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The role of labor unions and collective bargaining in labor markets: correction of market imbalances and redistribution of wealth

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“Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world.

This opinion, which has never been confirmed by the facts, expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system.”

Pope Francis

Abstract

Labor markets play a crucial role distributing income among societies’ members. In labor markets, the interaction between capital owners and workers determine the allocation of the national product as profit and wages respectively. But this interaction does not happen in equal conditions, thus outcome is not allocated in an efficient and fair way. Imbalances in the bargaining power and disparities regarding the information lead to a lack of competitiveness. Collective bargaining and unionization can correct these inherent imbalances, improving income distribution equality and productivity. Some argue that labor market work properly without requiring any labor institution. However, the evidence collected through this research proves the contrary: improving collective bargaining coverage, and higher degrees of centralization and unionization leads into better indexes regarding inequality in income distribution and higher degrees of productivity. Collective bargaining also contributes to socio-political stability. In this regard, Chile is a particularly interesting case addressed by this research. The country is member of the OECD and present the lowest rates of unionization, collective bargaining coverage and the worst Gini index of the group. This research analyzes the Chilean case, proposing labor policies to improve collective bargaining.

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Introduction

Competitive markets are those markets in which a large numbers of suppliers compete with other suppliers to satisfy the needs of a large number of consumers. In competitive markets no single supplier nor a single consumer, or a group of each of them, can determine prices or the ways the market operates. To be considered competitive, markets require to meet some basic standards. Among the characteristics of competitive markets, the ones that stand out are the parity of information available regarding prices and production methods, the inability to set prices and the symmetry in the bargaining power between the parties. However, perfect levels of symmetry in bargaining power and total availability of information exist only in a theoretical manner under laboratory conditions. Labor markets are not the exception, they do not exist in a pure competitive and theoretical manner.

High-skilled workers are more likely to be able to negotiate their labor conditions, particularly their remunerations. However, low-skilled and vulnerable workers act as mere price-takers of the wages offered by employers (in this case price setters), who by definition have a bigger bargaining power, and more information regarding the internal situation of the company and the general state of affairs of the economy.

This inherent asymmetry present in markets for low-skilled labor force would tend to push down overall wages of less qualified workers. In response, most of national legislations have incorporated laws establishing a minimum wage. In other words, in front of a malfunction of the market for low-skilled labor force produced by the lack of competitiveness, or a market failure, the state introduces an economic floor where wages should not be set under. Minimum wage laws are established for equity and social justice purposes. It is the way society, through the legislative representation, consider a minimum price for labor market. It is common sense that below this price workers cannot satisfy minimum living standards. If labor market for low-skilled was a competitive market workers would push wages up until achieving a minimum price where they would be willing to take for a given position. But this does not occur. Who will freely chose to take a vile price for his/her work?

However, introducing a minimum wage does not make markets for low-skilled labor force more competitive. Real competitiveness could be achieved by reinforcing those characteristics that make markets competitive: symmetry on bargaining power and parity on the levels of information available.

In the labor market economic theories the institutions which objective by definition is making labor relationship symmetric are trade unions and collective bargaining.

Literature review

Neoclassical and neoliberal economic theories state that wages are already "above a hypothesized competitive equilibrium". But this condition can only occur "where labor is sufficiently powerful to block free entry of workers into a given market" (Perrone 1984:413). In this regard, neoliberal economists argue that wages are already in equilibrium and that mechanisms like minimum wage laws or collective bargaining through unions just create a distortion on labor markets. Like Friedrich Hayek who have stated that "[W]e have now reached a state where [unions] have become uniquely privileged institutions" (Hayek 1960:267). Other neoliberal economists do not deny the possibility of the existence of unions but propose that those collective organisms should just exist in very limited spheres of the economy. In this regard economists like William Hutt propose a collective bargaining only framed within a given company, thus no at a national or industry level, giving little if not null, redistributive power to labor unions. In words of Hutt there are organizations “such as labor unions that impose restraints on the free-market price of labor and so destroy entrepreneurial incentives to offer better-remunerated employments to all” (Hutt 1989:117).

On the other hand, several economists recognizes the importance of unions and collective bargaining as a tool of correction of inherent distortions of labor markets and redistribution of wealth in societies. In this regard, it is remarkable the contribution of Michal Kalecki, who developed an economic theory stating that “if the trade union power declined… the volume of investment and capitalists’ consumption would remain unchanged and the consumptions of workers would fall. The total output and employment would thus decline” (Kalecki 1971:163). Therefore, trade unions and collective bargaining would play a key role in the generation of higher levels of productivity, employment and redistribution, transferring part of the capital surplus from capital owners to workers.

In addition, scholars like Eckhard Hein and Thorsten Schulten had proven that weakening institutions such as trade unions and collective bargaining and “wage restraint and cuts in labor costs… regarded as the ‘magic formula’ to create employment” (Hein and Schulten 2004:547) has produced a counter effect on unemployment in the European Union, proposing new theories on the relationship between the empowerment of workers and economic development. These studies contradict the dogmas of neoclassical and neoliberal theories on labor markets, which basically argues that as more deregulated the market for labor is more employment and creation of wealth would be the final outcome.

Research questions

The present research will address the following questions: How the lack of unions and collective bargaining implies maintaining an inherent distortion on labor markets, particularly the market for low-skilled labor force? And how unions and collective bargaining can correct these market distortion and, as a consequence, impact on the distribution of wealth?

This research will prove, through theoretical research, empirical analysis and a case study, that the lack of unions and collective bargaining implies the existence of inherent distortions in low-skilled labor markets, due to the asymmetry regarding negotiating power and information between the parties. Therefore, this research will prove that unions can correct this market distortion and, as a consequence, have a positive impact on the general distribution of wealth in society.

For this purpose, different theories of economics of labor will be discussed and the case of Chile, member of the Organization for Economic Cooperation (OECD) and a country with a high index of inequality and low rates of unionization and collective bargaining coverage, would be analyzed. The objective is to compare Chile with other countries of the OECD looking for the causes that lead into disparate rates of unionization and collective bargaining, and how those different indexes impact on distribution of wealth and inequality.

This research will be a contribution proposing concrete mechanisms in order to enhance unionization and collective bargaining.

This thesis will also be a contribution to the discussion regarding redistributive policies, social and collective empowerment of vulnerable workers and the creation of labor institutions that create real competitive markets and at the same time guarantee the protection of workers, particularly the vulnerable ones.

In this research, the concept “labor institutions” refers to all those institutions which labor markets and productivity rely on, such as trade unions, employer associations, collective bargaining, human resources practices, labor and social security laws and administrative rules, and public policies referred to workers training and education (Hayter 2002).

Chapter 1

Economic theories on labor markets: Inherent imbalances and lack of competitiveness

In 1981, during the dictatorship of Augusto Pinochet, Friedrich Hayek visited the country's capital, Santiago to participate in a conference with the Chilean economists in charge to implement the new economic order in the country. Getting absolute power after the overthrow and dead of president Salvador Allende and his democratic government in 1973, Pinochet, supported by the right wing, started a series of reforms, being the deepest one the reform to economic regulations and labor legislation, based on the thoughts of the Chicago School of Economics. For that purpose, the dictator sent many young Chilean economists to study in that university in order to put in practice anew social, political and economic paradigm. These reforms were implemented without any opposition as the parliament was closed and political parties declared outlaw. During his visit to Santiago, Hayek was interviewed for a local media. When asked "Do you think that one of the roles of the state is the redistribution of wealth?" Hayek answered "No, definitely no". The interviewer continues, "[B]ut if we take the case of Chile for example, which in 1973 20% of its population lived under conditions of extreme poverty?" and Hayek continues with the neoliberal orthodoxy "No, that does not get solved through redistribution. As I argued before, if redistribution would egalitarian would be less to redistribute. It is precisely the inequality on income distribution which allows the current level of production "(Cristi 2000:166).

The dialogue shown above is more than an anecdote. It reflex the neoclassical and neoliberal thoughts on labor markets. Neoclassical theories establishes that labor markets are already in equilibrium, where employers and workers (the supply and demand sides in labor markets) are both price takers, been incapables of influence on the price of wages.

For the scholars Eckhard Hein and Thorsten Schulten the neoclassical and neoliberal economic perspective on labor markets constantly blames the high rates of unemployment today in Europe to the excessive regulation of labor markets and social institutions "which prevent 'market-clearing' wage levels and wage structures" (Hein and Schulten 2004:533).

Neoliberal economic theories on labor markets insist on their natural equilibrium and competitiveness, arguing that are precisely institutions like collective bargaining, minimum wage laws and social security systems the responsible for the malfunctioning of labor markets. Wage rigidity triggered by these institutions would be the cause, according to neoliberal economists, of high levels of unemployment.

But, what many scholars argue (Kalecki 1971; Hein and Schulten 2004; Baker and Bernstein 2013) is that the level of wages have no direct effect on unemployment. On the contrary "[O]rganized labor markets, effective wage-bargaining coordination and rigid nominal wages should therefore not be considered as obstacles to more employment and growth but rather as macroeconomic stabilizers and preconditions for a better macroeconomic performance" (Hein and Schulten 2004:538). Why it is possible to argue this? Because during periods of recession wages trend to prevent processes of deflation, keeping the required levels of consumption, productivity and socio-political stability. Workers consumption deeply depend on their wage level.

Unfortunately, since the decade of 1970, the neoliberal theory on labor markets prevailed. Low-skilled and middle-income workers have lost relative purchase power and inequality is increasing due to "globalization, technological change, a bubble-driven finance sector claiming disproportionate profit shares, declining unions, a falling value of the minimum wage, and more" (Baker and Bernstein 2013:7).

Actually, following what has been called the "Washington Consensus", the unionization rate and the coverage of collective bargaining has declines considerably in the last decades.

	Union density		
Country	*1970*	*1980*	*1994*
Australia	50	48	41
Austria	62	56	42
Belgium	46	56	54
Canada	31	36	38
Denmark[a]	60	76	76
Finland	51	70	81
France	22	18	9
Germany	33	36	29
Italy	36	49	39
Japan[a]	35	31	24
Netherlands	38	35	26
New Zealand	—	56	30
Norway	51	57	58
Portugal	61	61	32
Spain	27	19	19
Sweden[a]	68	80	91
Switzerland	30	31	27
United Kingdom	45	50	34
United States	23	22	16
Average	43	47	40

Union density and collective bargaining coverage in the OECD countries. Source OECD stats 1997.

As can be observed since the decade of 1970 until the mid-1990s union density has declined considerably, except for Scandinavian countries.

In the case of the European Union (EU) many recommendations have been made following the neoliberal economic theories on labor markets after the 2008 economic crisis. This recommendations are pursuing wage restraints, the reduction of workers' collective bargaining power, restricting nationwide bargaining to a structure based in a firm level negotiation, and finally changing the wage structures, differentiating wages according to levels of productivity.

However, as mentioned before, these policy recommendations are based on a misconception of labor markets, believing that labor markets are competitive and in equilibrium *per se,* thus arguing for a deregulation in order to return to a previous ideal non-existing competitive market.

But there is no theoretical nor empirical evidence to sustain that exist a correlation and causal relationship between real wage rates and unemployment levels.

On the contrary, it is possible to argue that a strong bargaining power, exercised at a nationwide or industrial level, is the best tool to create truly competitive labor markets.

Firms could eventually act as monopolies when determining the price of labor (wages) regarding low-skilled workers. In this regard, low-skilled workers simply take a given price, without any possibility of impact on its amount or any other working conditions. According to the scholar Alan Stuart "in capitalist economies, labor market inefficiencies will arise in the absence of intervention" (Stuart 1998:6). In this regard, this author argues that it is possible to observe two different type of labor markets: "Primary labor markets are characterized by employment stability, the presence of job ladders, strong and effective trade unions and efficient management, while secondary markets have the opposite characteristics" (Ibid:5). And is precisely in secondary markets where most of the vulnerable workers render their services and where the lack of collective bargaining and other labor institutions allows the existence of the lowest wages and exploitation conditions in a market that precisely for its lack of regulation, according to the orthodox classical and neoliberal theories, should be in perfect equilibrium.

In addition, even in regulated primary markets it is possible to find industries that are dominated by only few firms. In this case we are in presence of an oligopsony, this is a market with many bidders of labor force (workers) and few buyers (firms). In this case, firms are even more likely to lower wages as they have more faculties to determine the price of labor. The increasing concentration of wealth in fewer hands across the world, new corporate holding structures and the dismantling of unions and collective bargaining make labor markets even less competitive than ever.

In this regard, and addressing the lack of transparency, competitiveness and equilibrium in labor markets, particularly the market for low-skilled workers, contributions of the "pluralist industrial relations school of thoughts" are remarkable. This school of thinking, based on the contributions of Sidney and Beatrice Webb in England, John R. Commons (the father of U.S. industrial relations), and members of the Wisconsin school of institutional labor economists in the early twentieth century, proposes a focus on "the need for 'the equilibrium of capital and labor' rather than the domination of one or the other" in order to prevent "[E]xcessive corporate power that creates substandard wages and working conditions [that] can burden society with welfare-reducing social costs (Budd 2004:2).

Neoliberal economic theories reduce labor markets to mere mechanisms of efficient allocation of resources. According to these theories, the 'invisible hand' "will guide self-interested individuals towards efficient outcomes in which aggregate welfare is maximized and scarce resources are used to their most productive ends" (Ibid: 4).

This could be true when markets are competitive, when all actors, firms, consumers and workers can maximize their outcomes, generating a general welfare for the society as a whole. In those theoretical cases "competition among firms, workers, consumers, investors, and suppliers under ideal conditions yields optimal prices, output, wages, and consumption" (Ibid: 8). Unfortunately, in the case of labor markets, where it is possible to observe the phenomena of oligopsony, monopsony and monopoly exercised by firm owners when setting wages, particularly for low-skilled workers, true competition does not exist.

The main problem that leads into the lack of competitiveness in labor markets is the inherent imbalance between the bargaining power of corporations and individual employees. As stated by the researcher John Budd, "[T]his superior power stemmed from market imperfections: isolated company towns, mobility costs and lack of family savings or other resources, segmented markets and excess labor supply" (Budd 2004:8). In this regard unions, collective bargaining and labor laws are established as mechanisms that encourage, promote and create the conditions for the existence of true competitive labor markets rather than interfering with them. As stated in previous paragraphs, when labor markets lack the required minimum labor institutions it is not possible to talk about a true competitive market. In addition the combination of costly job search, restrictions in mobility, bargaining power disparities, informational asymmetries, and the lack of sociocultural structures that promote social mobility among vulnerable people give employers a monopsony power mentioned in previous paragraphs.

In a competitive market no group have a bargaining advantage over other and market prices, including wages, fully reflect the value allocated by society. Workers participate in the determination of their working conditions through entry into desirable jobs and out of undesirable ones (Troy 1999:12). In this regard, a non-competitive market does not reflect the social value of labor, lowering wages, especially of low-skilled workers, and have a negative impact on the distribution of wealth within the society.

The labor institutions which will be described and analyzed in depth in the next chapter are trade unions and more particularly collective bargaining. Starting from the assumption that labor markets are imperfect and there is an inherent imbalance between the bargaining power of employers and workers, the best way to correct these imbalance should rely upon the parties involved in labor markets. In this regard, unions and collective bargaining appears as the natural solution for the correction of labor market imperfections, even better than other labor institutions such as minimum wage regulations which entail public costs. Collective bargaining, unions and employers through processes of negotiation are more efficient allocating prices for labor because they are institutions that emanate from the parties involved in labor markets.

Chapter 2

Unionization, collective bargaining and distribution of wealth

According to the scholar Colm McLaughlin there is an apparent tradeoff between efficiency and equity in labor markets. In this regard, dominant neoliberal discourse has established in the debate the idea that mechanisms orientated towards bigger degrees of equity in low-skilled labor markets, such as minimum wage laws and strong sectorial collective bargaining, produce a decrease in labor market efficiency. However, as mentioned before, non-neoliberal economic theories on labor markets, like the pluralist industrial relations school of thoughts, argue that by the contrary, mechanisms that enhance bargaining power of workers could play a stabilizer role on labor markets, making them more competitive, transparent, and therefore more efficient.

The neoliberal view "is challenged by those who recognize that certain labor market institutions and regulations may play a vital role in a well-functioning and efficient economy. For example, regulations for addressing conflict may provide stability, or mechanisms for delivering fair wages outcomes may enhance the social legitimacy of industrial relations policy" (McLaughlin 2006:1). According to this view, efficiency is not diminished by having equity mechanisms, although orthodox economic theories insist on the negative effect on employment, increases on the price levels (inflation) and cuts in other vital areas such training and technological improvement. However, evidence from the United Kingdom has shown that "the introduction of the minimum wage has had a negligible impact on employment". In fact, the OECD "now acknowledges that a moderate increase in the minimum wage is unlikely to have a negative impact on aggregate employment levels" (Ibid: 2).

Notwithstanding the above, this thesis argues that from the two main mechanisms that introduces bigger degrees of equity and efficiency to labor markets, the minimum wage and sectorial collective bargaining, is the last one the optimal to achieve this goal. And this is due to two main reasons. First, enhancing collective bargaining produces more positive externalities than minimum wage laws, as it creates better social relations between capital and labor, conducting to bigger degrees of social cohesion, political and democratic stability. In second place, when workers orientate their action through collective bargaining are more efficient allocating the social value of labor, as they are one of the parties participating in labor markets. They have better knowledge of the reality of the industry or sector of the economy, thus creating the possibility of differentiated level of wages according to the particular characteristics and features of a given process of collective bargaining.

In this regard, "[T]he high costs of wages imposed through collective bargaining is certainly one element in forcing employers to compete on quality rather than cost and to invest in training to ensure worker productivity matches labor costs" (McLaughlin 2006:4). That positive effect of competition between employers, therefore increasing the overall levels of wages, is absent in minimum wage policies, which do not encourage real competition.

Collective bargaining stands as an institution which generates and regulates labor relationships and as the key element for social cohesion for different political, economic and cultural context. According to the Argentinean scholar Omar Moreno, collective bargaining as any other socio-economic institution allows the essential social equilibrium. (Moreno 1994).

As mentioned before, collective bargaining achieves not only the economic outcome of producing more efficient and equity labor markets; it also contributes to the construction of cohesive societies, collaborative institutions, and higher levels of confidence between workers and their employers. For example, the Danish labor system, where according to the data provided by the OECD (2005) 75 percent of the labor force is affiliated to a trade union, is "characterized by a consensus based relationship between the actors at all levels built upon a long culture of dialogue and consensus building". In Denmark, parties involved in labor relationships "share a strong desire to jointly run the labor market, working through disagreements and issues themselves rather than having the government resolve them through legislation". Actually, when labor legislation is required, the government run a consultation with employers' associations and unions whose participate in drafting the new legislation, its implementation, tracing and evaluation.

Historical evolution of labor markets: new challenges for unions and the collective bargaining

Trade unions and collective bargaining faces nowadays a different labor and economic reality. Since the decade of 1970, there were major changes on production means, industrial relations and the socio-political context. All these changes create the necessity of rethink the role of unions and collective bargaining as key institutional actors regarding redistribution of wealth, and efficient and fair labor markets.

The traditional model of production remained basically the same between the late nineteen century and the decade of 1970. This model, called Taylor-Ford or mass production model, was characterized by the standard production of particular lines of goods with very low consideration of consumers market preferences. The objective of the mass production model, embedded in a very classical perspective of the economy, was to produce more and more goods, which leaded to an increase on corporate profits, an increase in overall wages, a decrease on the general level of prices, thus generating higher rates of consumption. It was structured in a consumption based and self-sustainable cycle.

For this purpose, the organization of labor and capital required some particular features, which dominated labor markets during almost a hundred years: separation between the planning and execution of work, organization of firms into specialized divisions coordinated through a highly hierarchized structure, and finally the specialization of functions and tasks among workers.

The above described model was the witness of the rising of unions, world trade unions confederations, the welfare state and a new paradigm of the industrial relations. However, in the last four decades, that paradigm completely changed.

Increased competitiveness between companies, and the increasing phenomenon of globalization leaded into major changes on the traditional model of organization of capital and labor. This model was gradually replaced by the "Japanese" model of industrial production and industrial relations, where companies have to deal with shorter economic cycles, deeper countercyclical policies and more instable markets (Rummler et al. 1994).

According to the scholars, the transition between the Taylor-Ford mass production model to the actual model was a response to a revolution on consumption experimented by the industrialized western countries at the end of the decade of 1960, incorporating concepts like market competitiveness and costumers as a priority, rather than the process of production, with labor as the main relevant factor on it. Afterwards, the Oil Crisis in the decade of 1970 leaded into the necessity of introducing new ways of production at lower costs, with highly specified and flexible processes (Shiba et at. 1995).

Finally, from the labor perspective, other main changes took place. Complete stages of the production process and labor force were outsourced and trade unions and collective bargaining weakened. Workers were required to have higher levels of specialization and companies were restructured through the economic figure of holdings.

This new economic order, deeply encouraged by the neoliberal theories of the Economic School of Chicago and the Washington Consensus, the governments of Reagan and Thatcher, produced high rates of economic growth for the developed and developing countries, but at the same time deepened the rates of inequality, the deregulation of labor and financial markets and weakened trade unions and collective bargaining. Before this new labor order, and the devastating effects of the last world economic crisis, trade unions need to challenge neoclassical and neoliberal economic conventions, organizing their activity through collective bargaining and play the role they are meant to play: as a tool for the redistribution of wealth and a mechanism for more efficient and equitable markets.

How collective bargaining can play a redistributive role?

According to the Chilean economist Gonzalo Durán, "factorial distribution of income is one of the basic notions behind collective bargaining. With this institution the fruit of labor is distributed among the factors of production (capital and labor) that intervene in the process of productivity transformation" (Durán 2009:12). Unfortunately, as mentioned before, neoclassical and neoliberal mainstream economic conventions and theories view collective bargaining as an element that disrupts the normal functioning of labor markets and the natural process of prices setting, and as a threat to employment and levels of inflation. Neoclassical and neoliberal economic theories, based on the work of Simon Kuznets, state that on primary phases of economic growth inequality is inevitable, but after a while economy reaches a stage where levels of inequality are controlled. Therefore, when levels of growth are extremely high, some crumbs would be directly transferred to the lower strata of the population through the "invisible hand".

However, many scholars (van der Hoeven 2000; Freeman 2009; Khan 2010) argue that on the contrary to what has been stated by the neoliberal mainstream thoughts, collective bargaining is an extremely relevant social institution which "improves the dispersion of wages, distribution of wealth and fights poverty" (Ibid:13).

Wages and profits growth and productivity growth

According to the scholars "labor market policies, regulations and institutions have at least three goals: *improving allocative efficiency* (matching supply and demand), *improving dynamic efficiency* (increasing the quality of the labor force) and *improving or maintaining a sense of equity and social justice* among labor force participants" (van der Hoeven 2000:2). For labor institutions we understand labor regulations, unions and collective bargaining.

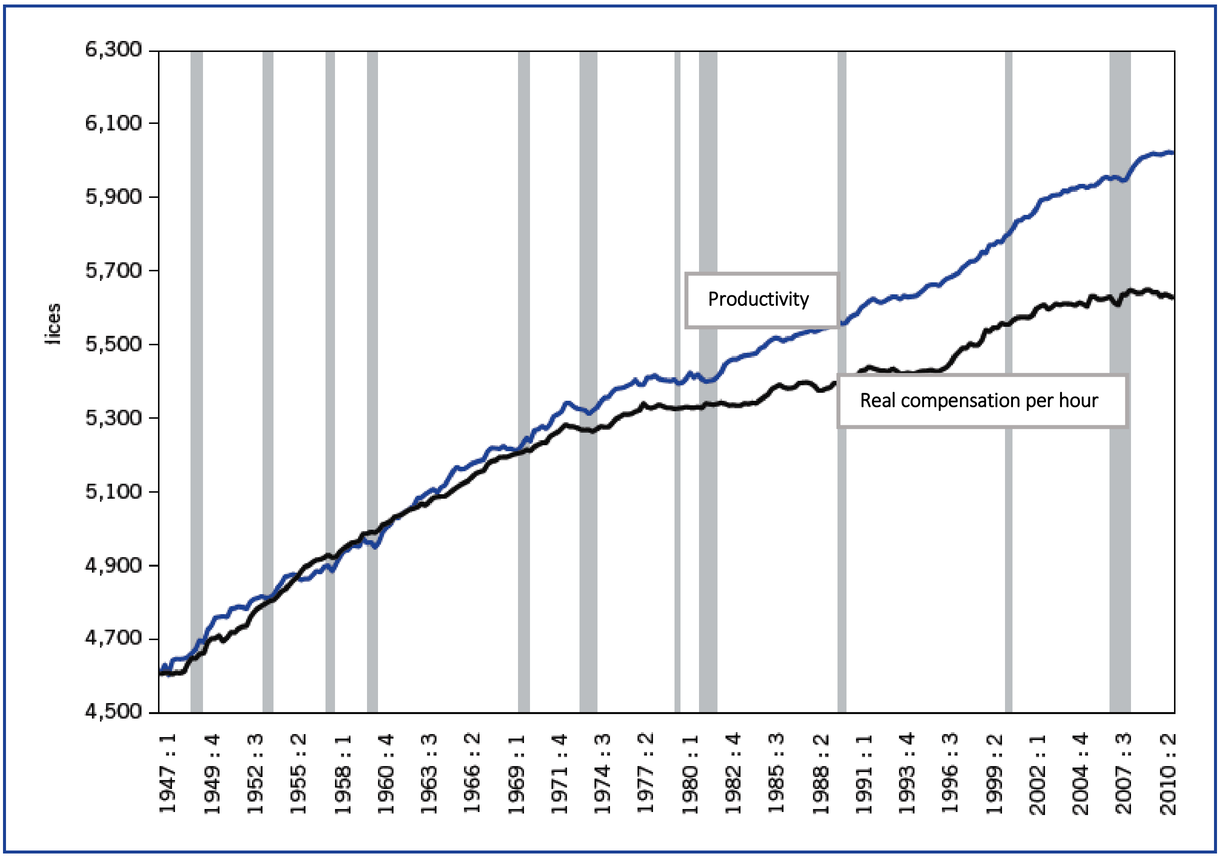
In the same way, the OECD concludes that collective bargaining and other labor institutions "reflect a concern for stable employment relationships, social peace and to some extent a concern to correct asymmetries in bargaining strength between workers and employers" (OECD 2004:143).

As argued before, collective bargaining plays a key redistributive role of wealth. In this regard, it possible to consider collective bargaining as a mechanism that enhance labor market efficiency and equity, establishing models where it is possible to "predict that when firms/workers bargain they "leave no money on the table" and thus allocate resources optimally. This is the Coase Theorem at work in the world of labor institutions. This analysis suggests that institutionally determined rules, such as employment protection legislation, affect distribution but not production" (Freeman 2009:10).

The way collective bargaining plays its redistributive and efficiency-allocative functions can be observed when analyzing the levels of employment in a given economy. The level of employment in the economy is determined by the point where the aggregate demand matches the aggregate supply for labor. This point is called effective demand for labor (Vega 2007).

At the point where the level of employment reaches its maximum, or natural rate, the level of good produced and services rendered in the economy also reaches its maximum point and productivity will not be increased unless technological breakthroughs are implemented or relevant external factors play a role. Profitability produced from this economic interaction between labor and capital is distributed among the parties in the form of profits and wages respectively.

However, as mentioned before, labor markets lack many of the elements that a true competitive market requires: proportionate availability of information, symmetry on the negotiating capacity, and more important the inability to affect prices (wages). In this regard, when there are not redistributive mechanisms in an inherent imbalanced market that introduce elements of competitiveness, the real increase of wages and profits started to separate and take different paths. Therefore, the rate of increase of real wages is considerable inferior to the rate of increase of firms' marginal profits and also inferior compared to the rate of increase of the nation general productivity.



Productivity and compensation per hour in the United States 1947-2010. Source: Office of Labor Statistics of the United States Division of Major Sector Productivity, June 2012.

According to a research conducted by the International Labor Organization (ILO), since 1999 labor productivity in developed countries increased more than two times compared with the increase of real wages since the same year.

Source: http://www.ilo.org/salarios2012; ILO Trends Econometric Model de la OIT, March 2012.

What explains the growing gap between wages, profits and productivity?

The 2012/2013 ILO worldwide report on wages concluded that the irruption of financial markets as a main component of the economic activity and the weakening of all labor institutions (regulations, unionization and collective bargaining) leaded into a decline in the participation of real wages as a share of the national income. The report (ILO 2013) also addresses the mainstream theories on this phenomenon which argue that the decline of the share of wages is caused by globalization and technology innovations. However, the conclusion is that the real origin of the loss of importance of the labor force as a factor of production and the huge dispersion between wages, profit and national income is the way financial markets are structured. In this regard, the change that took place during the decade of 1980, moving the economic activity towards a system of corporate governance based in the maximization of the profit for shareholders, made possible the emergence of financial institutions oriented towards aggressive returns, putting pressure on companies for short run profits (ILO 2013:53). The lobbying initiated by the financial sector leaded into the deregulation of labor markets and the weakening of labor institutions in order to promote faster and higher rates of financial returns. Since the financialization of markets took place, main executives of big corporations were benefited through capital gains, pension funds and deferred wages, but average workers did not share the same proportion of gain.

When there is a lack of redistributive mechanisms in labor markets, like the collective bargaining which is a redistributive tool by definition, the economic growth and national income start to be allocated in a bigger proportion to profits and not to wages. In other words, when wages do not increase in the same proportion than productivity, we are facing a distortion in the efficient allocation of income.

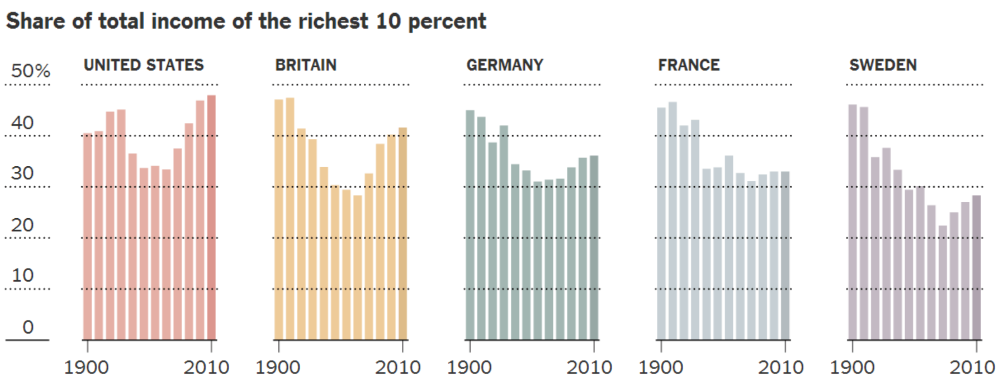
What are the effects of the declining of wages as a share of productivity?

National income is composed by wages, profits and rent. In this regard, determining how labor force perceive wages as a share of the national income is fundamental when addressing issues like social justice and market efficiency. A fair distribution of national income should be the one where higher rates of productivity translate into higher increases on real wages. The observed decline on the share of wages as part of the national income has tremendous effects on the aggregate demand, this is consumption, investment and net exports. This effect is mainly explained by the negative impact on consumption. In this regard, the propensity to consumption derived from workers' wages is much higher than the propensity to consumption derived from capital gains. As stated before, since the decade of 1980 wages have experimented a considerable lower increase compared with the increase of productivity. This create an unsustainable situation: economic growth driven by householders and countries indebtedness. This model of growing works in the short run but eventually it collapses. Economic growing through indebtedness leads into an increasing rate of individuals' debts, payments in excess and high risks in the financial sector.

Today it is necessary to rethink a sustainable model of growing, based on the deep bond between workers' wages and labor productivity. The ILO argues that in order to achieve this aim it is necessary to strengthen labor institutions and to restore workers' bargaining power.

In this regard, the role of collective bargaining is vital when allocating shares of productivity among factors in a more efficient and fair way. The relationship between collective bargaining and fairness and efficiency in the share of productivity allocation is circular as "[F]actor shares influence collective bargaining, where a crucial issue may be the extent to which increased labor productivity is reflected in increased wages, this being regarded as a fair division" (Atkinson 2009:13).

An example of this inefficient allocation of productivity or output is the share of total income of the richest 10 percent in the United States, Britain, Germany, France and Sweden during the last 100 years.



Source: Thomas Piketty on the Wealth Divide, New York Times.

As can be observed, in countries with extremely comparative low rates of collective bargaining and unionization, like the United States or the United Kingdom, the rate of concentration is the same than one hundred years ago, or even has increased in the last decades, like in the case of the United States. Countries with high rates of collective bargaining coverage like France or Sweden, have experimented a dramatic change in wealth concentration. More detailed research and empirical data on the effects of collective bargaining in the redistribution of wealth will be analyzed in the next chapter. Overall, without efficient redistributive mechanisms the rate of economic growth is inferior to the rate of concentration of the wealth. At the same time, the rate of real wages increase is inferior to the rate of concentration of wealth: economic output, produced by the interaction between labor and capital, is allocated more in the form of profit than wages, increasing inequality, poverty and undermining social and political stability. Here is where the importance of collective bargaining as a redistributive and efficiency-allocative mechanism relies. A well designed mechanism of collective bargaining contributes to equate the increase rate of wages and profits with the rate of economic growth, allocating national income in a more efficient and direct manner, without having the necessity of state intervention, like minimum wages laws.

According to a recent report of the ILO "[A] comprehensive collective bargaining system is one of the most effective means to achieve equality. Indeed, bargaining coverage is inversely related to wage inequality and collective bargaining at the sectorial and national level is more effective at achieving greater equality than decentralized bargaining" (ILO 2013:18). In this regard, the report of ILO also pay attention to more "soft" topics regarding collective bargaining and unionization. It is important to enforce, through legal provisions, the accessibility of workers to the formal labor market, with the adequate social protection, and also enforce laws and mechanisms that guarantee the accessibility of all workers to a mandatory sectorial level collective bargaining. In addition "[L]egal provisions must be put in place to stop employers' aggression against workers who desire to create or join a trade union. Legal extension mechanisms have to be established to extend collective bargaining agreements - particularly also to those employed in Small and Medium Enterprises to take labor out of competition and to force enterprises to compete through product quality and productivity gains, rather than through wage repression" (Ibid:18).

The necessity of collective bargaining

Legal and institutional changes should be oriented to match the bargaining capacity of workers with employers. It is not possible to base all labor structures and relations on the wrong assumption that labor market works as a perfect system, where the natural equilibrium will be produced through the interaction of the supply and demand for labor force. This misconception is not only wrong but also unethical. In the first place it is wrong because is unrealistic. In this regard, it is remarkable the contribution of the Nobel Prize winner Robert Solow, who argues that labor market is a social institution and that it will never work properly guided by the simple equilibrium between supply and demand as the neoclassical economic theory suggests (Solow 1990).

In the other hand, the conception that labor market is a perfect market is unethical. Labor market works in a completely different manner than the market for goods and services, because there is a strong component of fairness that must be addressed when analyzing and theorizing labor markets. On his book called "The Labor Market as a Social Institution" Solow states that:

"[W]age rates and jobs are not exactly like other prices and quantities. They are much more deeply involved in the way people see themselves, think about their social status, and evaluate whether they are getting a fair shake out of the society... Social institutions define acceptable and unacceptable modes of behavior in the weighty context like the labor market" (Ibid: 22). Labor market has a strong social component as is one of the fundamental institutions of social life. There relies the problem of neoclassical and neoliberal economic theories: the commodification of labor.

According to this more encompassing view of labor, not only as a factor of production but also as a social institution, labor regulations and mechanisms, like collective bargaining, should be focused in their redistributive and efficiency-allocative capacity. Regarding low-skilled workers, where the negotiation power is practically null, individual bargaining between workers and employers does not reach this objective.

The design of the collective bargaining and its redistributive effect

Evidence is overwhelming when explaining the deep relation between the rate of coverage of collective bargaining and inequality. When the degree of coverage, coordination and centralization of collective bargaining is higher, income inequality in the society tends to be lower. According to a study conducted by the World Bank "[T]he facts that unionized workers get a wage markup and that unionization is concentrated among low-paid workers suggest that unions reduce the wage dispersion *across* an economy" (Aidt and Tzannatos 2002:54). The effect of the reduction of wage dispersions is observed in cases where workers are affiliated to a union, or if not affiliated participate in collective agreements with their employers.

In this regard, "[E]vidence from the United Kingdom and the United States indicates that unions reduce wage dispersion significantly between industries, between (similar) firms within an industry, and among workers within a firm". In the same way and in a non-developed country context, evidence from Mexico showed the same outcomes of unionization and collective bargaining. A study conducted by Panagides and Patrinos “compare the Gini coefficient associated with the wage distribution for unionized and nonunionized workers. For nonunionized workers, the estimated Gini coefficient is 42.1. The corresponding number for unionized workers is 33.5.” (Ibid: 54).

Now, the redistributive effect of collective bargaining deeply depends on the design of this labor institution. Here, the level of coverage of the collective bargaining is fundamental. It is possible to distinguish between two main levels of bargaining: firm level, which takes place when workers, members of a trade union or not, negotiate with their employer; and sectorial and national level, where workers of a given industry or sector of the economy bargain with all their employers at the same time. Different studies (Bhattacherjee 1987, Standing 1992) concluded that the wage markup in sectorial collective agreements is considerably higher than those obtained at the firm level. In other words, the redistributive and efficiency-allocative effect of collective bargaining is more powerful at an industrial or sectorial level. According to the OECD, a centralized or coordinated collective bargaining, at a national level or sectorial level, leads to a lower dispersion on earnings. In addition, according to the research conducted by the multinational organization, collective bargaining also reduces the income gap between skilled and non-skilled workers and between men and women (OECD 2004). Finally, high rates of collective bargaining coverage and centralization of the level of negotiation also results in “higher relative wages for workers under the age of 25 years” (Ibid: 160).

As mentioned before “high union density is associated with a compression of the wage distribution and a reduction of earnings inequality”. However it is important to mention that the effect of unions and collective bargaining differs depending on the stage of development of countries. In underdeveloped countries the positive redistributive and efficiency-allocative effect is weaker, but this effect "is caused not so much by what unions do as by the context in which they are doing it. If unions operate in an environment of generally ill-designed labor and product market regulation in which rent-seeking is a profitable business it is no wonder that the correlation between union density and economic performance is negative" (Ibid:97).

Collective bargaining and labor institutions as social stabilizers

Collective bargaining not only creates more competitive labor markets and allocates in a more efficient manner the share of economic growth and productivity between capital and labor. It also contributes to improve occupational health, training and competitiveness among workers, better employment conditions and socio-political and democratic stability.

In this regard, the ILO, based on OECD and the World Bank researches has concluded that "in their criteria for choosing countries in which to invest, foreign investors rank workforce quality and political and social stability above low labor costs. At the same time, there is little evidence that countries which do not respect labor standards are more competitive in the global economy" (ILO, The benefits of International Labor Standards).

The World Bank, on its 2005 world develop report "A Better Investment Climate for Everyone" also concluded that "[E]nsuring the freedom of association and collective bargaining can go a long way toward promoting labor market efficiency and better economic performance" (World Bank 2005:143). Strong labor institutions also create the adequate social and political structures to face world crisis. As the ILO report states "[E]xperience gleaned on the recovery from the Asian financial and economic crisis has pointed to the value and importance of sound labor market institutions, systems of collective bargaining, dispute prevention and resolution, and social dialogue in dealing with the consequences of the crisis and enabling economic and social recuperation" (ILO 2006:53).

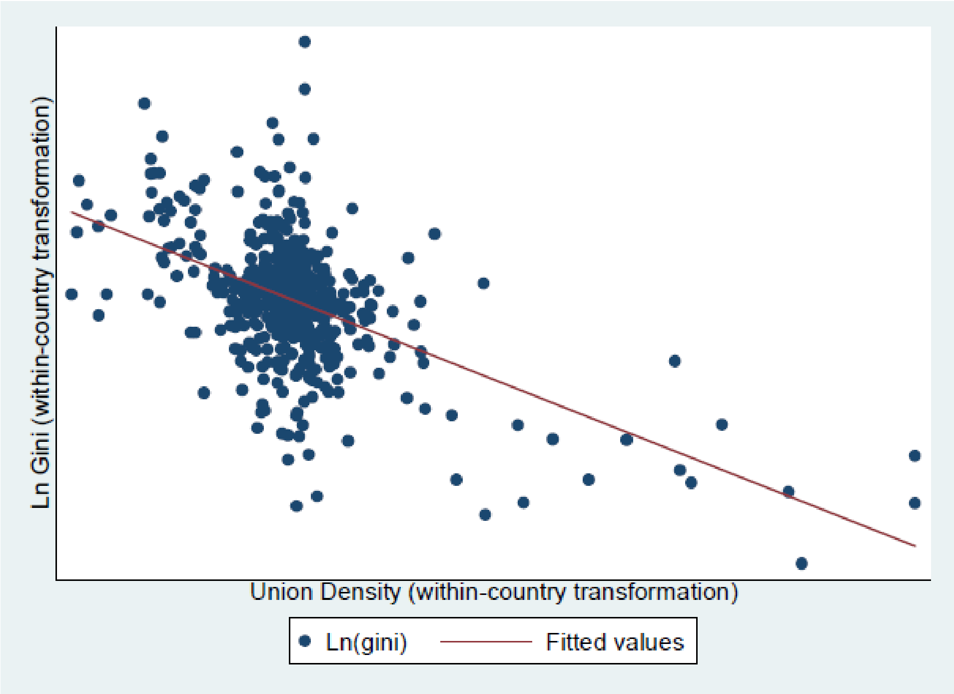
In the same way the OECD has conducted several researches that conclude that "[A]part from the interest it holds for individual employers, bargaining with trade unions is often held to be beneficial for the overall economy and society… Also, the "autonomous" regulation of employment conditions by strong bargaining partners can free governments from immediate responsibility in this domain, thereby increasing the legitimacy of the political system" (OECD 1998:169).

Do unions and collective bargaining still play a redistributive role?

A 2008 research conducted by the International Institute for Labor Studies addressed the question if unions, and collective bargaining, still played a redistributive role in society. This question arises due to the economic and socio-cultural context where unions are embedded. In this regard, as discussed previously, after the radical changes in markets initiated in the decade of 1970, when labor market was deeply deregulated, workers lost an important part of their negotiating power and economy suffered a transformation towards its financialization, unions, collective bargaining and other labor institutions seem to have lost their relevance. In a world where the relative weight of the labor force has given way to the financial capital and the share of wages is declining as a component of the national income, it is possible to ask about the real importance of labor institutions in this context.

In this research (Baccaro 2008), the author runs an econometric analysis of the following countries from Latin America and Caribbean (13 countries): Argentina, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Honduras, Jamaica, Mexico, Paraguay, Peru, Uruguay, Venezuela; Developed countries (21 countries): Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Turkey, UK, USA; Central and Eastern European(CEE)

Countries (2 countries): Hungary and Poland; Asian Countries (6 countries): China, India, Republic of Korea, Pakistan, Philippines, Singapore. His findings basically varies depending on the state of development of the countries considered. However, in all the cases it is possible to observe the same correlation:



"The graph shows a negative association: the greater the decline in union density the greater the increase in inequality and (more rarely) vice versa.

Figure… plots demeaned Gini coefficient scores against demeaned union density scores. For each country/year the data have been expressed as deviations from country means. This allows one to focus on whether, within countries, the change in union density is related to the change in gini within countries" (Baccaro 2008:47).

The study also focuses in the structure of collective bargaining and its impact on income distribution and inequality. The research concludes that "[R]egarding the structure of collective bargaining, there is a negative relationship with inequality: the more collective bargaining takes place at levels above the enterprise, the less unequal the distribution of income” (Ibid: 14). As argued before, the redistributive role of collective bargaining not only depends on its degree of coverage, but also on the way is structured and regulated.

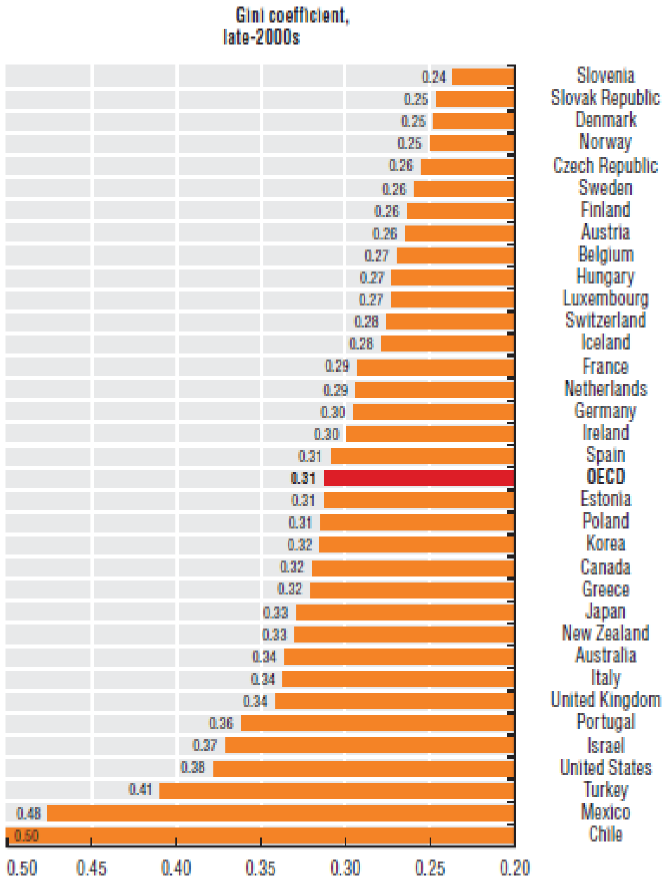
Trade unions and collective bargaining play a fundamental role in income redistribution. In this regard “trade unions – historically a key actor in equalizing social conditions – can still contribute to reduce income disparities, and in ways that do not clash with, and are actually well adapted to, current economic realities” (Ibid:18). In addition, trade unions and collective bargaining have a key role to play in the supply-side of labor markets. Beside the redistributive and efficiency-allocative functions, collective bargaining can pursue an important increase on worker’s skill levels, promoting an egalitarian transformation of the workplace, “such that as many jobs as possible are challenging and stimulating, and workers have the skills needed to take them up” (Baccaro 2008:28). Trade unions and workers can make labor market more competitive not only bargaining more efficient and fair prices but also making more egalitarian the workplace through training programs whose could target vulnerable and excluded groups. According the mentioned study, this function was a cultural and historical heritage of trade unions and collective bargaining which unfortunately has been lost in some extension. In this regard, labor policies should be also oriented towards that objective.

Chapter 3

Case study: Chilean inequality, income distribution and labor institutions

As stated in previous paragraphs, many scholars have argued that the neoliberal economic theories on labor markets can be confronted. It is possible to sustain that labor institutions, especially trade unions and collective bargaining, can create conditions that improve labor markets, making them truly competitive, efficient and fair.

In this regard, it is possible to observe many cases that challenge "the neoliberal discourse that strong institutional arrangements which promote labor market equity, such as collective bargaining and trade unions, are incompatible with economic efficiency" (McLaughlin 2006:19). Labor institutions are able to deliver equity and efficiency.



This chapter of this thesis will analyze the situation of trade unions and collective bargaining, and inequality, human development and other socio-political indexes across the members of the Organization for Economic Cooperation and Development (OECD) compared with Chile, one of the newest member of the organization. Chile, compared with its peers has a considerably lower gross domestic product per capita (GDP pp.) and weaker labor institutions.

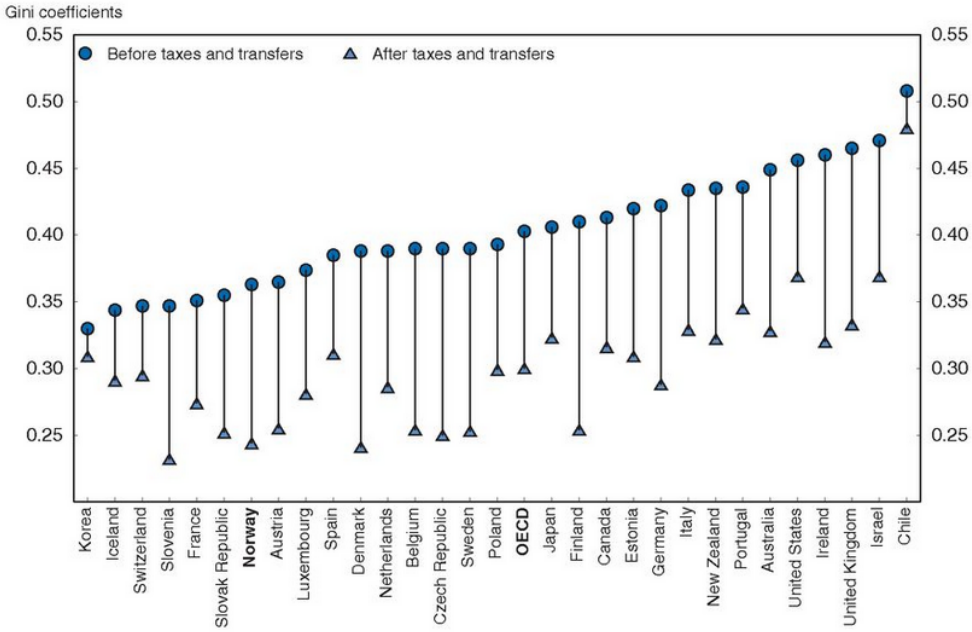
However, it is important to note that several economic and social reforms are taking place in Chile, including a reform to the Labor Code. In this regard, the authorities have expressed their intention of encouraging collective bargaining and unionization.

The table above shows the average Gini coefficient of OECD countries in the late decade of 2000. As can be observed Chile has the higher gini coefficient of the economic organization.

Inefficient fiscal and social policies

But which concentrates greater concern on this topic is the variation on the gini coefficient after taxes and transfers. As can be observed in the table below, for the same period of time (late 2000s) most of the countries are relatively successful in reducing their inequality through taxation and social transfers. All countries except for Chile, whose gini remains practically unchanged after fiscal and social policies.

Gini coefficients before and after taxes and transfers
In the late 2000s



Source: Joumard et al. (2012).

What explains Chilean unsatisfactory results when addressing wealth inequality? After the military coup d'état of September 11th of 1973 Chile faced one of the deepest political, sociological and economical transformations on its history. The model based on the Welfare State was dramatically changed by the military-civic dictatorship (1973 - 1990) into a deep-based Neoliberal model. The new structure's principles consisted in encouraging the private initiative as the only way of developing economic activities, even public services and goods, relegating the State to a secondary position granting public goods.

This structure, with low tax rates and deregulated markets, produced incredible high rates of growing during the last decades, but at the same time has maintained and increased high rates of inequality. The current Chilean tax structure, was established to attract foreign investment, establishing low corporate tax rates and hundreds of credits and fiscal benefits for firms and capital owners.

Another major change implemented during the dictatorship was a deep modification to labor laws in 1979. This new structure, known as "Labor Plan" (Plan Laboral in Spanish) consisted in the liberalization of unions: in a same firm it is possible to find as many unions as workers want to create; the modification of collective bargaining moving from a sectorial or national bargaining level to a firm level; employers are able to replace the workers who are engaged in a strike and, finally, the strike is established not as a right but as recognized as a negative fact. In addition, employers are allowed to close the facilities in response to a strike (this is known as lockout).

All these modifications weakened the role of unions and collective bargaining. The employers' faculty of replacing workers who are legally participating in a strike makes this tool completely useless. In the same way, reducing collective bargaining to the firm level reduces its coverage considerably. Only big companies have strong unions, whereas most of the workers have not access to collective bargaining. According to the information provided by the Chilean Labor Office around 80% of the total labor force is hired by small and medium companies. Even big companies use several loopholes to reduce workers' collective power. Many holdings function under the form of hundreds of small companies, even though they are the same economic unit and share the same command and control line. This "legal" tool allows companies to disperse their workers in many small unions rather than a big one. In other cases, workers are not even capable of creating unions because they do not meet the quorum required by law.

After recovering democracy in 1990, many reforms were introduced by the democratic governments. However, the core of Pinochet's labor reforms survived. Collective bargaining still takes place only at the firm level, employers are allowed to replace workers who are legally engaged in a strike and the level of coverage of collective bargaining is still very low. In this regard, according to the 2014 Global Right Index, issued by the International Trade Union Confederation, Chile is ranked with a score of "3". This means that the "[G]overnment and/or companies are regularly interfering in collective labor rights or are failing to fully guarantee important aspects of these rights. There are deficiencies in law and/or certain practices which make frequent violations possible" (ITUC Global Rights Index 2014:15).

Chile in the OECD

As mentioned before, Chile's collective bargaining coverage rate is one of the lowest among OECD countries. For the purpose of illustrating this, 8 OECD countries are compared with Chile. As can be observed from the table below Chile has a collective bargaining that covers 11% of the labor force, much lower than Scandinavian countries and the OECD average. Nevertheless, Chilean levels of collective bargaining coverage are comparable with the levels of the Republic of Korea (12%) and the United States (13.6%).

Collective bargaining coverage rate

Country	late 2000s
Chile	11.0
Denmark	80.0
Finland	90.0
Iceland	88.0
Korea	12.0
Norway	74.0
Sweden	91.0
United States	13.6
OECD	62.1

OECD Employment Outlook 2012 - © OECD 2012

As can be observed from the next table the rates of trade union density are very different compared with the coverage rate of collective bargaining. This is explained by the fact that most of legislations incorporate the possibility of extending labor benefits to non-unionized workers. This is particularly important in the Scandinavian context, where although the level of unionization is considerably high, the collective bargaining coverage rate is much higher.

Trade Union Density

Time	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Country											
Chile	13.54	13.29	13.13	13.31	14.15	14.01	13.53	13.65	13.93	14.96	15.84
Denmark	74.92	74.25	73.83	73.23	72.36	71.71	71.70	69.43	69.13	67.61	68.84
Finland	76.27	74.97	74.52	73.49	72.87	73.29	72.43	71.70	70.31	67.52	69.17
Iceland	87.42	89.42	88.09	92.47	95.16	99.07	95.56	91.54	87.11	79.31	..
Korea	11.69	11.43	11.48	10.85	10.76	10.32	9.92	10.03	10.57	10.28	9.97
Norway	54.84	54.39	54.17	54.48	55.12	54.98	54.89	54.86	53.70	53.33	54.34
Sweden	80.63	79.08	78.03	78.00	78.00	78.05	76.52	75.15	70.77	68.31	68.41
United States	13.37	12.91	12.87	12.77	12.39	12.02	11.96	11.48	11.56	11.91	11.79
OECD countries	20.79	20.18	19.83	19.50	19.42	19.05	18.79	18.15	17.97	17.79	17.91

data extracted on 12 May 2014 12:35 UTC (GMT) from OECD.Stat

As can be concluded from the table below, high rates of unionization, but more important of collective bargaining coverage have an extremely important effect on distribution of income.

In this regard, those countries with high rates on those indexes show at the same time the lowest Gini coefficient.

However, the Chilean case has many particularities. Having one of the lowest collective bargaining coverage and unionization rates, the country also presents the highest Gini coefficient, even higher than countries like the United States or Korea.

Gini as disposable income after taxes and transfers

Year	2005	2006	2007	2008	2009	2010
Country						
Chile	..	0.51	..	..	0.51	0.50
Denmark	0.23	0.24	0.25	0.24	0.24	0.25
Finland	..	..	..	0.26	0.26	0.26
Iceland	0.27	0.29	0.28	0.30	0.27	0.24
Korea	..	0.31	0.31	0.31	0.31	0.31
Norway	..	..	..	0.25	0.25	0.25
Sweden	..	..	..	0.26	0.27	0.27
United States	0.38	0.38	0.38	0.38	..	0.38

data extracted on 12 May 2014 13:50 UTC (GMT) from OECD.Stat

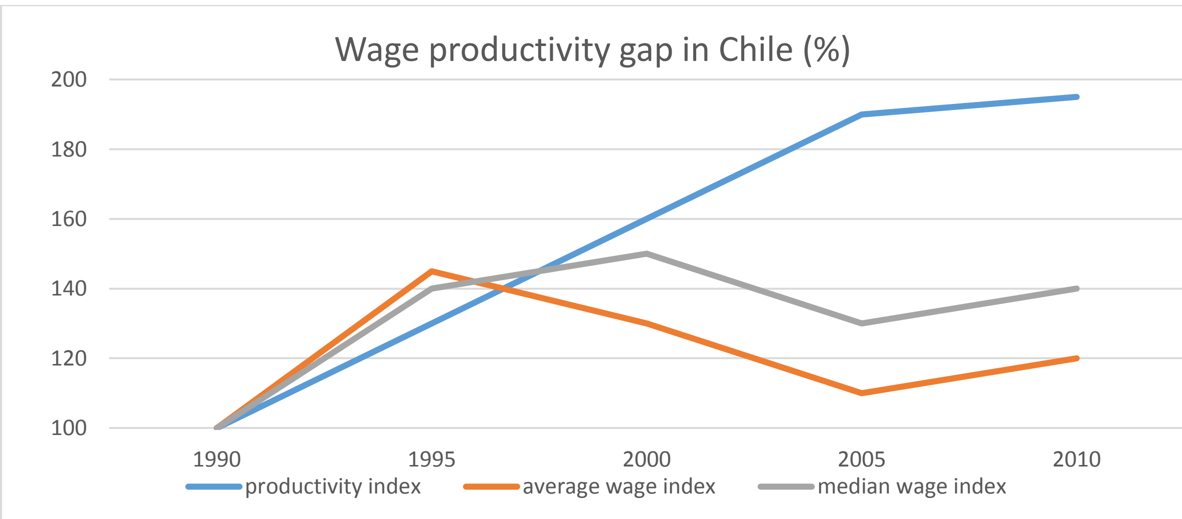
As was mentioned in the previous chapter, collective bargaining plays a redistributive role increasing the share of wages as part of the national income. This increase would be produced at the expense of capital profits. However, this would not have a negative effect on employment as is commonly suggested by neoliberal economists. Employment would not be affected since a higher share of wages of national income and productivity implies higher levels of consumption. In this regard, it is feasible to assume that workers' propensity to consumption is considerable higher than capital owners'. Higher levels of consumption due to higher levels of wages lead to higher levels of productivity in order to satisfy higher rates of demand for goods and services. An increase in aggregate demand also increases profits. The effect on aggregate demand mentioned before is established under the assumption that other conditions remain similar (*ceteris paribus*). This is basically the virtuous circle of collective bargaining, particularly among low-skilled workers. It is important to bear in mind that high-skilled workers are more likely to negotiate or at least influence their expected wages.

Regarding the Chilean case, the inefficiency of the tax and social system redistributing wealth, plus the weakening of labor institutions since the late decade of 1970 has turned Chile in one of the most unequal countries of the OECD and Latin America.

Chilean labor situation

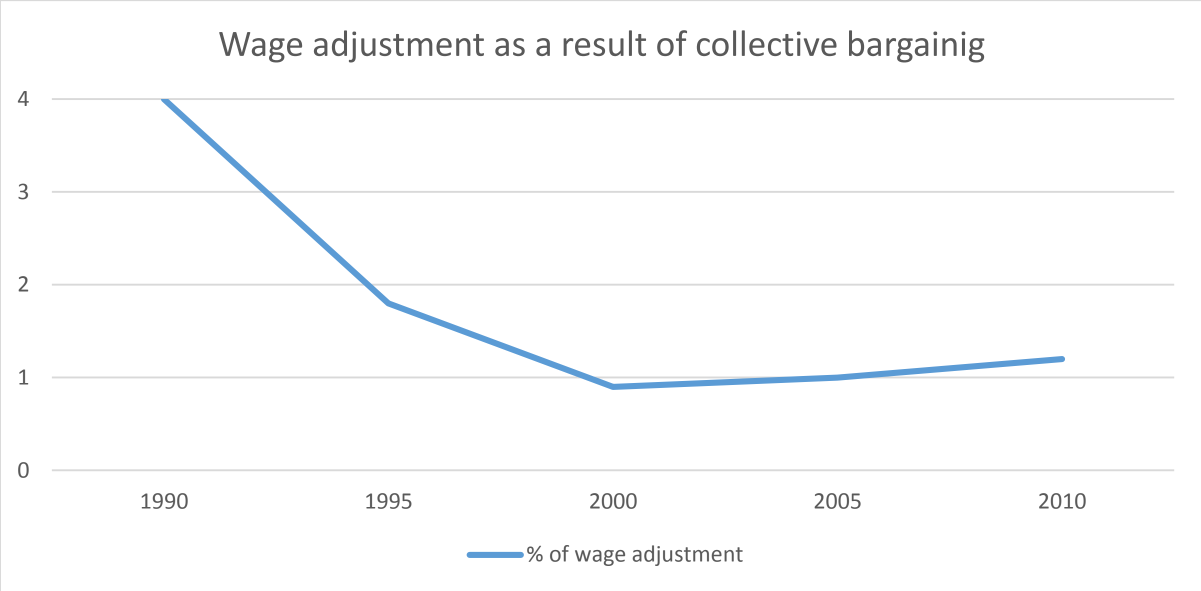
Studies has shown the reality of labor institutions in the country (Durán 2011), presenting a discouraging picture. The gap between wages as a share of national productivity has increased considerably in the last decades. At the same time wages adjustments as a result of collective bargaining in Chile has decreased, showing that "the economic performance of collective bargaining in Chile is not significant and has deteriorated over time" (Durán 2011:30).

The described situation can be observed in the following charts which show the economic performance and the share that wages represent of it, and the real wages adjustments as a result of collective bargaining.



Source: Chilean Central Bank and National Institute of Statistics database, SOL Foundation.

Since 1990 productivity has almost doubled but real wages have only increased by a 40%. The gap between wages as a share of productivity as increased considerably, favoring the concentration of income in the hands of capital.



Source: Durán 2011.

Towards a new labor agreement

As stated in this thesis, labor institutions, particularly collective bargaining, are able to promote equitable models of income distribution, allocating in an efficient way national productivity, encouraging economic growth and also manitaining social and democratic stability.

Those countries with strong labor institution, where collective bargaining reaches most of the workers, tend to be at the same time the countries with the best equality on income distribution indexes.

Chile requires new labor institutions in order to achieve better levels of equality. In this regard, it is possible to propose the following changes according to what has been researched and stated in this study:

1. Collective bargaining should be (re)descentralized, moving from a firm level to a sectorial or national one. As stated in previous chapters of this research, there is a possitive correlation between the degree of centralization of collective bargaining and the redistributive and efficiency allocative effects of that labor institution. Collective bargaining's degree of centralization is classified in five different categories according to the AIAS (Amsterdam Institut voor ArbeidsStudies): 5 for central or national level; 4 for central or national level with sectorial agreements; 3 for sectorial level bargaining; 2 for sectorial level with firm level agreements; and 1 for firm level. Currently Chilean legislation only allows firm level collective bargaining. In this regard, comparative studies (Duran 2011, who compared a set of 49 countries) has shown that a change of one degree of decentralization towards the next one represents a decrease of 7.1% in gini index.
2. Improve the coverage of collective bargainig through a mandatory process of negotiation between workers and employers. An increase by ten percentage points of the coverage of collective bargaining has apossitive effect on decreasing gini by 4.3%. Related to the previous point, when collective bargaining centralization moves by one degree to another this has also an impact on the rate of workers covered by collective bargainig by 52.7%.
3. Employers should not be allowed to replace those workers who are legally engaged in a strike. In this regard, Chile is not following the criteria established by the ILO. The international organism, through its Committee on Freedom Association "only

considers the replacement of strikers to be justified: (a) in the event of a strike in an essential service in which strikes are forbidden by law, and(b) when a situation of acute national crisis arises" (ILO 1998:460).

4. Automathic unionization of newly hired workers: In this regard, many workers are afraid from the employer's retaliation when joining a union. Chile should adopt a system where workers are automathically affiliated to a union, requiring a subsequent ratification by the worker.
5. In addition to its (re)decentralization, collective bargaining should be deregulated in Chile. Nowadays collective bargaining is extremely regulated by law, limitating the authonomy of workers and employers.

Conclusions

The present reasearch shows from both a theoretical perspective and through empirical evidence that the neoliberal paradigm on labor markets can be contested. In this regard, several studies have concluded that labor markets, particularly since the decade of 1970 and after the "Washington Consensus", are not allocating in an efficient way national productivity. The gap between wages and profit as a share of national income is increasing, as well as inequality in the distribution of income across the world. This increasing gap and unefficient and unfair distribution of the fruits of the interaction of factors of production is mainly due to the inherent imbalance between the parties participating in labor markets. Employers have a strong and unfair advantage when determining wages (the price of labor), bigger bargainig power, especially regarding markets for low-skilled labor force, and more access to information. All these features of labor markets make them highly non-competitive.

In this regard, labor institutions, understood as employment regulations, minimum wage laws, workers unions and employer organizations and the collective bargainig, have a key role to play. It is particularly powerful the redistributive and efficency allocative effects of unions and collective bargainig in labor markets. Many neoliberal and neoclassical economists state that labor institutions and strong bargaining power granted to workers would produce an increase in unemployment rates. However, as was shown in this research higher rates of collective bargaining and unionization lead into an increase in wages, which at the same time creates higher rates of consumption, due to the higher propensity to consumption of workers. The general effect is an increase in general aggregate demand.

Also, collective bargaining, as a redistributive mechanism plays a key role redistributing wealth. As shown in this research, the rate of economic growth is inferior to the rate of concentration of the wealth. At the same time, the rate of increase of real wages is inferior to the rate of concentration of wealth: economic output, produced by the interaction between labor and capital, is allocated more in the form of profit than wages, increasing inequality, poverty and undermining social and political stability. Collective bargaining reduces the gap between wages and profits as a share of national income.

Finally, the redistributive power of collective bargainig contributes considerably to enforce socio-political and democratic stability.

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