Employer Power: Consequences for Wages, Inequality and Spillovers

Ihsaan Bassier, PhD

Economics
University of Massachusetts Amherst

Abstract

How does collective bargaining affect the broader wage structure? How are such spillovers transmitted? I use a decade of wage agreements matched with worker-level data in South Africa to study the effects of sharp changes in collectively bargained wages in an event study framework. Observed wages in covered firms rise sharply, and within-firm wage inequality declines. I use worker flows as a measure of distance to test for spillovers, which I motivate with a model where changes in wage agreements are transmitted via outside options to the wages of nearby firms. I show that bilateral worker flows between firms reflect a wide range of firm characteristics, capturing firm links which are poorly predicted by industry and location. Firms more closely connected by worker flows to covered firms do differentially increase wages more, with an implied cross-wage elasticity of about 0.8. This is higher than comparable estimates in the literature because I am able to pin down the labour market segments empirically relevant to wage spillovers. Firm profit margins decline, as predicted by the model. A microdata simulation suggests that spillovers double the intensive and extensive margin effects of collective bargaining agreements on the full wage distribution.