Unions and economic freedom

For the unions, measures to increase labor market flexibility—such as the outsourcing of core activities—increase job insecurity and weaken the power of unions to organize workers and fight for their demands. Among the structural changes in the world economy in recent decades, membership in trade unions has plunged from 43.7% in 1980 to 25.5% in 2013.

In this sense, empirical research shows that the lower the economic freedom in a country, the greater the participation of workers in unions. Economic freedom is measured by four indicators: flexibility of labor laws, degree of trade liberalization, lower government participation in the economy, and freedom to do business.

According to economic theory, in a competitive market, there would be no incentive for workers to associate collectively in unions because there is no room for collective wage bargaining in a market with low profit margins, in which the companies operate with low prices and close to production costs. In this context, an improvement in the living conditions of workers takes place only from cost savings and increased

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(% of labor force)

Source: International Labor Organization.

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profits in an expanding economy. Thus, as workers would leave their jobs in search for higher salaries offered by rival, more profitable and growing companies, companies would compete with each other to retain workers by raising wages.

However, economic theory does not rule out the possibility of forming trade unions and collective bargaining, which would emerge in situations of oligopolistic markets with existing companies holding a considerable share of profit margins and a relatively low number of new competitors. Thus, there would be room for workers to organize themselves to capture a greater share of profit margins in the form of higher wages, in a process known as rent seeking.

The unions do not operate very differently from a business cartel. Unionists are pushing the sale price (wage per hour worked) by demanding shorter working hours and higher wages. The success of unions depends on companies having surplus income (rents) so they can take part of the rents and transfer them to workers.

In addition, trade protectionism and government intervention in the economy bring about distortions in the economy that also create an oligopolistic market. Closing a country’s trade to foreign competitors would create opportunities for rents in protected markets and consequently encourage unions. On the other hand, government intervention in the economy by means of granting subsidies and loans to certain sectors or enterprises, so-called “national champions,” would also create rents in favored sectors and consequently unions interested in seizing part of the rents.

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**Brazil’s membership in trade unions was just over 16% in 2013, close to the 17% of OECD countries**

(\% of work force)

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Sources: OECD and PNAD.
In the 30s and 40s, amid the escalation of trade protectionism and government interventionism of the New Deal, the US saw a significant increase in the unionization of the workforce, which declined only in the 80s. The same would occur in Argentina during the same period, with the collapse of the free trade regime and the rise of a new import substitution policy. As a result, the unions would play an increasing role in Argentine society since the Perón administration (1946-55).

The greater freedom of business (less bureaucracy, greater protection of property rights, less regulated activities, etc.) also impacts negatively on the collective organization of workers, as it reduces barriers to entry for new companies, making the domestic market more competitive.

Finally, more flexible labor laws—including lower labor costs, easier hiring and firing, and less rigid working hours—have a negative effect on workforce unionization. Unions will be weaker where there is greater freedom of wage bargaining between employer and employee, and will be stronger where there is a law that encourages collective bargaining. According to the Fraser Institute’s indicators of economic freedom, southern European countries (Portugal, Spain, Italy), which have higher labor market rigidity, have more unionized workers than countries like the Anglo-Saxons (England, United States, Canada), which have more flexible labor markets.

The exceptions are noteworthy. Scandinavian countries have about 70-80% of their workforce unionized and still maintain a high degree of flexibility in the labor market, which leads us to believe that cultural factors can also be very important in the decision of a worker to unionize.

**Does size matter?**

We should note that the low level of unionization does not necessarily mean low power of the unions. France has a relatively low number of unions, but they are concentrated mostly in the public sector, with high bargaining power because they are highly centralized and organized.

Brazil’s low position in the ranking of economic freedom, rigid labor laws, excessive bureaucracy, and low trade openness would suggest a high degree of unionization. However, Brazil’s workforce participation in unions was only 16.2% in 2013, close to the unionization in OECD countries of 17%, and relatively low compared to the world average of 25.5%. However, as in the French case, Brazilian unions have high capacity to coordinate, occupy strategic positions in the public administration, and exert strong political influence to press for legislation and lawsuits in the courts.

The unions played an important role in the 2009 economic crisis. Together with the government, they mediated between workers and the employers, negotiating reductions in layoffs in the industry. At the same time, they are one of the main forces of resistance to the austerity measures recently adopted by the government and changes in the outsourcing law, as well as a broader project of labor reform. So unions can play an important role in the course of the economy, explaining the success or failure of countries in carrying out long-term economic reforms.