

Policy paper

# ENHANCING SECTORAL COLLECTIVE BARGAINING IN CHILE

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# Abstract

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Collective bargaining is an important instrument to deal with old and new challenges in the labour market, such as facilitating technological transitions or preventing inequalities in the labour market. This paper discusses the economic effects of collective bargaining systems and the importance of their design drawing on a mix of macro and micro evidence. It also provides a benchmarking exercise to compare the Chilean bargaining system with those of other OECD countries. Finally, it discusses noteworthy practices in other countries that can offer valuable insights to Chile as it contemplates the introduction of sectoral bargaining models.

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## Executive summary

Collective bargaining systems are based on a complex set of rules and practices, partly written in national laws and based on longstanding traditions. To characterise them, it is important to understand their functioning and the role of their different building blocks, as well as have quantitative information on the strength and representativeness of trade unions and employers' organisations. In Chile, collective bargaining is decentralised, taking place mainly at the company level, in a context of strong union fragmentation. No co-ordination mechanisms – within and between social partners – are in place, producing thus independent and atomised negotiations which limits the potential for broader sector-wide agreements and synchronised bargaining targets.

The system is also characterised by low union density (16% in 2023) and low collective bargaining coverage (19.3% in 2023). Little information on employers' affiliation with business organisations is available, reducing visibility into the strength and representativeness of the other key player in the bargaining process. Labour relations in Chile are marked by a lack of trust between unions and employers, coupled with a low level of collaboration in addressing workplace or sectoral issues.

Other challenges include structural constraints, such as the high level of informality in employment and the resulting weak enforcement of labour laws which further undermine the potential for effective and inclusive collective bargaining.

Multi-level bargaining can strengthen workers' bargaining power by enabling negotiations at the sectoral or national level, reducing disparities and empowering workers to advocate for fair conditions. It can also promote fair competition by ensuring a level playing field of working conditions. When well-designed, i.e. when promoting inclusiveness (broad representation) and flexibility (adaptation at firm level to local conditions), multi-level bargaining systems can enhance labour market outcomes, such as labour market inclusiveness, reduced wage inequality or labour market resilience.

While each collective bargaining system is embedded in its national institutional framework and cannot as such be exported to another country, existing practices and recent initiatives in OECD countries, such as the introduction of the Fair Pay agreements (FPAs) in New Zealand, the reform of extension of collective agreements in France or the role of mediation institutions in Sweden can offer some insights and lessons for introducing sectoral bargaining in Chile.

However, since Chile lacks experience with multi-level bargaining, it is essential to gradually introduce sectoral bargaining, building the case for change, and avoiding overcomplicated initial frameworks to gain stakeholder trust and engagement.

Capacity building is also key: both unions and employers must be supported to act as credible and effective sector-wide representatives. This includes training, resources, and institutional support to strengthen negotiation capacities.

Further points of attention include the introduction of well-designed, targeted and temporary incentivisation mechanisms through balanced tax benefits or subsidies for employers who engage in sectoral bargaining and employers buy-in to build political consensus around the benefits of multi-level bargaining, such as fair competition and industrial stability.

# 1 Introduction

Collective bargaining is an important instrument to deal with **both old and new challenges, such as technological transitions**, in the labour market. Whether considering issues of wage distribution, job quality, workplace adaptation to the use of new technologies, or co-ordination in times of crisis, collective bargaining remains a unique tool enabling governments and social partners to find tailored and fair solutions. The need for co-ordination and negotiation mechanisms between employers and workers has, if anything, increased in the changing world of work.

However, collective bargaining, if not well designed, can also introduce distortions in the market and potentially become a source of unfair competition, favouring “insiders” on both the employee and corporate (especially large firms) sides. The effectiveness of a collective bargaining system in delivering favourable outcomes in the labour market hinges on its **design, scope**, and the **adaptability of social partners** to the evolving landscape of work. Recent OECD work has shown that the best outcomes in terms of employment, productivity and wages are reached when sectoral agreements set broad framework conditions but leave detailed provisions to firm-level negotiations. Moreover, to allow collective bargaining to develop, state regulations need to leave space for collective bargaining, and local representative structures and promote (or at least not discourage) self-organisation by workers and employers (OECD, 2019<sup>[1]</sup>).

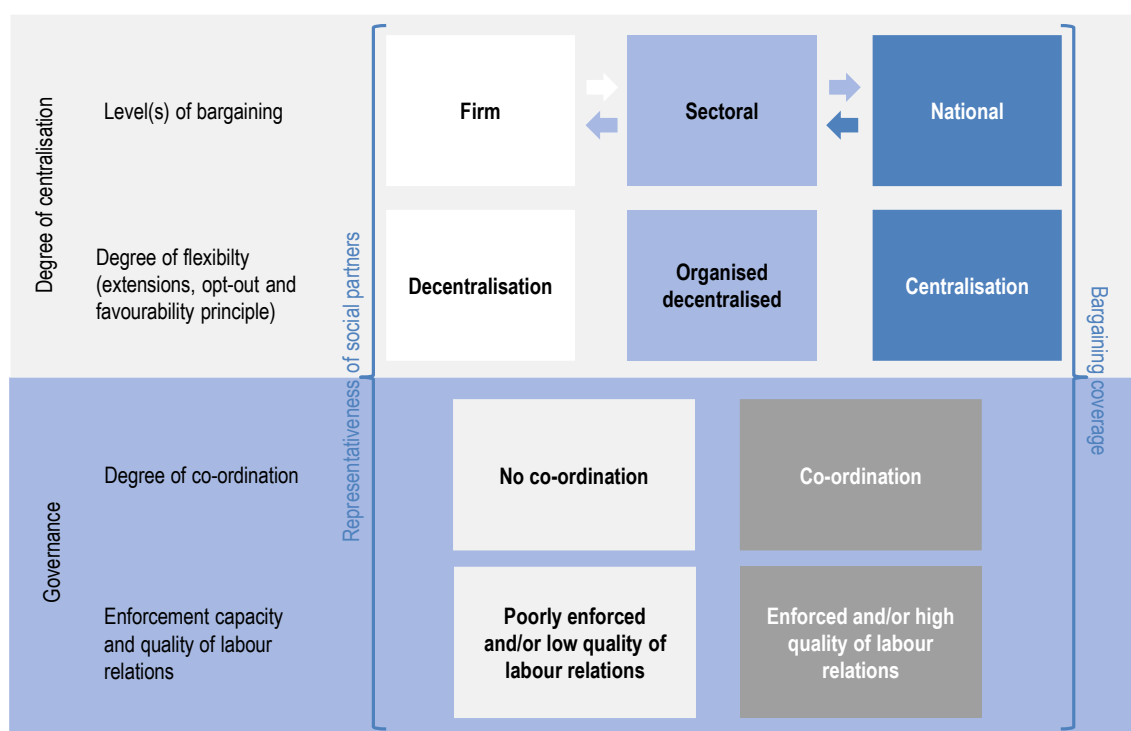
This policy paper<sup>1</sup> starts with a benchmarking exercise to compare the Chilean collective bargaining system with those of other OECD countries. Drawing on a mix of comprehensive literature review and in-house expertise, it then discusses the economic effects of collective bargaining and the importance of its design. Finally, it presents noteworthy practices and ongoing discussions in other OECD countries that can offer valuable insights and inspiration to Chile as it contemplates the introduction of sectoral bargaining models.

## 2 How does Chile compare?

Collective bargaining systems are based on a complex set of rules and practices, partly written in national laws and based on longstanding traditions. To characterise them, it is important to understand their functioning and the role of their different building blocks, as well as have quantitative information on the strength and representativeness of trade unions and employers' organisations (Figure 1).

**In Chile, collective bargaining is decentralised and only takes place at company level, in a context of strong union fragmentation.** No co-ordination mechanisms – within and between social partners – are in place, producing thus independent and atomised negotiations and preventing synchronisation of different bargaining units when setting their strategy and targets.

Figure 1. The main building blocks of collective bargaining systems



Source: OECD. (2019<sup>[1]</sup>), *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*, <https://doi.org/10.1787/1fd2da34-en>.

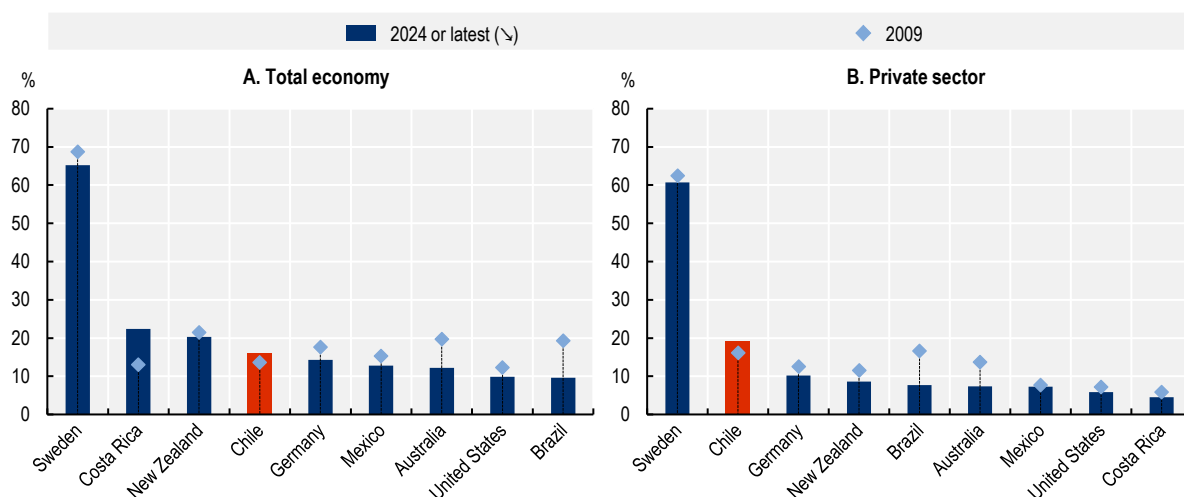
**Trade union density** (the share of employees who are union members) **accounted in Chile for only 16%** of the employees in 2023 (Figure 2, Panel A), slightly above the OECD average at 15.1%. It was concentrated in big firms and certain sectors, particularly mining (42% of employees are unionised). Moreover, data on the number of unions by workers show a great **fragmentation of trade unions**, notably in sectors such as mining, transport and communications, and more recently social services (COES, Pablo Ahumada, 2024).



While trade union density has been generally declining in most OECD countries over the last four decades – from about 35% in 1975 to 15% in 2023 on average for the OECD, important cross-country variations exist in terms of initial unionisation levels, the actual direction of trends, and, in countries where it happened, the pace, intensity and timing of the decline. Hence, while union density declined in a majority of countries, it increased in a few of them, such as Chile or Costa Rica and was relatively stable in others.

**Figure 2. Trends in trade union density**

Percentage of employees



Note: The latest year available refers to 2023 for Brazil, Chile, Germany, and Sweden; and to 2018 for the private sector in New Zealand. 2009 refers to 2011 for the private sector for Costa Rica and Germany. Trade union densities in the private sector for Germany and New Zealand are estimates based on the German Socio-Economic Panel (SOEP) and on union returns, respectively.

Source: OECD/AIAS ICTWSS version 2.0 (provisional data).

### **Employers, business and employer organisations are the other key actors of collective bargaining.**

In most OECD countries outside Europe, employer associations represent the interests of business (i.e. lobby and voice) but do not bargain collective agreements, with most – if not all – bargaining taking place at the firm level. However, the role of employer organisations in wage bargaining processes is institutionalised in many European countries.

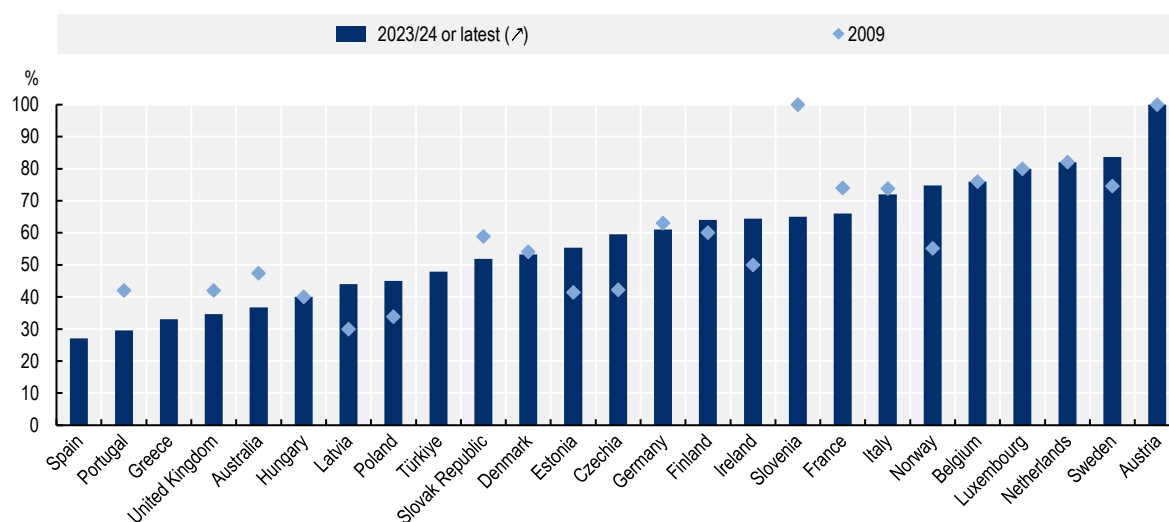
Compared with union density, much less is known about the membership and representativeness of these organisations across OECD countries. Representativeness, in particular, is very difficult to assess: official and up-to-date statistics on the number of workers covered, as distinct from the number of affiliated firms, are very limited, partial and often based only on self-reported data. Further difficulty in providing a precise assessment arises also from the possibility for firms to belong to several employer associations.

Using available information, Figure 3 shows the share of employees in the private sector working in firms affiliated to an employer organisation. On average, employer organisation density in the 25 OECD countries for which data are available is close to 60%. Like trade union density, employer organisation density varies considerably across OECD countries: it is very low in Central and Eastern European countries, but up to about 80% in Belgium, Luxembourg, the Netherlands, and Sweden (and at 100% in Austria due to compulsory affiliation for all firms). Unfortunately, no data available for Chile.

In most OECD countries, the share of employees working for a firm that is part of an employer organisation is larger in the good-producing sector compared with the service sector. **Employer organisations also tend to be more representative of medium and large firms.**

**Figure 3. Employer organisation density in selected OECD countries**

Percentage of employees in the private sector, 2000 or closest<sup>1</sup> and 2023/24 or latest<sup>2</sup>



1. 1997 for Australia, 2002 for Belgium, Czechia, Estonia, Finland, France, Hungary, Ireland, Latvia, Luxembourg, Poland, Portugal, and the Slovak Republic. No data available for Greece, Spain, and Türkiye.

2. 2012 for Hungary; 2014 for Belgium; 2016 for Slovenia; 2017 for France, Greece, and the United Kingdom; 2018 for Australia, Germany, Ireland, Italy, Latvia, the Netherlands, and Türkiye; and 2022 for Finland, Luxembourg, and Poland.

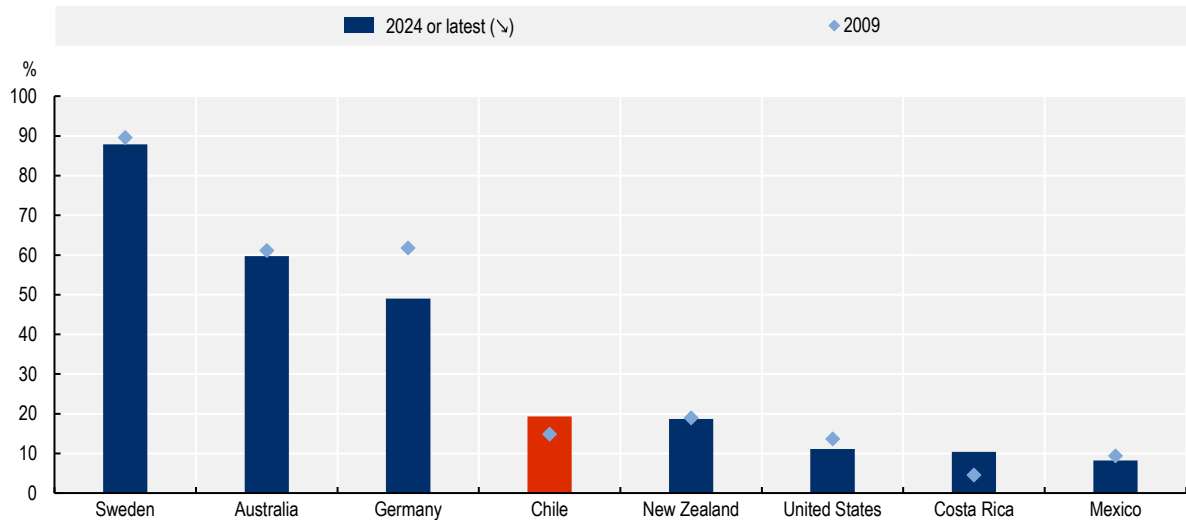
Source: OECD/AIAS ICTWSS database (provisional data).

Collective bargaining coverage rates (the share of employees covered by collective agreements) are key indicators of the scope of the bargaining systems: they vary widely across OECD countries, from almost 100% in France due to the administrative extensions to 5-10% to Costa Rica or Mexico. **In Chile, coverage rate is rather low, with 19.3% of workers covered by a collective agreement in 2023** (Figure 4). This is below the OECD average at about 30% in 2023.

Contrary to the majority of OECD countries, where coverage shrunk over the last decades, coverage rate **slightly increased in Chile from 14.8% in 2009 to 19.3% in 2023.**

**Figure 4. Trends in collective bargaining coverage rate**

Percentage of employees with the right to collectively bargain



Note: The latest year available refers to 2023 for Australia, Chile, Germany, and Sweden. 2009 refers to 2008 for Australia and New Zealand, and to 2011 for Costa Rica.

Source: OECD/AIAS ICTWSS version 2.0 (provisional data).

There are no comparable indicators on the level of enforcement of collective agreements across countries. However, capacity of enforcement of each system is likely to be related to the functioning of collective bargaining, historical developments and overall trust among social partners. The enforceability of agreements can also be fostered by regulating industrial actions with “peace clauses” ruling that unions which have signed an agreement, and their members, cannot lawfully strike on issues regulated in the agreement (Table 1). **In Chile peace clauses are not or rarely used** because strikes are highly regulated and limited to collective bargaining. In other countries (e.g. Italy and Spain), peace clauses are common but given that the strike is an individual right, workers can always strike as the agreement is binding only for the collective signatory parties. Therefore, even a small group of workers is enough to limit the enforcement of the agreement undermining the governability of the system. In other countries (typically the Nordic countries) peace clauses are used and enforced thanks to the strong role of unions and relatively high level of trust between and in social partners.

Mediation and arbitration procedures can also play a significant role in smoothing conflicts and helping to find an agreement within the framework of collective bargaining and therefore contribute to strengthen the overall governability of the system (see below the case of Sweden).

Table 1. The enforceability of collective agreements

		Sector-level agreements			
		Nothing or not applicable	Peace clause	Mediation	Both
Firm-level agreements	Nothing	Canada (AB) Korea Slovak Republic		Austria* Slovenia	Denmark* Latvia*
	Peace clause	Japan	Iceland Luxembourg Norway		Estonia Greece* Lithuania* Netherlands Switzerland
	Mediation	Australia Chile Colombia* Portugal United Kingdom		Czechia France Hungary Mexico	
	Both	Canada (BC*, ON* and QC*) Costa Rica New Zealand Türkiye United States*		Ireland*	Austria Belgium* Finland Germany Israel* Italy* Spain* Sweden*

\*: Compulsory mediation.

Note: AB: Alberta; BC: British Columbia; ON: Ontario; QC: Québec.

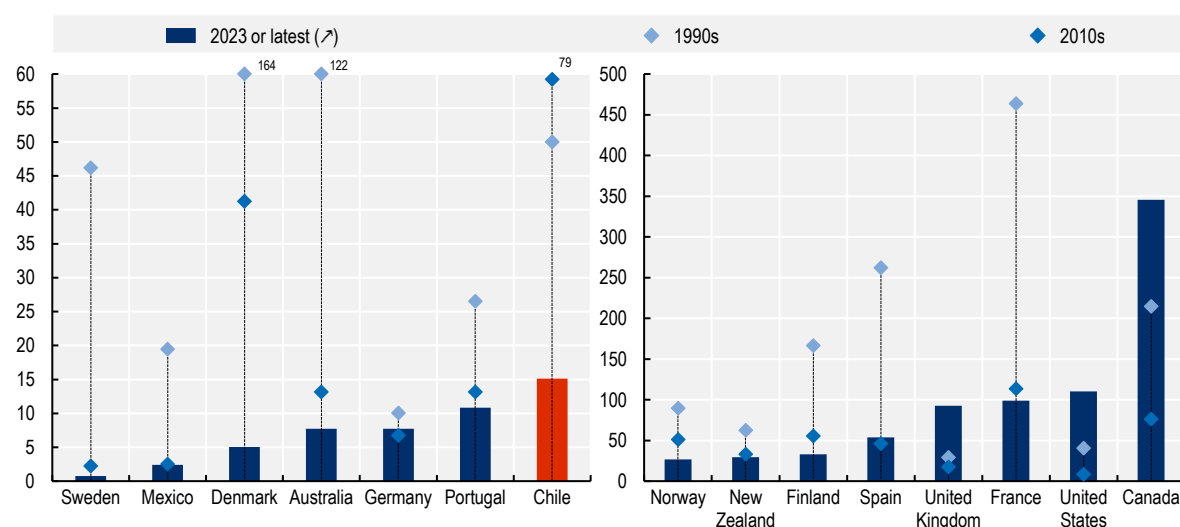
Source: OECD Policy Questionnaires, 2015.

Figure 5 shows the trends in industrial disputes (strikes and lock-outs) in selected OECD countries. Data should be interpreted however with caution as the number of strikes is likely to be affected by how they are regulated at national level and may thus not reflect the actual level of strife on the workplace. Furthermore, existing statistics are plagued by considerable differences in definitions and measurement which severely limit the comparability of the data. Notwithstanding these caveats, Figure 5 shows that **industrial disputes as well as the degree of variation across countries have gone down considerably since the 1990s, in many OECD countries including Chile**. Notable exceptions are Canada, United-Kingdom and the United States, where days lost because of strikes have particularly increased in 2023.

Since Blanchard and Philippon (2004<sup>[2]</sup>) tried to establish a link between conflictual labour relations and high unemployment, there has been an increasing focus on the quality of labour relations and trust among social partners. Blanchard et al. (2004<sup>[2]</sup>) argued that “*trust appears to be just as important in bringing macro flexibility as the structure of collective bargaining*” as the effectiveness of co-ordination, in particular, is likely to be closely linked to relatively peaceful and co-operative industrial relations. IMF (2016<sup>[3]</sup>) shows that unemployment rose less following the global financial crisis in those countries where trust was high.

**Figure 5. Recent trends in industrial disputes in selected OECD countries**

Annual averages of workdays lost per 1 000 salaried employees



Note: International comparability of data on strikes is affected by differences in definitions and measurement. Belgium: Strikes in the public sector are excluded until 2002. Since 2003 strikes in the public sector are included except for strikes in the local and county administration and similar institutions and for sailors in the merchant marine and shipping industry. Since 2013 strikes in the local and county administration and similar institutions are also included. Chile: Figures refer to the so-called "terminated strikes". Mexico: The statistics concern strikes at establishments and enterprises covered by federal jurisdiction. As a result, strikes at enterprises under local jurisdiction are not included. The latest year available refers to 2022 for France, Mexico, and Portugal. 1990s and 2010s refer to the unweighted averages of workdays lost per 1 000 employees in 1990-99 and 2010-19, respectively.

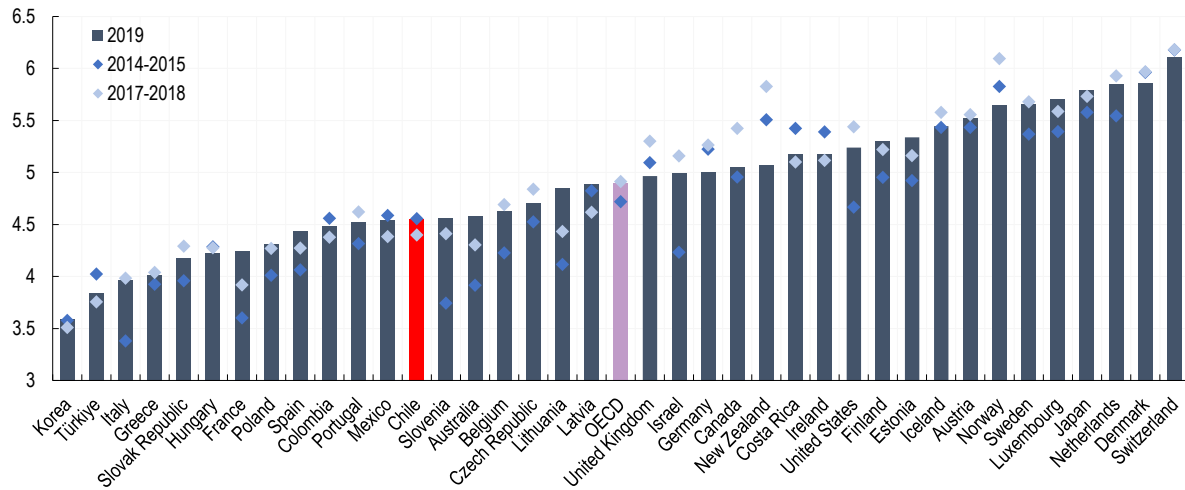
Source: ILOSTAT and national statistical offices for working days not worked and OECD Annual National Accounts Statistics Database and national statistical offices for total number of employees.

Figure 6 shows the degree of co-operation in labour relations as assessed by senior business executives in a survey published by the World Economic Forum. Among OECD countries, managers consider labour relations most co-operative in Switzerland and least co-operative in Korea, **with Chile standing below the OECD average in 2019.**

These data need of course to be interpreted with cautious as being deeply rooted into broader societal and cultural factors, as well as affected by decades of history. However, they bring complementary information on the quality of labour relations, one of the most difficult aspects of collective bargaining to document.

**Figure 6. Quality of labour relations in selected OECD countries**

Co-operation in labour-employer relations as assessed by senior executives



Note: Average weighted national score based on a scale from 1 ("generally confrontational") to 7 ("generally co-operative") to the following question: "In your country, how would you characterise labour-employer relations?". OECD is the unweighted average of the 38 OECD countries. Source: World Economic Forum Global Competitiveness Index.

# 3

## Collective bargaining: Functions and economic effects

The effect of collective bargaining on economic performance largely depends on the specific features of national collective bargaining system, how they interact with other key parameters of labour market institutions, such as employment protection or minimum wage legislation, but also on prevailing macroeconomic and labour market conditions and policies. Box 1 summarises the functions of collective bargaining and the main arguments of economic theory on the effect of collective bargaining.

### Box 1. Collective bargaining: role and economic effects

Collective bargaining can entail both benefits and side effects for firms, workers and labour market functioning. At a micro-level, collective bargaining can make labour markets function more efficiently **by correcting market failures** (i.e. the existing asymmetry of information and bargaining power between workers and firms, possibly reflecting monopsony and other labour market frictions) and **reducing transactions costs involved in individual bargaining**. It can ensure that **workers' requests for pay to increase with productivity are heard therefore preventing excessive turnover of staff and limiting the extent of costly procedures for handling grievances and complaints**.

Moreover, collective bargaining can also improve the **working environment and the quality of employment relationship between workers and firms**, leading to more efficient allocation of resources, greater motivation possibly productivity gains. Indeed, while often considered mainly as a wage setting institution, collective bargaining also plays an important role for setting other conditions of employment such as job security, working-time regulation, occupational safety and health, provision or access to training. Unions and employer organisations also provide important services to their members such as legal support, public advocacy, as well as training facilities.

At a macro level, collective bargaining can have an impact **on earnings distribution and inequalities** more in general (i.e. by affecting employment but also through its influence on management pay at firm level and payroll taxes and family and pensions systems at country level), unemployment levels and competitiveness as well as the way the labour market responds to unexpected shocks. Moreover, it can represent a useful tool for self-regulation between workers and employers and **bring about more stable labour relations and industrial peace**, leading to a more efficient allocation of resources, greater motivation and ultimately productivity. Finally, collective bargaining systems, and social dialogue in general, can constitute an efficient tool to promote effective consultation and implementation of structural reforms. When collective bargaining is well organised and representative, it can help manage and reduce the extent of any trade-offs between different policy objectives.

Collective bargaining hence aims at ensuring a fair sharing of the benefits of training, technology and productive growth (*inclusive function*), at maintaining social peace (*conflict management function*) and at guaranteeing adequate conditions of employment (protective function). Beyond those functions, **collective bargaining is also a key tool of market control**, i.e. reining in wage competition between

companies or, on the opposite, limiting the monopsony power of firms which in some cases may profit from a lack of bargaining power of workers. It can increase incentives for companies to invest in innovation if the presence of a bargaining setting prevents the option of increasing profits by simply reducing wages.

At the same time, economic theory argues that collective bargaining **can introduce market distortions** (e.g. “rent seeking behaviour”) by strengthening the power of insiders – both workers (e.g. those with full-time permanent contract) and firms (e.g. companies already operating in the market). When it comes to workers, the logic is that unions are less likely to take into account the interests of outsiders.<sup>1</sup> However, empirical evidence backing this theory is scarce.

1. Such as less-skilled, temporary or young workers or young/small firms. However, empirical evidence backing this theory is scarce.

Collective agreements signed by employers and unions primarily determine wage levels (or wage increases) and non-wage working conditions, including working time, leave arrangements, training, employment protection, and health and safety provisions (Figure 7). Re-negotiations of contracts by firms or employees may increase wages above the rate agreed at higher levels (or, in some cases, reduce wages below the negotiated rate). Outcomes such as employment or productivity are usually not part of the collective agreement, although they may be taken into account in the negotiations. The way collective bargaining influences labour market performance **depends on the bargaining strategies<sup>2</sup> of social partners, the structure of product and labour markets and the nature of collective bargaining institutions.**

**Figure 7. Collective bargaining, labour market performance and inclusive growth**



Source: OECD. (2019<sup>[1]</sup>), *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*, <https://doi.org/10.1787/1fd2da34-en>.



The effect of collective bargaining depends also on **the structure of the market and the degree of competition**. With perfect competition in product and labour markets, raising wages above the market equilibrium wage induces unemployment. However, when product market competition is imperfect (i.e. when firms have some degree of monopoly or oligopoly power), higher wages may not induce greater unemployment but be simply the result of workers appropriating a greater share of the rents. Moreover, in imperfectly competitive labour markets, higher bargaining power and higher wage floors can increase employment. This would be the case in the presence **of monopsony power**, which enables firms to fix wages below those fixed by the market, for example because workers have limited opportunities to change their employer or would incur high costs if they did so.

Finally, the role of collective bargaining for labour market performance also depends on the functioning of the institutional system. The main elements that are used to characterise the bargaining systems and conduct the economic analysis include:

- The degree of coverage, as collective agreements covering a large share of workers are likely to have a more sizeable macroeconomic effect – positive or negative – on employment, wages and other outcomes of interest than agreements confined to a few firms.
- The level of bargaining as sector-level can be expected to reduce wage inequality relative to decentralised systems, by lowering wage differentials in different sectors, while firm-level agreements, may allow paying more attention to firm-specific conditions, potentially raising productivity.
- The possibility of opt-outs or leaving the application of the favourability principle to social partners, since it can increase the flexibility of the system and allow for a stronger link between wages and firm performance, with on the upside higher employment and productivity, but on the downside higher wage inequality.
- The wage co-ordination<sup>3</sup> between sector-level agreements helps negotiators internalise the macroeconomic effects of the terms set in collective agreements. This is typically achieved by keeping wage increases in the non-tradable sector in line with what can be afforded by the tradable sector or by strengthening the ability of the system to adjust wages or working time in the face of a macroeconomic downturn. Co-ordination can therefore serve as an instrument for wage moderation and earnings flexibility over the business cycle, with potential benefits for employment and resilience.

# 4 Recent OECD evidence from macro and micro data

The economic literature has long debated the role of collective bargaining for labour market performance but paid little attention to the system of collective bargaining. In the early eighties, attention focussed very much on the role of centralisation, but the debate then also looked at other features such as the degree of wage co-ordination across bargaining units.

The main results from **macro-data** are based on country-level data on labour market outcomes and a characterisation of collective bargaining systems developed by the OECD. Five categories of collective bargaining systems are identified OECD (2019<sup>[1]</sup>):

- *Predominantly centralised and weakly co-ordinated systems*: Sectoral agreements play a strong role, extensions are relatively widely used, derogations from higher-level agreements are possible but usually limited or not often used, and wage co-ordination is largely absent.
- *Predominantly centralised and co-ordinated systems*: As in the previous category, sectoral agreements play a strong role and the room for lower-level agreements to derogate from higher-level ones is quite limited. However, wage co-ordination is strong across sectors.
- *Organised decentralised and co-ordinated systems*: Sectoral agreements play an important role, but they also leave significant room for lower-level agreements to set the standards – either by limiting the role of extensions, leaving the design of the hierarchy of agreements to bargaining parties or allowing opt-outs. Co-ordination across sectors and bargaining units tends to be *strong*.
- *Largely decentralised systems*: Firm-level bargaining is the dominant bargaining form, but sectoral bargaining or wage co-ordination also play a role. Extensions are very rare.
- *Fully decentralised systems*: Bargaining is essentially confined to the firm or establishment level with no co-ordination and no (or very limited) influence by the government. **Chile** is part of this group, together with Colombia, Costa Rica, Mexico, **New-Zealand** and the United States among others.

The analysis compares labour market outcomes under these different collective bargaining systems relative to the fully decentralised system, while controlling for the level of bargaining coverage as well as the possible role of the business cycle, the characteristics of the workforce and persistent country-specific features. The results also account for other policy reforms that occurred at the same time, in the areas of labour taxation, product market regulation, job dismissal regulation, minimum wages and unemployment benefits.

## 4.1. Better employment outcomes with co-ordinated bargaining systems

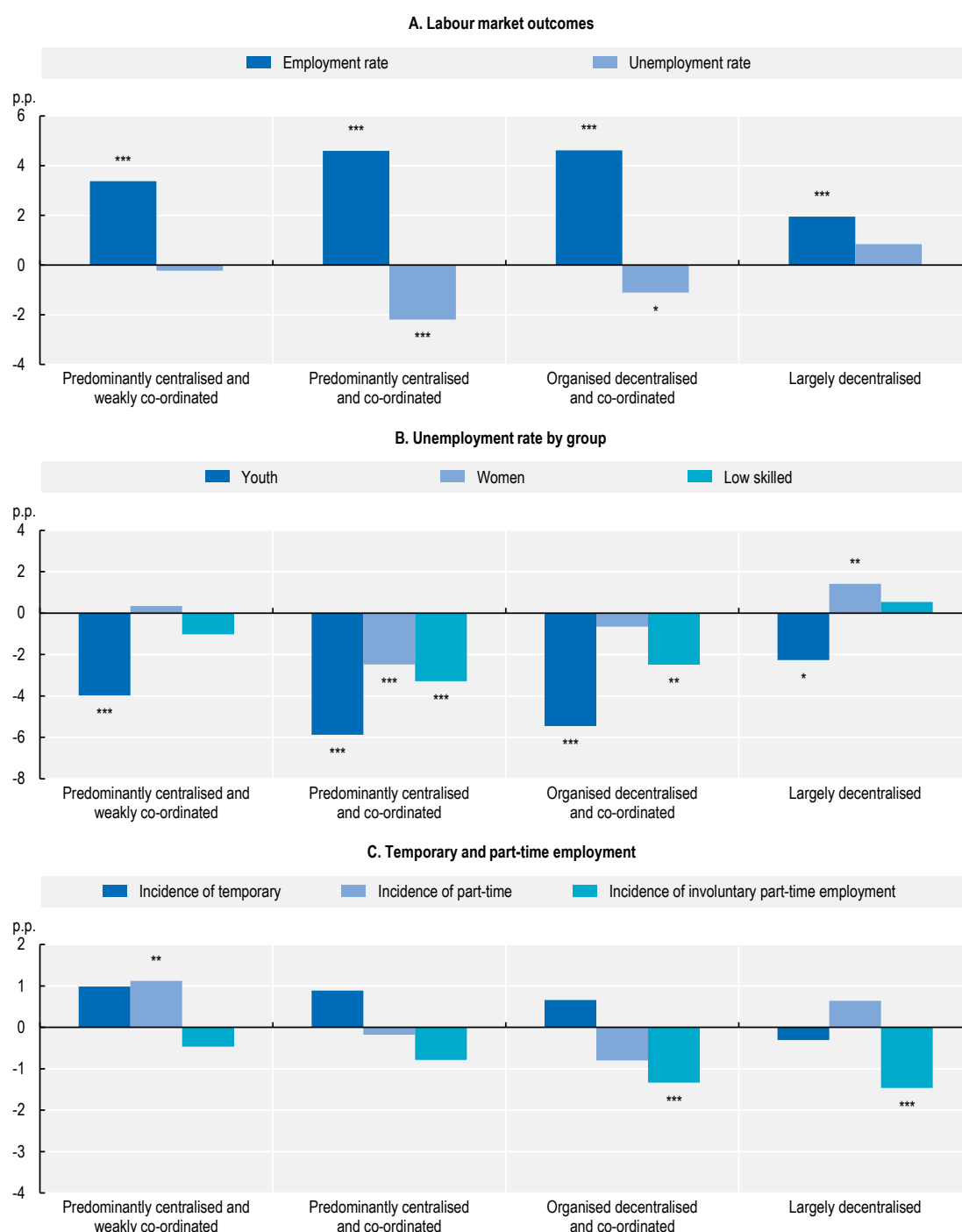
**Co-ordinated bargaining systems are associated with higher employment and lower unemployment relative to fully decentralised systems** (Panel A of Figure 8). This is particularly the case for predominantly centralised systems, while for *organised* decentralised systems the result on

unemployment is somewhat smaller and less robust. Centralised but weakly co-ordinated systems and largely decentralised systems hold an intermediate position, with better employment outcomes than in fully decentralised ones but similar unemployment outcomes. The difference between the employment and unemployment results suggests that such systems are linked with higher employment and labour force participation.

It is sometimes argued that collective bargaining delivers good labour market outcomes for “insiders” (notably prime-age male full-time workers with a permanent contract) at the expense of jobs for “outsiders”, such as youth, women and low skilled. The evidence, however, suggests that, in most cases, co-ordinated systems – either centralised or *organised* decentralised – are associated with **better labour market outcomes for vulnerable groups** (Panels B and C of Figure 8). The unemployment rates of youth, women and low-skilled workers appear to be consistently lower (or at least not higher) in co-ordinated systems than in decentralised ones.

**Figure 8. Collective bargaining systems and employment outcomes**

Difference in percentage points with respect to fully decentralised systems



Note: \*\*\*, \*\*, \*: statistically significant at the 1, 5 and 10% levels, respectively. Results are based on OLS regressions including country and year dummies, collective bargaining coverage, log of average years of education, female employment share and institutional variables: (tax wedge, product market regulation, employment protection legislation (both temporary and permanent), ratio of minimum wage to median wage and gross unemployment benefit replacement rate).

Source: OECD estimates.

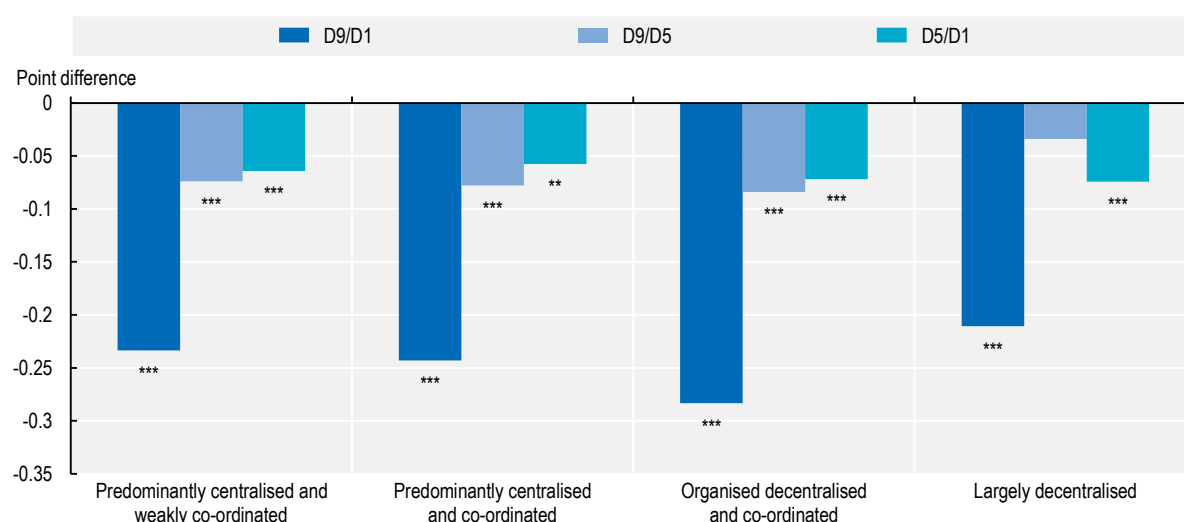
## 4.2. Lowest wage dispersion with sectoral bargaining

Drawing on country-level data and the same collective bargaining taxonomy, **collective bargaining systems that are not fully decentralised are found to be correlated with lower wage inequality** for full-time employees (Figure 9), as measured by the D9/D1-ratio, i.e. the ratio of the wage at the 9<sup>th</sup> decile of the wage distribution to the wage at the 1<sup>st</sup> decile. This association is present both in the lower and upper half of the wage distribution.<sup>4</sup>

Strengthening the bargaining power of low-wage workers is one of the core missions of collective bargaining, so it is not surprising that empirically collective bargaining is associated with lower levels of inequality. Detailed pay scales, where they are defined, can compress wages in the middle and top of the distribution to compensate for higher wages at the bottom. These mechanisms are particularly relevant when bargaining covers a substantial share of the working population.

**Figure 9. Collective bargaining and wage dispersion**

Point difference with respect to fully decentralised systems



Note: \*\*\*, \*\*, \*: statistically significant at the 1, 5 and 10% levels, respectively. Results are based on OLS regressions including country and year dummies, collective bargaining coverage, log of average years of education, female employment share and institutional variables: tax wedge, product market regulation, employment protection legislation (both temporary and permanent), ratio of minimum wage to median wage and gross unemployment benefit replacement rate. Earnings inequality measures are based on gross earnings of full-time wage and salary workers. D1, D5 and D9 stand for the first, fifth and ninth decile of the wage distribution.

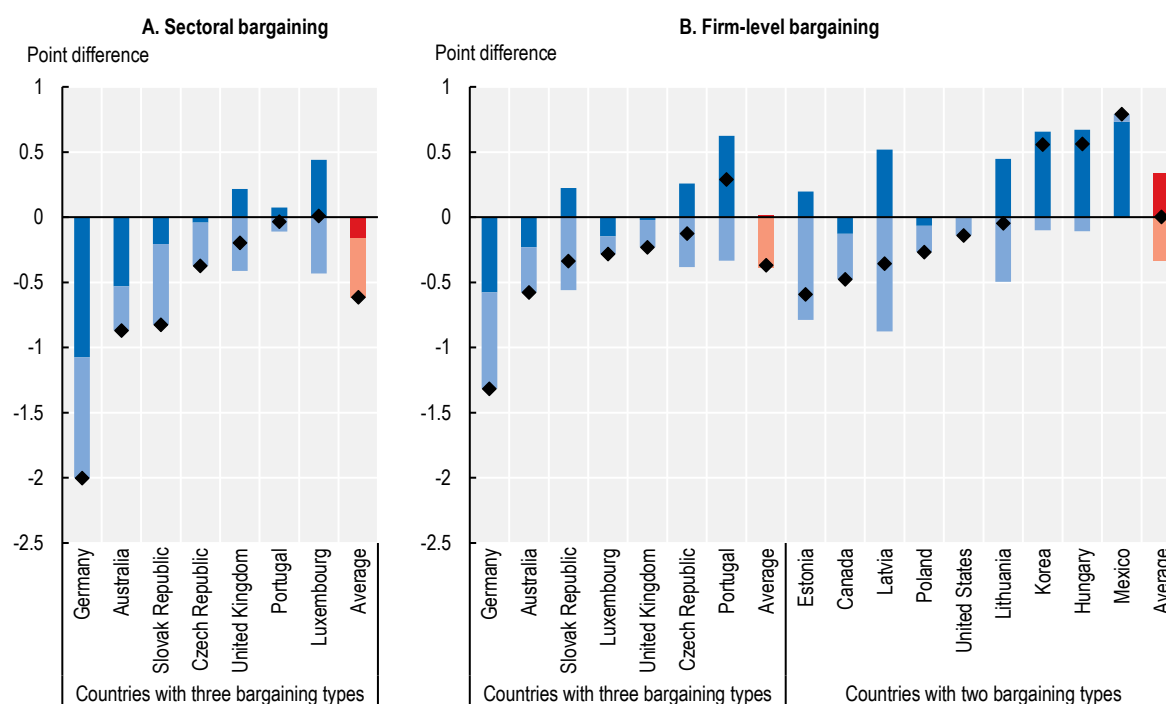
Source: OECD estimates.

Worker-level data on collective bargaining coverage are also available for 21 OECD countries. Besides distinguishing workers covered by collective bargaining from those who are not, the micro-data separately identify workers whose wage is primarily determined by a firm- as opposed to a sectoral agreement. This makes it possible to distinguish three bargaining levels: i) individual or no collective bargaining; ii) firm-level bargaining; and iii) sectoral bargaining. Analysis based on these micro data provides further evidence on the **positive role of collective bargaining for wage equality**. On average, **earnings dispersion is lower with collective bargaining**, when accounting for compositional differences (Figure 10). In the first group of countries where all three bargaining levels co-exist, **wage dispersion is highest among workers not covered by collective bargaining**, followed by firm-level and then sectoral bargaining. By contrast, for the second group of countries where there is no sectoral bargaining, wage dispersion among workers

covered and those not, at least on average, is the same. A cross-country comparison of the averages for the first two groups suggests that firm-level bargaining is only effective in lowering wage dispersion *when it comes on top of sectoral bargaining*. One possible explanation for this may be that companies characterised by firm-level bargaining are in most cases also covered by sectoral bargaining. Nevertheless, overall, they are consistent with those drawing on country-level data which suggested that **the economy-wide distribution of wages is less equal in systems without scope for sectoral or higher-level bargaining** (see Figure 9).

**Figure 10. Accounting for the differences in wage dispersion with and without collective bargaining**

Change in the ratio of the 9th to the 1st earnings decile relative to employees not covered by collective bargaining (adjusted for composition), 2014



Note: Results are based on Juhn-Murphy-Pierce decompositions using workers without a collective agreement as the reference group and controlling for gender, age groups, educational attainment, industry, occupation, firm size, type of contract and job tenure. Data are from 2012-16, depending on the country (2006 for Germany). For countries with three bargaining types, data are available for firm- and sectoral bargaining and no collective bargaining. For countries with two bargaining types, data are available for firm-level bargaining and no collective bargaining. "Sectoral bargaining" for Australia refers to the use of Modern Awards. A proper sectoral bargaining does not exist in Australia.

Source: OECD calculations based on the European Structure of Earnings Survey for European countries, the Household, Income and Labour Dynamics survey for Australia, the Labour Force Survey for Canada, the Labour and Income Panel Study for Korea, the National Survey of Occupation and Employment for Mexico and the Current Population Survey Merged Outgoing Rotation Groups for the United States.

The inequality results in this report complement previous findings that point in the same direction, from earlier studies by Blanchflower and Freeman (1993<sup>[4]</sup>), Blau and Kahn (1999<sup>[5]</sup>), Card, Lemieux and Riddell (2004<sup>[6]</sup>) and DiNardo and Lee (2004<sup>[7]</sup>) to more recent ones including OECD (2011<sup>[8]</sup>), ILO (2015<sup>[9]</sup>) and Jaumotte and Buitron (2015<sup>[10]</sup>).

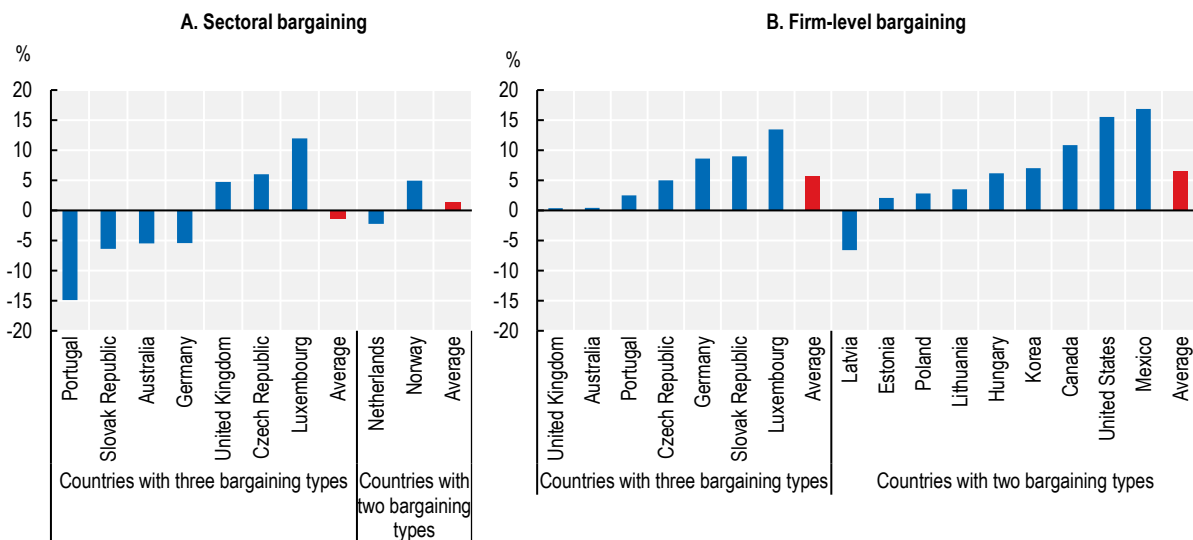
### 4.3. Wage premium of firm-level bargaining

Workers are paid more with firm-level bargaining, while sectoral bargaining is not associated with relatively higher pay on average (Figure 11). This is not surprising as firm-level negotiations can often only raise wages *relative* to sectoral agreements. The differences in wages may also signal higher productivity in companies with firm-level bargaining. The results are in line with a large body of the literature which finds that sectoral bargaining is not linked with higher wages on average – see Dell’Aringa and Lucifora (1994<sup>[11]</sup>), Hartog, Leuven and Teulings (2002<sup>[12]</sup>), Rycx (2003<sup>[13]</sup>) and Cardoso and Portugal (2005<sup>[14]</sup>).

The variation for sectoral bargaining across countries is large, with a positive premium in some countries and a negative one in others. By contrast, wages of workers covered by firm-level agreements are higher than those of uncovered workers in all countries except Latvia. In countries with low collective bargaining coverage, wage inequality can thus rise as firm-level bargaining expands to include more workers, even if wage dispersion is smaller among workers covered by firm-level bargaining than among those who are not.

**Figure 11. Wage premium by level of collective bargaining**

Composition-adjusted difference in average wages relative to no collective bargaining, 2014



Note: Results are based on Juhn-Murphy-Pierce decompositions using workers without a collective agreement as the reference group and controlling for gender, age groups, educational attainment, industry, occupation, firm size, type of contract and job tenure. Data are from 2012-16, depending on the country (2006 for Germany). “Sectoral bargaining” for Australia refers to the use of Modern Awards. A proper sectoral bargaining does not exist in Australia.

Source: OECD calculations based on the European Structure of Earnings Survey for European countries, the Household, Income and Labour Dynamics survey for Australia, the Labour Force Survey for Canada, the Labour and Income Panel Study for Korea, the National Survey of Occupation and Employment for Mexico and the Current Population Survey Merged Outgoing Rotation Groups for the United States.

#### 4.4. Lower productivity growth in centralised systems with limited scope to firm level bargaining

The stronger wage compression with collective bargaining documented above may reflect a misalignment of wages with a firm's or sector's productivity because centralisation or co-ordination makes pay also determined by factors other than the firm or sector.

The extent to which wages in a particular firm or sector correspond to the productivity in the firm or sector can be estimated with available data. By comparing countries with one another, OECD (2019<sup>[11]</sup>) provides suggestive evidence<sup>5</sup> that wages tend to be less aligned with labour productivity in countries where collective bargaining institutions have a more important role. Examining the different features of collective bargaining systems that may matter for wage-productivity alignment, the study concludes that **co-ordination, collective bargaining coverage and centralisation jointly predict lower wage-productivity alignment**. The empirical evidence, which is based on cross-country comparisons, is however not enough for proving that such features of collective bargaining are the driving or causal factors behind the differences in wage-productivity alignments. It is nonetheless suggestive that collective bargaining has an important role for how wages in a sector respond to sector performance.

Overall, in countries where wage co-ordination has an important role or wages are more centralised at sectoral level, the correlation of wages with productivity at the sub-national level is weaker. This suggests that wage co-ordination “works”, in the sense that it co-ordinates wages and, by partially delinking wages from productivity, may end up in a less dispersed wage distribution. Centralisation and co-ordination may also affect how wages can respond to individual firm performance. In the longer term, such delinking of wages from productivity could have potentially important implications for productivity growth. It could reduce incentives for workers to innovate, work hard and move to a better-paid job.

However, stronger misalignments of wages from productivity do not need to have such negative effects; for example, they may even increase innovation incentives, if firms would reap the full benefits of productivity gains. Box 2 summarises the existing literature on collective bargaining and productivity.

#### Box 2. Collective bargaining and productivity growth

How does collective bargaining influence productivity? Theory suggests that effects could go either way. On the one hand, collective bargaining can increase aggregate productivity by setting higher wage floors (and making it more difficult to cut costs through lower wages) which may force unproductive firms to exit the market (Braun, 2011<sup>[15]</sup>). More rigid wages may also increase the incentives of the firms' owners to innovate, as they would reap the full benefits of productivity gains – see Acemoglu and Pischke (1999<sup>[16]</sup>) and Haucap and Wey (2004<sup>[17]</sup>). Other ways through which collective bargaining could promote productivity growth are higher “efficiency” wages, better non-wage working conditions and the possibility for workers to voice concerns.

On the other hand, a more compressed wage structure may reduce the incentives to work hard and move to a more productive firm, harming firm productivity and the efficient reallocation of workers. Union power could also allow workers appropriating the benefits of investments by employers, giving rise to the so-called “hold-up” problem (Malcomson, 1997<sup>[18]</sup>) and reducing investment incentives for firms. Further, limitations to adjustments in the organisation of work (such as in working time, shifts or leave) could lower productivity. Finally, decentralisation of bargaining may promote productivity through a more frequent use of incentive schemes (such as performance pay).

The empirical literature has examined quite extensively the role of union coverage for productivity. According to a meta-analysis (Doucouliagos, Freeman and Laroche, 2017<sup>[19]</sup>), the evidence overall



suggests that union coverage increases productivity in non-manufacturing industries, but not in manufacturing industries. Some papers studied empirically the relevance of collective bargaining for the “hold-up” problem and investment, with inconclusive results overall. Card, Devicienti and Maida (2014<sup>[20]</sup>), using matched employer-employee data from Italy’s Veneto region, obtain little evidence of hold-up. Based on sector-level data for OECD countries, Cardullo, Conti and Sulis (2015<sup>[21]</sup>) find that union coverage reduces investment in sunk-capital-intensive industries relative to others.

The OECD empirical results reported in this section suggest that certain collective bargaining systems can be associated with stronger misalignments of pay and productivity, **with possible consequences for productivity growth**. However, few papers have directly studied the role of different features of bargaining systems, such as centralisation or co-ordination, for productivity, in part due to lack of suitable data. A few results from empirical papers on this topic are summarised in OECD (2019<sup>[11]</sup>). Taking the evidence together, decentralisation appears to improve firm productivity, while it may slow down the cleansing effect of higher wages and therefore, due to composition effects, not translate in higher aggregate productivity growth. When investigating the links of centralisation and co-ordination with productivity growth, results suggest **that centralised bargaining may come at the expense of lower productivity growth**, although analysis beyond these empirical explorations is needed to examine the links between bargaining regimes and productivity further.

While further empirical work seems necessary to assess the link between bargaining regimes and productivity more in depth, OECD results tend to call for **combining sectoral agreements with some role for further negotiation at firm level** in order to better align productivity and pay, as well as foster productivity by promoting some wage differentiation across firms and workers. This result suggests **that the articulation between sector and firm-level bargaining needs to be carefully fine-tuned**.

# 5

## Insights and lessons from other OECD countries

While each collective bargaining system is embedded in its national institutional framework, and cannot as such be exported to another country, recent initiatives and debates in OECD countries such as the Fair Pay Agreements introduced in 2022 in New Zealand can offer some lessons for introducing sectoral bargaining in Chile. The use of automatic extensions in France or the importance of institutions such as the mediation office in Sweden, can provide further inspiration and insights for Chile.

### 5.1. The Fair Pay Agreements in New Zealand

If the New-Zealander economy had been growing over the last three decades, wages were lagging well behind increases in labour productivity when the Fair Pay Agreements were introduced in 2022. Wage inequality was a particular concern at the time, as reflected by a low median wage and wage increases of the richest salaries twice as those of the middle-income earners. Another, related challenge, was the weakening of the New-Zealander labour relations system: in 2022, less than 20% of workers were members of a trade union – down from 60% in the mid-80s. In some sectors, this allowed some businesses to compete for contracts by reducing wages or employment conditions and exposed some sectors to a race to the bottom.

To address these challenges, the government implemented some forms of sectoral bargaining: in December 2022, new bargaining arrangements known as the **Fair Pay Agreements (FPAs)** came into force. They reintroduced some sectoral bargaining after the reforms in the 1990s which resulted in firm-level collective bargaining and individual contracts replacing the awards as the main instruments of wage regulation. The FPAs were intended to strengthen workers' bargaining power to ensure that wages and conditions reflect the needs of each sector and to reduce the wage competition (avoid a race to the bottom to deliver on competitiveness), to encourage firms in each sector to compete on innovation, productivity and quality and to co-ordinate investment in skills training – prevent free riding employers who would not offer training to their employees but steal them from others who do<sup>6</sup>.

Even if the FPAs have been repealed following a change of Government at the end of 2023,<sup>7</sup> the FPAs system can provide instructive insights for Chile on designing multi-level (sectoral) bargaining.

#### 5.1.1. What are FPAs and how do they work?

The Fair Pay Agreements bring together employers and unions within a sector to bargain for minimum standards of employment for all workers or industry. **They collectively set minimum terms and conditions** relating to pay,<sup>8</sup> benefits, working hours and skills training for all workers across sectors and occupations, while leaving detail (and flexibility) to enterprise bargaining. They allowed firms to manage day to day issues they faced, while giving workers security that they had a floor below which their terms and conditions could not be pushed. By establishing a floor underneath pay and conditions, competition based on low labour costs would be disincentivised.

Fair Pay Agreements are a kind of contract which specifies minimum employment terms for all employees in a certain industry or occupations. Typically, the employee and employer would bargain and come to an agreement for their specific industries. Unions that are eligible will represent that industry, even if certain employees are *not unions members*. Therefore, if an employee is covered by a Fair Pay Agreement, the union will bargain on their behalf regardless of whether they are part of the union.

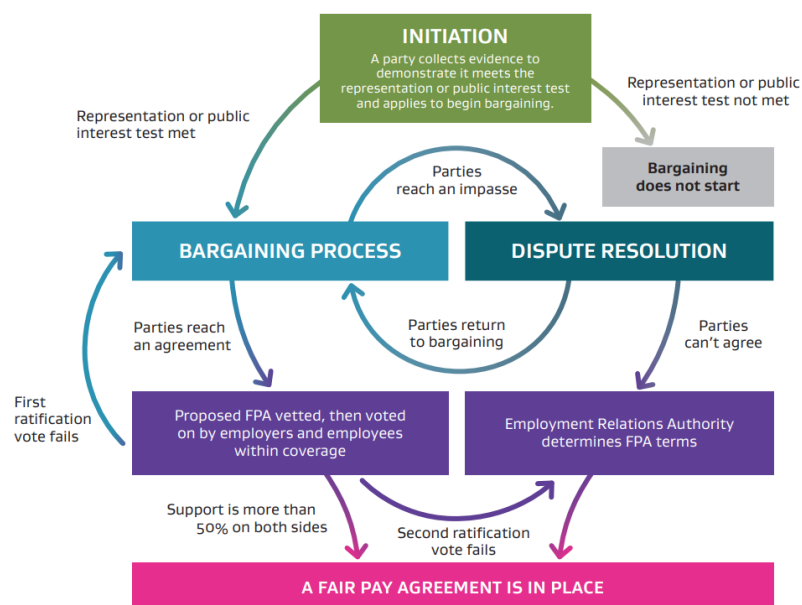
The novelty is that eligible employers can have an employer/industry organisation negotiate on their behalf and bargain with a union or employees. Employer/industry organisation similarly act for the employer or specific industry, even if the employer is not a member. The idea is **to provide a level playing field** to support notably workers in the most vulnerable industries, in preventing that employers disadvantage their employees through individual bargaining and agreement.

A number of steps had to be taken before bargaining can start: unions initiating the Fair Pay Agreements process would need to meet one of the two requirements: a representation test which required the trade union seeking to initiate a Fair Pay Agreement to show that it had the support of at least 10% or 1 000 workers to whom it would apply; or the initiating trade union could request a public interest test and show that the workers to whom the Fair Pay Agreement would apply had few opportunities for wage increases or limited bargaining power (Figure 12). The initiating union(s) must decide which work they want covered. Parties can later agree to change the coverage. FPAs can be an occupational FPA or an industry FPA. If there is an overlap in coverage between two FPAs, the second one only applies if the workers would be better off overall. In this first phase, it is important that workers who will be covered by an FPA know about it. Employers, unions, business representatives and government will each have a role in notification to reach as many concerned parties as possible.

If one bargaining side (i.e. unions or employers' representatives) is or becomes underrepresented, a default bargaining party may step into bargaining. In terms of content, all FPAs must include certain topics like minimum rate of pay, standard working hours, overtime and penalty rates. Some other topics must be discussed but don't have to be agreed, like redundancy arrangements, leave and health and safety requirements. Other employment terms can be included if the bargaining sides agree. The agreement must also include who it covers, what work is being covered and the duration of the agreement. Importantly, **an FPA can allow for exemptions for business** if they are in significant financial hardship. **An FPA can also deviations:** set regional differences, and other differential terms if they comply with the Human Rights Act and minimum employment entitlements; but also set a preferential pay for union members up to a maximum value.

If bargaining parties encounter difficulties, **mediation help to resolve them**. The Employment Relations Authority (ERA) set the FPAs terms by determination. The finalisation of an FPA includes important steps to ensure that the resulting agreements are supported and have the force of the law: i) *vetting*: the ERA vets an agreed FPA to ensure the terms are lawful, before it goes to a vote; ii) *ratification*: if bargaining parties reach an agreement, their proposed FPA will need support from a simple majority of both workers and employer voters to be ratified. Employers have one vote per employee in coverage, with slightly higher vote weighting for employers with fewer than 20 employees in coverage. If a first ratification vote fails, parties go back to bargaining. If a second vote fails, the FPAs goes to the ERA for determination; iii) *enactment and enforcement*: once finalised, the government makes secondary legislation to bring the FPA into force. Workers covered by the FPA can enforce their rights through the standard employment dispute resolution. In addition, the Labour inspectorate can also enforce certain terms of the FPA.

Figure 12. How does the Fair Pay Agreement system work



Source: Ministry of Business, Innovation and Employment.

### 5.1.2. Key design choices

As said above, the FPAs system only worked for a temporary period. Even if the FPAs have been repealed following a change of Government at the end of 2023,<sup>9</sup> the system can provide instructive insights to learn on designing multi-level (sectoral) bargaining. Key design choices include(d):

- **Providing financial and training support:** the government contributed NZD 50 000 to each bargaining side, with additional funds if the side had low rates of membership of a union or industry group, to help with FPA costs. Bargaining sides were also offered to be supported by training and a government -provided support person.
- **Allowing unions to negotiate FPAs terms for non-union members (extensions) and granting unions access to workplaces,** to ensure broad-coverage and address employees on relevant issues. This was key given the low unionisation rates across sectors.
- Establishing a **credible threat** to incentivise employers to find a collective voice. The New Zealand's ERA, a tribunal, was given power to step in to set FPA terms if no representation could be found for employers, or if agreements failed after two ratification attempts (Figure 12). This acted as an incentive for employers to participate in bargaining (carrot and stick).
- **Setting enforcement and sanctions mechanisms:** each FPA in New-Zealand became secondary legislation, making breaches *legal violations*. Employees could enforce their rights through dispute resolution mechanisms and the New Zealand Labour inspectorate was empowered to enforce specific FPA terms.

## 5.2. The extensions of collective agreements in France

Collective bargaining in France take predominantly place at sectoral level. The bargaining system is characterised by an apparent “paradox”, as combining one of the lowest trade unions density across the OECD countries (at about 10% in 2023) with one of the highest bargaining coverage rate (close to 100%).

This high coverage rate is due to the widespread use of nearly automatic extensions (i.e. just an administrative formal process to extend the coverage of collective agreements beyond the members of the signatory unions and employer organisations to all workers and firms in a sector by the French Ministry of labour). Extensions level the playing field across firms in a sector and ensure a fair competition. Extensions can also reduce the transaction costs linked to lengthy and detailed negotiations, which can be particularly relevant for small firms that lack the resources (or do not have workers representation) to engage in firm-level bargaining. In some cases, extensions are also issued to support the sustainability of some forms of “public goods” such as sectoral training and mobility schemes that are funded via collective agreements (De Ridder and Euwals, 2016<sup>[22]</sup>; Hayter and Visser, 2018<sup>[23]</sup>). Finally, extensions also contribute to spread best practices in terms of personnel management, training, health and safety, technology usage, insurance, retirement packages, or performance-related incentives. However, extensions can become a tool of unfair competition, for instance when extensions are used by “insider” firms to drive competitors out of the market (Haucap, Pauly and Wey, 2001<sup>[24]</sup>; Magruder, 2012<sup>[25]</sup>; Martins, 2014<sup>[26]</sup>). More in general, **extensions may also have a negative impact when the terms set in the agreement do not account for the economic situation of a majority of firms in the sector**: for instance, when the employer association is representative only of large and relatively more productive firms (and hence willing to pay higher wages), it may agree on wage floors and other components that are not sustainable for smaller and less productive firms.

In order to partly alleviate these concerns, extensions may be issued when the “collective agreement already covers a number of the employers and workers concerned which is, in the opinion of the competent authority, sufficiently representative”, as stated in the ILO Recommendation on collective agreements (No. 91). In several OECD countries administrative extensions are subject to **threshold representativeness criteria**: collective agreements can only be extended if they are signed by *employer organisations* representing a minimal share of workers (most often the majority).<sup>10</sup> However, while these criteria may be important, a more important concern is to ensure that signing employer organisations do not only represent a few selected firms. Introducing representativeness criteria in countries where they do not exist is not straightforward. In that context, **having reliable and up-to-date statistics on trade unions’ and employer organisations’ membership is in all cases a necessary condition** to have meaningful representativeness criteria.

Another option to limit the potential negative effects of extension is to submit them to **a test of public interest**, by which extensions could be denied if the social and economic circumstances do not warrant extending the terms beyond the signatory parties or, on the opposite, issued to safeguard the public interest (for instance to stabilise the collective bargaining system or avoid free-riding in common funds such as for training). As argued in OECD (2017<sup>[27]</sup>), while the exact definition can vary, it is important that the criteria of public interest are announced well in advance by the government so that social partners can take them into account during the negotiation.

Along these lines, and to modulate the “automatic” nature of extensions in France, the 2017 labour market reform (the “Macron Ordinances”) introduced the possibility to block otherwise semi-automatic extensions out of public interest considerations, notably the risk of negative effects on competition. Furthermore, **a committee of independent experts was set up to evaluate the economic and social consequences** of all extensions that could advise refusals to extensions. While representativeness criteria (and, if used, public interest clauses) aim to reflect as much as possible the situation of a wide set of firms, they cannot account for their full diversity. Few countries, therefore, also allow for exemptions from extensions.<sup>11</sup> Another option to better reflect the heterogeneity of firms and avoid the “one-size-fit-all” limit of extensions is to allow a differentiation *within* agreements as is done in the Dutch metal industry where, in practice, two agreements are signed, and extended, one for firms with 35 and more employees and one for firms with less than 35 employees. The French 2017 reform also **conditioned the extension of a sectoral collective agreement to a differentiation of its content between large and small companies**.

### 5.3. Swedish mediation office

The Swedish collective bargaining system provides a good illustration of the so-called “*organised decentralisation*” systems discussed before. In these bargaining systems, sectoral agreements define the broad conditions but leave large scope for bargaining at the firm level and detail provisions.<sup>12</sup> This sound articulation between sectoral and firm level bargaining is one of the key elements of these bargaining systems which – as shown by the macro and microeconomic evidence reported above – are those leading to the best outcomes in terms of resilience, employment, productivity and wage performance.

While the Swedish model is embedded in its cultural and institutional national framework, and cannot be transferred as such to Chile, it displays nonetheless important insights for a well-functioning multi-level bargaining system.

First, the existence of **strong and representative social partners**: in Sweden, about 65% of employees were unions members in 2023, one of the highest shares across the OECD area (Figure 2) and 82% of workers were employed in a firm that was member of an employer organisation – the so-called employer organisation density (Figure 3). Furthermore, collective bargaining coverage remains high, at about 88% in 2023 (Figure 4).

Second, the **quality of labour relations** and the co-operation in labour relations which are key elements for ensuring wage co-ordination as assessed by senior executives by the World Economic Forum is good, and well above the OECD average (Figure 6). This reflects both a high level of trust in and between the social partners and the availability of objective and shared information on the labour situation.

Third, and related to less to the previous point, the existence of institutions, such as the Swedish **mediation office** to enforce agreements and solve disagreements. Such bodies which are primarily aimed at mediating labour disputes and, in some countries, also promote an efficient wage formation process, constitute a key pillar of the Nordic countries bargaining model<sup>13</sup> where social partners highly need to reach compromises to avoid the intervention of the State and keep their independence.

Mediation offices, some of which have been in existence for more than 100 years, are specialised governmental bodies with the task of intervening in the event of conflict to prevent deadlock and encourage the search for solutions acceptable to all parties. They act as neutral facilitators, helping disputing parties to reach mutually acceptable solutions without resorting to strikes or other industrial action.

Moreover, mediation offices can also promote an efficient wage formation process in ensuring co-ordination: enforcing maximum wage targets is not straightforward, especially if some non-tradable sectors can afford more than the agreed “cost mark”. Ibsen (2016<sub>[28]</sub>) highlights the role of mediation bodies for the functioning of pattern bargaining in Sweden, where the mediation process works through persuasion and naming and shaming.

## 6 Concluding remarks

While many OECD countries have taken steps towards decentralisation in the past two decades, recent OECD evidence (OECD, 2019<sup>[1]</sup>) has shown the benefits that a sector-based bargaining can have in labour markets, notably when they leave space and flexibility to adjust at firm-level (the so-called organised decentralisation systems).

The Fair Pay Agreements (FPAs) introduced in New Zealand in 2022 were about creating a new, modern, sector-based bargaining system that supports fair, safe, and productive workplaces. The FPAs model, which was built on the OECD evidence, provides important insights for introducing sectoral bargaining in Chile, notably the importance of Government financial and training support to each bargaining side and of providing a broad coverage of agreements, possibly through the use of extensions. On this latter aspect, the 2017 French labour market reform provides useful examples for limiting the potential negative effects of administrative extensions. Finally, the existence of institutions, such as the mediation offices in Sweden, in mediating labour disputes or the New Zealand's ERA tribunal in stepping into the bargaining process if no representation could be found for employers, or if agreements failed, can also provide further inspiration and insights for Chile.

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## Notes

<sup>1</sup> The paper benefited from two interviews conducted respectively with the CPC and the CUT representatives about the Chilean Industrial Relations system situation and the challenges they faced.

<sup>2</sup> The academic literature has focused on two broad classes of bargaining strategies. In the so-called “right-to-manage” model (Leontief, 1946<sup>[31]</sup>), unions bargain exclusively over wages, leading to lower employment relative to the perfect competition benchmark. Union members, usually referred to as “insiders” in this literature, are viewed as gaining at the cost of “outsiders”, unemployed individuals or individuals in vulnerable jobs not covered by collective bargaining (Lindbeck and Snower, 1986<sup>[29]</sup>). The cause of the presumed inefficiency is that employment is not accounted for in the negotiations. This could have the additional downside of reducing the resilience of the labour market against adverse macroeconomic shocks. In practice, however, unions might not only be concerned about wages but also employment and macroeconomic resilience. This has motivated the “efficient bargaining” model (McDonald and Solow, 1981<sup>[30]</sup>).

<sup>3</sup> Wage co-ordination can be defined as the extent to which wage targets are pursued and/or minor players follow what major players decide. Wage co-ordination can be more or less strong and can take different forms: State imposed (like in Belgium), pattern bargaining (like in the Nordic countries, Austria, Germany, or the Netherlands) where a sector sets the target first (usually the –manufacturing– sector exposed to international trade) and the others (or some of them) follow; finally, co-ordination can also take the form of inter-or intra associational guidelines where peak level organisations set some norms or define a common objective that should be followed when bargaining at lower level.

<sup>4</sup> While decreasing wage inequality among full-time workers, collective bargaining may increase earnings inequality between full-time employees and other workers, in the spirit of an insider-outsider model above on the limited empirical backing of such model). Since the data in this analysis are based on hourly wages of full-time workers, they cannot be used to study effects on overall earnings inequality among all workers.

<sup>5</sup> The analysis relies on insights using sector-level data, examining the correlation between wage sand productivity across sectors.

<sup>6</sup> Extract of the bill discussion: “...*Our 30-year experiment with a low – labour-cost model has not worked. Many workers have suffered, but, equally, our rates of labour productivity have been amongst the worst in the world under that regime: lower than the OECD average, and lower than many countries that have a level of sector-based co-ordination for worker terms and conditions. A model based on wage-based competition is focused on the wrong things. FPAs will incentivise competition based on the right things. The quality of goods and services offered, investment in skills and training, R & D innovation – these are the things that will drive productivity and prosperity for our country....*”

<sup>7</sup> At the time six sectors including bus drivers, security, commercial cleaners, early childhood education workers and grocery supermarkets were initiating bargaining under the new FPAs.

<sup>8</sup> This meant, for example, that nobody in the sector/industry could be paid less than the rate negotiated and agreed by unions and employers in that sector/industry (like a minimum floor for a specific industry).

<sup>9</sup> The right-wing coalition elected in October 2023 repealed the Fair Pay Agreements on the grounds that they were a strait jacket for business.

<sup>10</sup> A few countries also request that signing unions represent a majority if workers.

<sup>11</sup> In the Netherlands clearly pre-defined criteria for exemptions are even a condition for extension. Moreover, firms can request an ad hoc exemption from the ministry if they can justify dispensation.

<sup>12</sup> *Organised* decentralisation can take several forms. In a first model, sectoral agreements provide a general framework but leave room for lower-level agreements to tailor the terms of employment. In this model, sectoral agreements can either set *minimum agreements*, *default agreements*, *corridor agreements* (i.e. boundaries between which the terms of employment in company-level agreements can be set) or a mix of them. In a second model, sectoral agreements set the standard terms but allow for exceptions via opt-out or derogation clauses. These clauses, often also known as competition, hardship or opening clauses, allow company-level agreements to deviate downwards from wages and working conditions set in a sectoral agreement (see OECD (2019<sup>[1]</sup>) for more details).

<sup>13</sup> Mediation offices exist in all five Nordic countries which are often held up as a model of stability, characterised by constructive dialogue and co-operation between employers and trade unions.