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explaining their economic role**

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Abstract

The knowledge of the nature and structure of trade unions is a basic requisite to correctly model bargaining between firms and unions. Thus, in this paper the historical background and the current characteristics of the Uruguayan trade unions are summarised.

Resumen

La correcta determinación de los modelos que describen la negociación entre sindicatos y empresas requiere del conocimiento de la naturaleza y estructura de la organización sindical en cuestión. Por ello, en este trabajo se sintetizan los elementos históricos vinculados al proceso de negociación y a la situación actual de los sindicatos uruguayos.

Brief historical overview

The existence of unions in Uruguay can be traced back to the beginning of the century, in 1905. Foundational members were mainly Italian and Spanish immigrants, many of them linked to the anarchist movement (Zubillaga and Balbi, 1992). These characteristics partially determined that during the first decades their role was strongly linked to the consolidation of the political and social institutions in the country. They also explain the future involvement of the union movement in the political life of the country.

In the early forties unions started playing an active role in wage setting. Discussions around the level of wages in different economic sectors took place in what was called “Consejos de Salarios” (Wage Councils). A distinctive characteristic of the Uruguayan wage councils was the fact that they were tripartite bargaining stances: representatives of the workers, the firms and the government negotiated at the wage councils. Their main objective was to set the minimum wage by sector and occupation. However, they also controlled that their resolutions were effectively undertaken and acted further as mediators in conflicts. Whatever was there decided was to be obeyed by all firms in the sector, whether they were seated at the bargaining table or not.

In 1964 the first central union was created under the name of CNT (National Convention of Workers). Only two years after that, representatives of all workers in the economy were part of the central union. The strong summoning power showed by the central union served as a means to ratify it as an important social actor. However, with the advent of the military government in 1973, unions and all activities related to them were declared illegal. Some union leaders were even persecuted and incarcerated. Unionisation was completely banned. Only at the beginning of the eighties the government, still military, authorised the existence of associations of workers at the firm level. This smoothed the path towards re-unionisation. In 1984, a year before democratic elections took place again, the union movement was informally re-organised under the name of PIT-CNT¹.

¹ PIT means Workers Inter-unions Plenary.

Wage Councils were thus reinstated in 1985, playing a very similar role as before the military coup. However, the union movement has changed in different directions since then. At the very beginning, and linked to the social and political environment, they played a major role as receivers and amplifiers of different claims of the workers, both related to the level of real wages - that have decreased around 40% in 10 years - and to the existent working conditions. They were further a strong political actor, acting as a partner of the still illegal political parties negotiating a way out of dictatorship with the military government.

In order to alleviate some of the most urgent claims of the society as a whole, the first democratic government granted an immediate increase for all wages, which meant an average rise of around 25%. By the end of 1985, nominal wages were 100% higher than in the previous year, although in real terms the recovery was of only 15%. However, there were other economic imbalances to account for by that time. Thus, the apparent partnership between the new government and unions rapidly dissolved, and negotiations over wage levels quickly acquired all the characteristics of bargaining games between parties with different power.

Moreover, firms' associations were more flexible than the government regarding wage increases, so that at the firm level they often set wages over the minimum level bargained. The most active opponent to unions' claims in the bargaining table was, in the end, the government. The goal pursued by the government representatives was to get wage increases in line with their inflation target. Their power consisted in that governmental approval meant enforceability of the output of negotiations to all firms in the sector, no matter they were effectively represented in the council or not. Thus, it was not rare that in order to get the approval of the government and hence guarantee enforceability, wage levels stipulated in the agreements were smaller than the actual ones (Forteza, 1992). In any case, firms were free to determine the level of employment. Further, in sectors in which competition was weak, wage increases could be easily transferred to the price of goods (Rama, 1994). This practice was very well known and a prior matter of concern for the economic authorities.

Although bargaining took place at the economic sector level, the central union generally succeeded in obtaining the consensus of the different unions to establish a common percentage of wage increase during 1985-1992. Bargaining could be thus considered quite synchronised along the period. However, as firms ended rising wages over the level set in the agreement, the positive effects of co-ordination (Calmfors and Driffill, 1988) finally vanished.

In 1991 the new government publicly announced its will to abandon the bargaining table in all sectors except for construction, health care services and some activities linked to transportation services. It effectively did so in 1992 and by 1993 all contracts signed under the previous regime had expired. The new institutional setting had two major consequences. Firstly, it acted as an incentive both for firms and workers to negotiate at more decentralised levels, particularly at the firm level. Secondly, it meant collective agreements would no more be enforceable. As a result, membership to the central union went down dramatically since then. This, however, does not mean unionisation *per se* diminished, but that synchronisation, co-ordination and political bargaining power deteriorated. The relationship between the government and the central union was further damaged by the fact that the political power in the nineties systematically insisted on making the labour market more “flexible” and on establishing regulations ruling unions and bargaining. Unions historically opposed to the latter while they explicitly fought against the former idea all along the last decade.

The nature and structure of bargaining

In the early nineties there were more than 300 trade unions in Uruguay. They represented workers from specific economic activities but sometimes they only included those employees belonging to a firm. These unions were further gathered in federations that constituted, in turn, the central union. Negotiations were taken over by the federations or groups of unions of the same economic sector. The role of the central union, apart from its political weight, has been generally one of co-ordinating the claims of all unions and federations. Employers, on the other hand, have organised in associations in order to bargain with unions.

Collective agreements signed within the framework of Wage Councils have ruled firms and workers represented by the bargaining parties since the very beginning of the union movement. However, conditions agreed upon have been considered as lower/upper bounds – depending on the issue – for employers and employees, instead of compulsory rules. If the government was further in accordance with the conditions stipulated in the collective agreements, they became enforceable to all firms in the sector until 1992, no matter they were seated at the bargaining table or not. After that, the output of negotiations has been valid only for the parties involved.

A distinctive characteristic of the Uruguayan trade unions is the lack of any regulation regarding their constitution, the bargaining process itself and the possible channels through which conflicts may be solved. As a consequence, no legal rules refer to any aspect of the agreements, such as length of the contracts, issues over which to negotiate, or schedules for future negotiations. However, bargaining over minimum wages by occupation has always been done in the Wage Councils. They have generally set which practice will be followed to raise wages as well as the amount of wage increases. In the eighties and at the beginning of the nineties, indexation of wages to the inflation rate was done combining the past and the expected (according to the government's forecast) rate of inflation². Co-ordination and

² For a discussion on the type of contracts signed in the period 1985-1991 and their macroeconomic effects, see Forteza, 1992.

synchronisation of the negotiations helped to keep wage differentials by economic sectors quite stable in the sub-period. Afterwards, as enforceability vanished and bargaining at the firm level began to be a common practice, negotiated wage increases followed a wide variety of rules, depending on the degree of competition firms and sectors were faced to and on the evolution of their relative prices, as well as on the bargaining power of the trade union.

The analysis of the contracts signed up to 1992 shows that other issues have also been part of the bargaining agenda (see Cassoni, Allen and Labadie, 2000; Ermida *et al.*, 1998 and Rodriguez *et al.*, 1998). Rules related to working conditions, such as length of the working week; paid holidays; job stability; or annual extra premia, are generally found in collective agreements. Some unions have also set hourly wages for overtime work higher than the legally stipulated rates. Other clauses that are sometimes included relate to the position in the firm of union leaders and the available means to solve conflicts. All these clauses, however, do not determine directly the level of employment. Most of them may further be translated into non-wage labour costs. Moreover, although strikes have historically acted as a means of hindering employers from firing workers, there are no collective contracts in which the parties explicitly reached an agreement on the number of jobs. Hence, from a theoretical point of view, the appropriate model to analyse bargaining between unions and firms up to 1992 would be the right-to-manage model, by which negotiations over the wage are accounted for but the level of employment is unilaterally set by the firm, according to its labour demand function (for a discussion on this topic see, for example, Pencavel, 1991).

In the mid-nineties a new type of conditions started to be included in the contracts: those regulating the introduction of new technology - how to put in practice training programmes and mechanisms to reduce the workforce - and those determining premia linked to productivity gains. This sort of clauses reflected two facts. Firstly, the new economic conditions faced by firms, in a framework of increased foreign competition that required investment in technologies more capital and skill intensive. Secondly, the workers' renewed worry about employment stability. Simultaneously, and linked to these two facts, negotiations at the firm level are known to have included bargaining over employment

(Rodriguez *et al.*, 1998). Contracts signed at the firm level were many times a complement to collective agreements ruling the whole sector. That is, they could either modify some clauses of the general agreement or add others, especially those related to employment stability. Thus, a new bargaining model is at work in the late nineties, one in which more decentralised negotiations take place over both the wage and the employment levels. It is not clear, however, if an efficient contract model is in place. Recursive models, stating that bargaining over wages and over employment takes place at different stages, are also consistent with the new structure of negotiations (for a theoretical derivation of recursive models see, for example, Manning, 1987).

Membership and union power

The return to democracy in 1985 was achieved after at least two years of generalised public demonstrations against the military regime. Unions played an important active role in them. Within that framework, the affiliation rate once unions were legally re-organised was very high. In 1985, the reported affiliation rate was 26% for the whole economy. The structure by economic sector is depicted in Table 1. However, the figures cannot be taken as exact measures of membership, due to the different unions having the number of representatives in the national congresses linked to the reported number of affiliates. This fact acted as an incentive to upwards bias the real figure.

Traditionally, public workers have always had a higher affiliation rate than private workers. This remained so in the eighties and nineties. Among the private activities, those related to the manufacturing and construction industries have shown the highest union density.

The temporal evolution of the affiliation rate shows the previously mentioned decline of the central union. Membership, as reported in the annual congresses, has systematically gone down, so that in the last national congress the number of affiliates to the central union was only 165000 (around 15% of employment) compared to 250000 in 1985 (Table 1).

Table 1: Union membership 1985-1997

MEMBERSHIP					
	1985	1987	1990	1993	1997
Agriculture, leverage & fishing	6265	6597	4976	3200	2000
Manufacturing	73148	63176	54548	43394	31050
Electricity, gas & water	13728	14303	15023	14450	13800
Construction	14908	11156	12600	8000	4000
Commerce	12600	10818	9500	6473	6000
Transport & communications	24874	25478	22150	13115	13400
Banking & services to firms	13605	15644	15476	13377	14000
Social & personal services	89688	85887	90287	86024	81200
Private sector	145713	132493	122507	87713	65500
Public sector	103103	100566	102053	100320	99950
Total	248816	233059	224560	188033	165450
UNION DENSITY					
	1985	1987	1990	1993	1997
Agriculture, leverage & fishing	18,3	14,3	13,7	6,4	3,9
Manufacturing	32,9	27,3	23,0	25,3	16,6
Electricity, gas & water	79,0	85,4	91,1	91,6	93,7
Construction	28,9	16,4	17,1	10,0	5,2
Commerce	6,5	6,1	4,7	3,1	2,6
Transport & communications	32,3	35,4	32,9	19,9	19,7
Banking & services to firms	26,0	32,4	28,9	20,3	20,1
Social & personal services	20,9	22,3	21,7	20,9	19,1
Private sector	19,4	16,7	14,2	10,0	7,2
Public sector	48,4	42,0	42,3	48,5	47,3
Total	25,8	22,6	20,4	17,3	14,7

Note: Membership is obtained from the National Congresses held in each of the reported years. Union density is defined as the ratio of membership to total employment in each sector.

Sources: Various newspapers, according to data reported by the Central Union (PIT-CNT); Household Surveys, National Institute of Statistics.

Although membership to the central union has diminished continuously, unionised workers have not necessarily become an extinct species. Many unions have stopped participating of the national confederation but go on acting as representatives of the workers in an economic sub-sector or even at a firm³.

While the decline in union participation is substantial in the private sector, it is not so for public activities. Among the former, workers in primary sectors, as well as those in the manufacturing and construction industries have registered the highest de-unionisation. A

possible explanation for the evolution of membership in the primary and manufacturing sector is that commercial liberalisation and increased competitiveness have set a limit to wage increases as employment stability has been at stake. They have further forced a huge re-structuring of many firms and even of some industries as a whole. Jobs have been lost at an unregistered rate and hence workers have found bargaining at a decentralised level more profitable to achieve their goals. This might also be the case for the construction industry, although not because of a loyal competition but because of the increased degree of informality in the industry.

Agreements signed at the firm level have always existed since 1985. However, their number was negligible until the nineties. During the period 1985-1989, 94% of all contracts were signed at the industry level while the percentage declined to 34% by 1997. Some of them (2%), although signed between the trade union and the employers' association, not being enforceable anymore, covered only those firms and workers effectively represented at the bargaining table.

Finally, while membership has gone down dramatically, the new structure of bargaining has meant an even larger decline in the coverage of collective agreements (Rodriguez *et al.*, 1998). Their lack of enforceability, once the government retired from negotiations, has implied that coverage in 1997 is only 23%, compared to almost 90% in 1990, as it is shown in Table 2⁴. Further, it has implied that membership and coverage became very similar concepts in 1997.

**Table 2: Membership and coverage
1990 and 1997 (%)**

	Membership		Coverage	
	1990	1997	1990	1997
Manufacturing	23	17	83	17
Commerce	5	2.5	91	6
Services	26	21	91	25
Total	20	15	88	23

Source: Rodriguez *et al.*, 1998

³ Workers of the frozen meat industry and those belonging to the major firm producing beer are examples of these two cases, respectively.

⁴ The percentages were calculated analysing contracts that were registered at the Ministry of Labour. As the parties are not obliged by law to do so, the figures cannot be considered as definite.

Wage and employment determination in Uruguay cannot be analysed without taking into account the role of trade unions. However, the mechanisms at work have changed along the last 15 years. The suitable bargaining models are thus different depending on the time period, at least from a theoretical point of view. In the eighties, it is possible to derive the output of bargaining assuming a right-to-manage model and a centralised negotiation, while the level of wages can be thought of as their main concern. By the mid-nineties, on the contrary, it is not possible to consider bargaining as a process involving all workers simultaneously anymore, while employment has emerged as a possible additional target of negotiations. Moreover, the utility function of the parties cannot be considered as similar between the different trade unions anymore, but dependent on the particular performance of the firm or economic activity. The effects of the new structure of bargaining on the overall unemployment rate relative to the previous framework are not clear-cut. Bargaining at the industry level was demonstrated to be the least favourable world if the main concern was employment, relative to both centralised and completely decentralised negotiations⁵. However, if synchronisation and co-ordination were present, as in the Uruguayan case during the pre-1993 period, the effects on employment should be similar to those of the centralised bargaining. On the other hand, the probable change in the bargaining model itself and in the objective function of the players involved may also have influence over the general unemployment rate. The decline of coverage and the generalisation of firm level bargaining strongly suggest the use of recursive models - of which the efficient contracts model is a particular case - to analyse the Uruguayan case from 1993 onwards.

⁵ Calmfors and Driffill (1988) demonstrated so while Rama (1994) found exceptions to the result.

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