bolivia, Peru).”

5. Labor unions in the public sector

It is not possible to analyze the effects of private sector unions on efficiency and inequality without considering the characteristics of private firms, in particular, whether private firms enjoy market power or not. Similarly, it is necessary to consider the characteristics of political institutions to appreciate the effects of public sector trade unions on welfare. If, in the absence of trade unions, the state is predatory, then labor unions have more room to improve prosperity compared with a situation where the state is already pursuing the general welfare. Furthermore, labor unions in the public sector have a number of particularities that make an analysis of them necessary separately from unions operating in the private sector. This section discusses the topics that appear to be particularly important in the region.

Most LAC countries have poorly institutionalized policymaking environments (e.g., lacking an independent judiciary or a qualified civil service), leading to short-termism and unstable, incoherent, uncoordinated and clientelistic policies (Stein and Tommasi 2007; Scartascini, Stein, and Tommasi 2013).³³ Can trade unions in this institutional setting expand the horizon of policymakers? Can they mobilize for a meritocratic autonomous bureaucracy and for an improvement in the quality of public policies? Or are public sector labor unions more likely to become politicized? Do they capture public agencies for their own benefit, thereby causing more harm to the general population? I next present examples that illustrate these mechanisms.

- Public sector trade unions in the region use their strength to lobby for special social benefits, such as pensions, even at the cost of causing large fiscal deficits and macroeconomic instability. This is a major (and probably the worst) negative effect of unions in both efficiency and equality in Latin America.

Brazil’s public sector pensions are among the most generous in the world. Civil servants retire on average at age 54 and receive 50% of the value of all pension payments despite representing only 5% of all pensioners (Glomm, Jung, and Tran 2009). Brazil is an extreme example, but other countries in the region also have the same problem (Bosch, Melguizo,

³¹ Collier and Mahoney (1997) and others.

³² This is, however, a controversial claim. Acemoglu et al. (2015) survey the empirical literature and find that it is full of contradictory results. Their own analysis indicates that there is a positive effect of democracy on tax revenues as a share of gross domestic product (GDP), but no impact on inequality.

³³ There is substantial heterogeneity across LAC countries, such as between Argentina (low-quality institutions) and Chile (medium-high quality). Evans (1989) argues that a LAC country such as Brazil is an intermediate state between the predatory and klepto-patrimonial Zairian state and the embedded autonomy of the East Asian developmental state.

and Pagés 2013). Levy (2017) makes this point clearly: “many governments in Latin America use general revenues to cover the deficits of PAYG pension systems, de facto establishing a subsidy from all tax payers to the subset of workers who benefit from them. And since, as noted, those are workers with relatively higher wages, it follows that these systems introduce a regressive bias to public expenditures, a bias that can be quantitatively relevant. Brazil spends 4 percent of its GDP in subsidies to its PAYG system, Colombia 3.5 percent, Mexico 2.1 percent, El Salvador 2.0 percent, and Peru 1.7 percent.”³⁴

- The strategies pursued by teachers unions in LAC to advance their interests can harm education quality, particularly among the most disadvantaged children who cannot afford to attend private schools. Low human capital accumulation among the poorest children leads to future lower productivity and higher intergenerational transmission of inequality.

Universal access to high-quality education is a fundamental engine of growth and equality (Becker 1994). Students in LAC, however, remain well behind their counterparts in the countries of the Organisation for Economic Co-operation and Development and even further behind their counterparts in East Asian countries in mathematics, science and reading (Hanushek and Woessmann 2012). Teacher unions are partially responsible for their poor performance. Mexico’s SNTE has been characterized as “an opaque, allegedly corrupt organization that engages in clientelism and the politics of power, and its dedication to improving education appears to be low on its list of priorities” (Hecock 2014: 79). Contrary to what happens in other sectors, public sector teacher unions exist and are politically active in every country in the region. Quite often, the strategies they pursue have negative consequences on educational outcomes. Two prominent examples are class days lost due to teacher strikes in Argentina (Murillo et al. 2005; Jaume and Willén 2019); and the opposition of unions to teacher performance evaluation, or its political manipulation as in Mexico (Bruns and Luque 2014; Hecock 2014).

Teacher unions, however, usually lobby for higher education spending, more teaching supplies, and school infrastructure maintenance and upgrading. In some LAC countries and particularly in those that lack cohesive bureaucracies, the existence of strong teacher unions could counterbalance the short-term bias of policymakers. Therefore, “the impact of unions on students’ performance depends on the channel and kind of political market in which unions operate, but not on the presence of unions per se” (Murillo et al. 2005: 231).³⁵

- Do public sector unions impede or contribute to the politization of the bureaucracy? Trade unions can function as a check and balance to an excessively powerful executive power when attempting to manipulate institutions and public policies for their own benefit. But, they can also become co-opted and politicized.

A large literature links the politization of the bureaucracy (i.e., when politicians have control over civil servants’ careers) with ailing democracy and lower growth (Evans and Rauch 1999; Stokes 2011). The mechanisms are many, including corruption, short-termism, clientelism, and poor public goods provision. The recent episode involving the manipulation of price index statistics in Argentina highlights the importance of another mechanism: the politization of

³⁴ There is a substantial political economy literature that documents the opposition of labor unions to pension reform in the region, including Madrid (2003), Mesa-Lago and Müller (2002), Murillo (2000), and Niedzwiecki (2014).

³⁵ Teacher unions, particularly SNTE in Mexico, can constitute political machines, and teachers become political brokers, vitiating democracy (Larreguy, Montiel Olea, and Querubin 2017).

policy knowledge (Boräng et al. 2018). Do public sector trade unions defend professional bureaucrats from the pressures of politicians to bias public statistics? In 2007, President Kirchner in Argentina intervened at the National Statistics Institute to manipulate the inflation and poverty rate and artificially make them look lower. This policy produced some benefits for the incumbent in the short run, but was clearly detrimental for the medium- and long-run credibility of the country. How did organized labor react? UPCN, the largest public sector labor union with official recognition, turned a blind eye to the manipulation of statistics. However, ATE, a smaller and more independent public sector trade union, resisted the politicization of official statistics by refusing to cooperate in its production and by alerting the public as whistle-blowers (Boräng et al. 2018). ATE mobilized in defense of the National Statistics Institute and was an important factor in the restoration of the agency's autonomy (Almeida and Pok 2014).

6. Conclusion

The large empirical literature on the economic effects of labor unions in North America and Europe can be characterized by the finding that unions can be good or bad (Tzannatos and Aidt 2006). Similarly, the much smaller literature covering LAC finds both positive and negative effects. There is little support for those approaches that give organized labor a prominent role either as champions of democracy and equality (as in a simplistic Marxist view), or as a main culprit behind the labor market distortions and segmentation observed in the region (as in the neoclassical insider-outsider model).

There is relative consensus that labor unions in LAC are usually small and politicized and possess weak representation on the shop floor (Kuhn and Márquez 2005; O'Connell 1999; Schneider and Karcher 2010). They have some room for agency, but it is certainly limited by structural conditions. There is, however, substantial heterogeneity across countries and sectors, with public sector labor unions playing a more prominent role.

Overall, do they improve efficiency and equality in the region? Taking into account all the caveats discussed above, I think that labor unions have a small positive effect on equality in the short run and a small negative effect on efficiency. Trade unions improve equality mainly because they distribute from capital to labor. Yet, the redistribution is incomplete because some workers are excluded and some trade union leaders are corrupt. Trade unions reduce efficiency mainly because of their influence on pension and education policy. Yet, there are situations in which labor unions correct market failures, such as monopsony power in the labor market; and defend the professionalization of the bureaucracy against the interests of the elected incumbent.

I would like to conclude by suggesting avenues for future research in the spirit of varieties of capitalism (Hall and Soskice 2001). I think it would be particularly fruitful to focus on the relationship between the state and labor. In LAC, there usually exists a negative complementary between excessive state and government intervention in industrial relations and the politicization of labor unions. The state decides which unions are granted monopoly of representation, which strikes are legal and which not, which collective agreements signed by both employers and workers are acceptable, and which sectors receive subsidies for vocational training. More importantly, in LAC, the state usually means the executive power. The person or party who won the election is the one who takes these decisions. There is no Weberian civil service deciding on rather technical questions such as which unions have more members, which services are essential and, hence, which strikes should be restricted, which firms and sectors should be inspected, or which are the sectors that require more subsidies

given the shocks experienced by the economy. Given the discretion that political appointees have over the labor relations system, it is not unexpected that labor unions have adapted to the rules of the game and became politicized. This would be particularly detrimental if the short-termism that characterizes electoral officials expands to other domains. Can organized labor bring a longer-term perspective to policymakers? Could labor unions in the region play a role in the emergence of a meritocratic developmental state? Would a Weberian civil service help shift away from political clientelism to programmatic social policies? Could it implement welfare-enhancing industrial policies, thereby avoiding the short-term rent-seeking behavior that characterized the ISI period of the past?

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Appendix

Union density (ILO) is usually defined as the number of labor union members over total employment; but, on Chile and Peru, the denominator is the number of private sector employees. The source of information to compute the numerator is problematic and varies across countries. In Argentina, the data are provided by labor unions; in Brazil and Mexico, they are from household surveys; in Chile and Venezuela, they are from the administrative records of the Ministry of Labor; and, in most Central American countries, they are “estimates based on various sources”. The data used in this paper refer to 2010, and, for countries without data for that particular year, we use the average of the available years immediately before and after 2010. Data retrieved on March 3, 2020 from ILOSTAT (dashboard), International Labour Organization, Geneva, <https://ilostat.ilo.org/>.

Collective bargaining coverage (ILO) is usually defined as the number of workers covered by a collective agreement over total employment; but, for Brazil, the denominator is the number of employees; for Chile, the number of private sector employees, and, for Peru, the number of private sector workers. As with the previous indicator, there is large variation in the sources of information to compute the numerator; the figures refer to 2010, and the data have been retrieved from ILOSTAT (dashboard), International Labour Organization, Geneva, <https://ilostat.ilo.org/>.

Number of strikes (ILO) is the number of strikes in both the private and public sectors during 2010. The source of the information is usually the Ministry of Labor, but, in Argentina, the data are from “a special collection effort”; in Brazil, from newspapers, and, in Uruguay, from the Universidad Católica.

Union density (ISPP) is the number of workers who report in the survey that they are currently members of a labor union over total employment. The data for Argentina, Chile, Mexico and Venezuela refer to 2012; for the Dominican Republic and Uruguay, to 2008; for Brazil, to 2004; and, for Suriname, to 2015.

Union density (LB) is the number of workers who report in the survey that they are members of a trade union or a business or professional association over total employment. It is not possible to distinguish between the two groups. The figures refer to 2007.

Union density (ES) is the share of employees who are unionized in the firm according to the opinion of businesses owners. The sample covers registered firms in the private sector. Data are from 2002 to 2006.

Unionized firms (ES) is the share of firms that have unionized workers. The sample covers registered firms in the private sector. Data are from 2002 to 2006.

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