FREE MARKET FOUNDATION

# "Just let  me work"

# The voice of the unemployed

# *AGENDA*

## *March 05 2013*

| | |
|---|---|
| **12:00** | Arrival and sandwich lunch |
| **12:15** | **Herman Mashaba; Chairman FMF**<br>Welcome and Announcement |
| **12:30** | **Jonathan Goldberg; Kirchmanns Inc**<br>The Legal Challenge |
| **12:45** | **Prof. Neil Rankin; University of Stellenbosch**<br>The Economic Considerations |
| **13:00** | **Q&A** |

FREE MARKET FOUNDATION

FREE MARKET FOUNDATION

# Herman Mashaba

Chairman, Free Market Foundation

**February 2013**

FREE MARKET FOUNDATION

# "Just let  me work"

## The voice of the unemployed

FREE MARKET FOUNDATION

# Legal Challenge

***Jonathan Goldberg***
Kirchmanns Inc

**February 2013**

# Legal challenge

- Our team has investigated **numerous problems with the current labour relations regime** in South Africa
  - Focused on the Labour Relations Act of 1995
- **FMF is challenging the constitutionality**, negative effects and unintended consequences of the legislation
  - Specifically that section which **permits the extension of bargaining council agreements** to non-parties
- Currently, **certain parties set wages and conditions of employment** and these are extended to competitors and other groups that are **not in the bargaining process**

# Legal challenge

- In certain circumstances, the Minister is compelled to extend these agreements to parties **who were not in any way involved**
- Extending these agreements to non-involved parties **eliminates competition**
- Comprehensive economic research indicates **a severe impact**
  - On current and future jobs
  - **entrepreneurs discouraged from starting up enterprises** within certain sectors
- Challenge is **not against the bargaining council system**
- It is **against the system of extension of agreements** concluded by private players, to non-parties, a function that constitutionally rests with the State

FREE MARKET FOUNDATION

FREE MARKET FOUNDATION

# "Just let me work"

# The voice of the unemployed

FREE MARKET FOUNDATION

# Economic Considerations

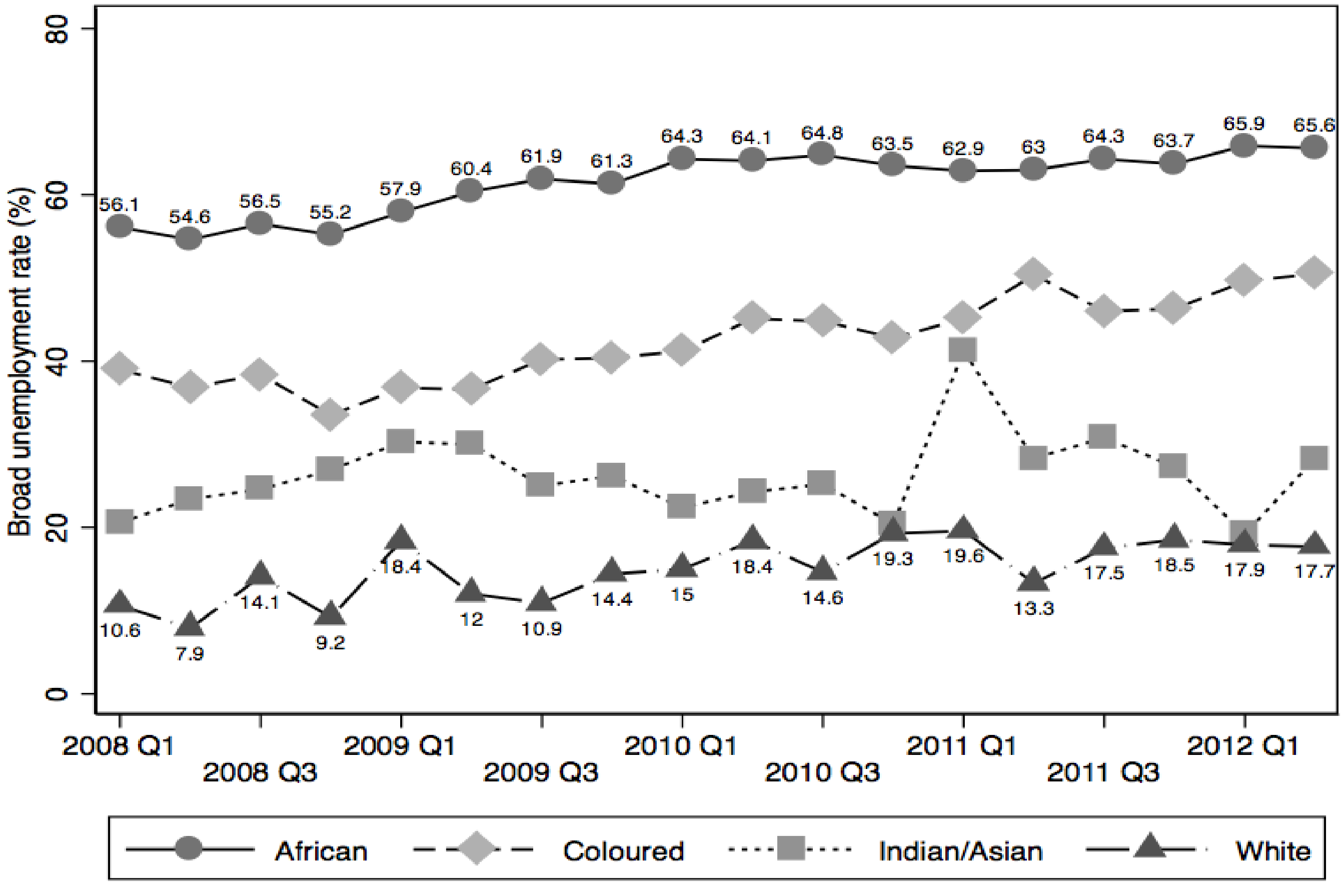
The economic case against bargaining council extensions

***Neil Rankin***
Department of Economics
Stellenbosch University

**February 2013**

# The South African economy

- **High unemployment, particularly among young people**



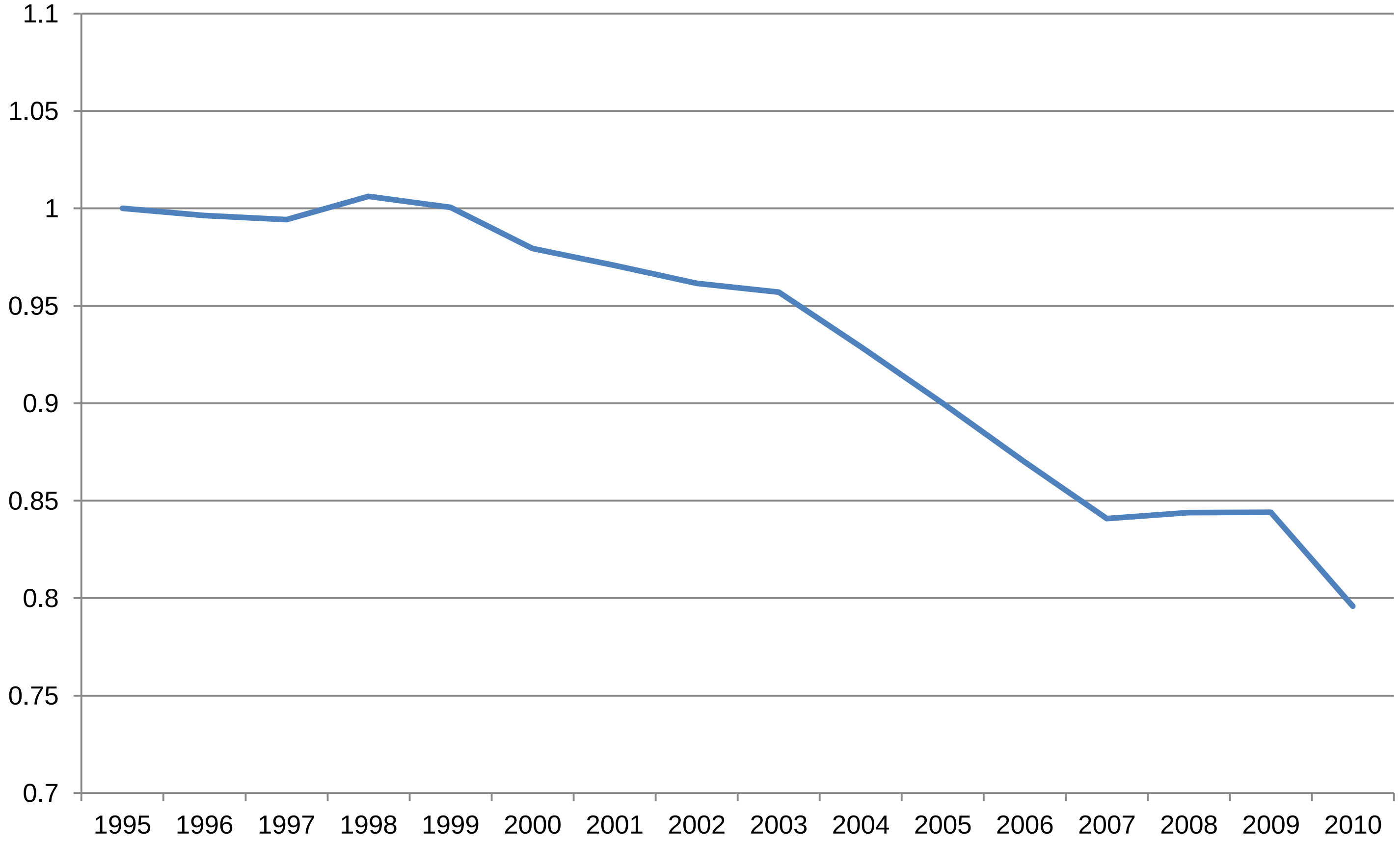
- A **relatively uncompetitive labour market** when considered in an international context


FREE MARKET FOUNDATION

High concentration ratios
– **large firms dominate** and mark-up*s are high

*A measure of the difference between costs and prices

- Over time **South Africa is using fewer workers to per unit of output** – South African production is becoming more capital intensive and skills intensive



## Why?

- South African firms face a set of incentives which **encourage them to replace workers with machines and lower skilled workers** with higher skilled

- To create jobs for the unemployed this **needs to be reversed**

# The extension of bargaining council agreements are one of these incentives

How do they work?

- Businesses (supposedly) employing 50% of current workers and worker representatives negotiate wages and other conditions of employment

These **are extended to other firms** in the industry that were ***not* party** to these negotiations

- Negotiating businesses are **often the larger companies**
  - Agreed wages **reflect the higher wages** paid in these businesses

- Have an **incentive to increase rivals' costs** to drive them out of business and to increase their own profits

- The **government also enforces the collusion**

FREE MARKET FOUNDATION

# The extension of bargaining council agreements are one of these incentives cont.

- Worker representatives have **an incentive to negotiate for higher wages** to please their members and **little incentive to care** for the welfare of unrepresented workers in smaller firms
    - The exit of these firms also means **less downward competition** on their own wages
- **Employers and workers collude** to limit competition.
    - This 'cartelisation' is, in many cases, **more effective than overt collusion** and price-fixing

## What are the outcomes?

- **Fewer smaller firms**
  - Labour intensive
- **Fewer entrepreneurs**
- **Fewer jobs**, particularly of the type created by small firms
  - Women
  - Africans
  - Young
- **A sclerotic economy**
  - New potentially dynamic firms do not enter
- **Higher prices for consumers**
  - Through reduced domestic competition
  - Often through reduced foreign competition too

FREE MARKET FOUNDATION

# Evidence

## International evidence:

- West and East Germany
- Australia and New Zealand
- United States

## South Africa:

- Most striking recent example is the clothing sector in Newcastle
- Causal evidence that in South Africa bargaining councils result in **7-16 percent fewer employees in small firms and 7-15 percent fewer entrepreneurs**

## Evidence cont.

**Newcastle:**

- A predominantly urban bargaining council
- **Does not even represent a majority** of the workers in the sector
- **Agreements extended to smaller** 'non-compliant' firms who are attempting to link pay and productivity
- **Opposition from these firms** and the workers in these firms
- **Threatens 16,700 jobs** and prohibits the creation of any new jobs of this type in the sector

**Newcastle: Vivid case study of how Bargaining Councils operate to limit competition, destroy jobs and entrench incumbent firms:**

- Ref: Nattrass and Seekings in a recent CDE report

***"The extension of agreements, the [National Bargaining Council for the Clothing Manufacturing Industry's] compliance drive, and resulting job losses puts paid to the argument that South Africa's bargaining councils do not affect employment. Indeed, the story illustrates how, under the hypocritical guise of promoting 'decent work', labour-market institutions and industrial policies can create an unholy coalition of the state, a trade union, and metro-based, relatively capital-intensive employers whose actions can inflict massive job-destroying structural adjustment on a labour-intensive industry."***

## Will limiting extensions create a 'race to the bottom' in wages?

***No!***

- This argument **assumes that all firms** use the same technology, produce the same product and all workers are identical
- A puzzle in modern empirical labour economics: **why is there so much dispersion in wages** between similar workers?
  (2010 Nobel laureate Dale Mortenson research focus)
- Not all firms choose to produce **using labour intensive technology**
- Specific firm-worker matches, and other reasons, **lead to firms paying higher wages to retain these**
- Analogous to the introduction of **a cheaper variety of a product**
- High quality varieties are still available and **people still buy them**

FREE MARKET FOUNDATION

FREE MARKET FOUNDATION

# Questions & Answers

## “Just let  me work”
## The voice of the unemployed