

# Trade Unions: The winners curse?

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*"Legislation is in favor of the worker or employee, against the merchant and the industrial, and against the consumer, and it is assumed that this employee or worker never will bear the effects of that legislation. Production is limited with restrictions on restrictions on hours and working conditions... Laws of this kind are responsible for much of the industrial and trade crises which the whole world is grappling today"*

Fernando Pessoa, *As algemas*, Revista do Comércio e Contabilidade, 1926,  
(translated freely)

**T**rade unions play a meaningful role in promoting the claims of its members since the industrial revolution. Partly, their increased market power has contributed to the development economies' current framework of the worker as an individual, and therefore it has compelled the construction of equilibriums that consider not only the worker's productivity, but also its welfare.

Precisely, Olivier Blanchard (2000) defines the "anti-exploitation" of workers as one of the four fundamental functions of trade unions, in parallel with the provision of insurance to its members, the appropriation of firm's economic rents in favor of unionized workers, and their representation at national level.

However, seemingly paradoxically, it has been witnessed in all OECD countries a growing divorce between workers and unions, especially since the 1980s (Visser (2013)), materialized by permanent declines in union density, which among others, reached about 50 percent in the case of Germany, France, and the UK. Precisely, Bob Dylan (1983), on the song "Union Sundown", reports the unions as being on the way to become dinosaurs, echoing a growing social perception about the union's loss of relevance.

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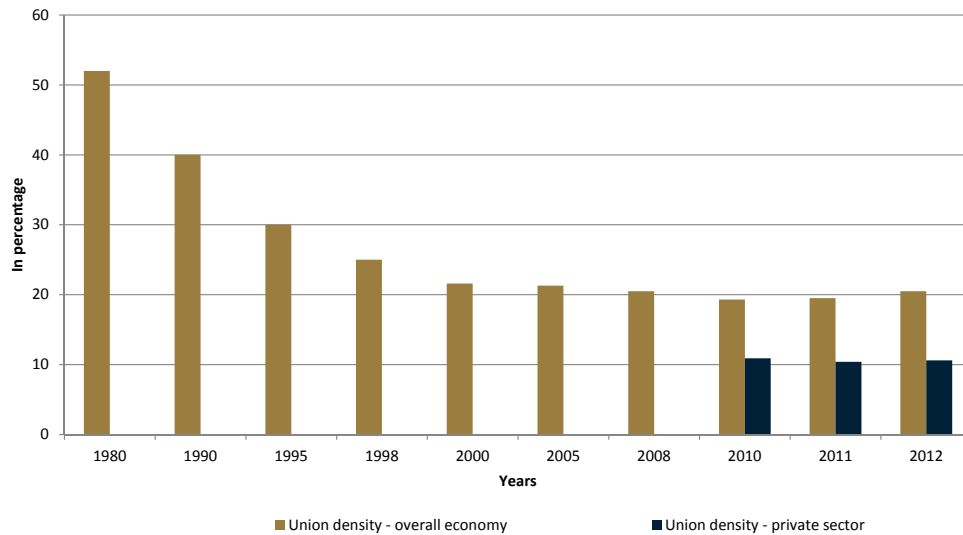


FIGURE 1: Union density in Portugal

Sources: Data on union density for the overall economy, between 1980 and 1998 – Blanchflower and Bryson (2003); data on union density for the overall economy, between 2000 and 2012 – OECD (2015); data on union density for the private sector, between 2010 and 2012 – Addison *et al.* (2015)

Within this aggregate trend, the second most significant erosion occurred precisely in Portugal (Pontusson (2013)), where it is estimated that the private sector's union density is just around 11 percent, between 2010 and 2013 (see figure 1). Even worse is that, as evidenced in Addison *et al.* (2015), this set of members is far from a representative group of workers, consisting more rigorously in pockets existing in large companies, with public capital (or that had public equity in the recent past), and in sectors sheltered from broad competition. It then matters to question what explains this very strong union erosion, and the accelerated loss of representativeness of trade unions regarding employment.

In this debate, Schnabel (2013) offers a useful insight to dismiss persuasive arguments. Although they constitute relevant challenges to unionism, the phenomenon of erosion appears to not be necessarily due to structural changes in the developed economies, such as the recorded shift from manufacturing to services, nor to be unequivocally due to the globalization or the decentralization of collective bargaining.

Increasingly, trade union achievements, in terms of regulatory working conditions, belong to a non-contemporary past of actual workers, and a relevant part are now provided by the state or are clearly embodied in the

fundamental laws (i.e. vacation, insurance in the case of disease, retirement, unemployment, among others). Even when this does not occur, for example in the case of wage bargaining, it is not uncommon to verify the applicability of the bargaining gains to every worker, regardless of its union membership status. In the Portuguese case we have, despite the general decline in union density, that the rules governing 90 percent of labor relations of the private sector are negotiated directly by unions (Addison *et al.* (2015)).

Ironically, this broad process of provision ultimately contributes to the erosion process, turning the trade unions in victims of their own success, as the workers may collect a significant proportion of the benefits of union membership without being members, creating a strong incentive for free-riding. Thus, this phenomenon decreases the value proposition of the union movement to the worker. In this line, Blanchard (2000) considers that the issue of the legitimacy of European trade unions is their biggest challenge, since, for example in the Portuguese case, how can the unions which sustain union densities of only 11 percent of private sector workers have the legitimacy to negotiate 90 percent of their labor relationships? And concurrently, which interests do they defend: the ones of those they influence, or of those members they have?

Pontusson (2013) argues that unions defend the interests of their members, but they show a greater social and redistributive concern, especially when compared to other economic agents that represent specific interests. Consistently, in the conventional economic theory (see Farber (2001)), the unions are presented as agents that maximize the welfare of its members, which in a simplified form turns unions in maximizing agents, with the objective of increasing wages (monopoly model), or payroll (efficient contracts model), which joins wages and employment.

In the process of balancing these priorities, Pontusson (2013) pleads that union erosion led to a depletion in the commitment regarding the defense of redistributive policies and employment, contributing for example to the increase in wage inequality observed in OECD countries. At the same time, as discussed in Martins (2015), it appears that the gap between union density and union coverage, usually filled by administrative acts such as the regulations of extension, has contributed to higher levels of job destruction.

Succinctly, the utility of representative trade unions is undeniable. Also, it seems undeniable its lower relevance when they markedly loose legitimacy to represent the labor force, and when they contribute to fragment the labor market, with a simultaneous increase in inequality and job destruction. Thus, it is relevant to rethink the role of trade unions, seeking to solve the Blanchard's puzzle of legitimacy, and to undermine the Bob Dylan's prophecy.

Specifically, the trade union movement needs to improve the value proposition offered to every potential unionized worker, in order to significantly increase union density, and to regain representativeness

regarding the labor force. This process can be divided into three key dimensions.

Firstly, the worker's representation should be closer to his reality, centered at firm level. In this way, bargaining would cease to prescribe the same proposals for very different realities. This would reduce the destruction of productive employment solely because the economic rent demanded by unions in favor of workers becomes unaffordable, which is undesirable when the firm's working conditions do not place the potential workers in a socially improper position. Moreover, this would allow faster adaptation of the bargaining system to the economic cycle, preventing the worsening of job destruction in the bottom of the economic cycle, precisely at the time where the demand for labor is contracting (see Martins (2015), for further discussion on this point).

Consequently, it would be important to break the monopoly to bargain conferred to trade unions in Article 56 of the Constitution. This would allow the representation of workers to be a mix between workers' councils and trade unions, as these, especially in medium and small firms, have not demonstrated capacity to get to know the reality of who they represent, which ultimately contributes to very low union densities in these relevant fringes of Portuguese businesses.

In another hand, trade unions should expand their ability to be service providers. Portugal and Vilares (2013) pointed out the importance of health insurance provision for the presence of high union density in the case of the Portuguese financial and insurance sector. Another example ordinarily presented lies in the so-called Ghent system, where the trade unions hold a key role, even through co-provision mechanisms, in the unemployment insurance system, leading Schnabel (2012) to remark its occurrence precisely in countries with higher union densities, particularly Finland, Belgium, Sweden and Denmark.

In a generic framework, it is important that trade unions address the concerns of workers not only through the political movement, but also through its own service provision. Thus, the creation of complementary pension systems or savings plans, the extension of provision of health insurance, the creation of unemployment insurance to supplement the unemployment benefits' system, among other services should be analyzed. This service provision increases the value of trade union membership, preventing its benefits to be, in a significant portion, collective. This priority would contribute to the reduction of free-riding, and it would create new incentives to trade union membership.

Last but not least, the trade union movement should position itself as a supporting platform to the various workers' councils, at the same time it would focus on the representation of workers at national level. The existence of a more representative group of unionized workers obtained through a higher value service, and the interconnection with the workers' councils

would ensure a better understanding of the macroeconomic reality at each moment, and it would secure the alignment of trade union priorities with the priorities of workers, mitigating its effect on the fragmentation of the labor market.

In a nutshell, unionism is in a profound crisis of alienation between trade unions and workers, which seriously compromises their legitimacy, and raises the reasonable doubt about their incentives. The reflection about ways to reverse this trend is then justified. If one can disagree on the chosen paths, the need to reflect causes little controversy. In this text, it is proposed that trade unions drop their monopoly to bargain and actively interconnect with workers councils in order to represent employees in a flexible manner in more firms. Furthermore, they should provide more useful services, and they may play a more relevant national role, necessarily founded in an enhanced representativeness.

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