

Race relations

The laws of economics apply equally to the Sport of Kings, argues David Metcalf.

Horseracing mirrors our society. At one extreme, rich owners pay £1 million plus for a yearling with potential and receive a stud fee of up to £100,000 a time when a successful three- or four-year-old horse is retired to stud. At the other end of the scale, the people who care for these horses – stable lads (the same description applies to men and women) – have a collective agreement where the pay rate ranges from £10,000 to £12,000 a year for a 40-hour week.

In the wake of a hard-hitting campaign by the *Racing Post* – the industry's trade paper – the governing body (the British Horseracing Board) established a Commission to investigate stable

staff pay, employment and conditions. So it is worth setting out the connections between pay and employment in this industry.

There are some 6,000 stable staff (roughly 5,000 full-time equivalent) of whom 4,000 are directly involved in the care of horses. Some of these 4,000 will be paid above the minimum rates set out in the collective agreement between the union, the Stable Lads Association, and their employers, the National Trainers Federation. But the fact remains that stable lads are the poor relations of the racing industry.

A boost in the pay of stable staff could come in a number of ways: an increase in

basic rates, more generous overtime or compensation for weekend working, appearance money, or greater emphasis on performance related pay. But, whichever mechanisms are chosen, any such pay rise does not come out of thin air. Therefore we first examine the factors that influence the response of trainers and owners if they are expected to provide the resources for a pay rise for stable staff. Next, the important links between the product market and labour market, including prize money and alterations in the types of racing market, are set out. The factors that underpin workers' power are then analysed. Finally, we are fortunate in Britain to have had a virtual natural experiment to test the sensitivity of jobs to a pay rise – the introduction and subsequent uprating of the



national minimum wage. The evidence is examined and related to the pay and employment of stable staff. It suggests that a judicious pay hike would be unlikely to lead to job losses.

Three factors determine the sensitivity (in the jargon, "elasticity") of employment to a wage rise. First, employment is less sensitive the smaller labour costs are in total costs. (This is one reason why, for example, airline pilots earn very high salaries.) Among stable staff, labour costs comprise quite a high fraction of total labour costs. If the annual cost of keeping a horse in training is, say, £15,000 and a stable lad earns £17,000 while looking after three horses, labour costs would comprise some two fifths total training costs. So, on this factor, employment will be quite sensitive to a pay rise.

But we should not forget that, for the owner, there is the initial cost of the horse. Where a horse costs upwards of £50,000, an extra £1,000 a year or so on training fees may matter little. (But, for the many less wealthy owners who pay below £20,000 for a

horse, an increase of £1,000 a year in training costs may be quite significant.)

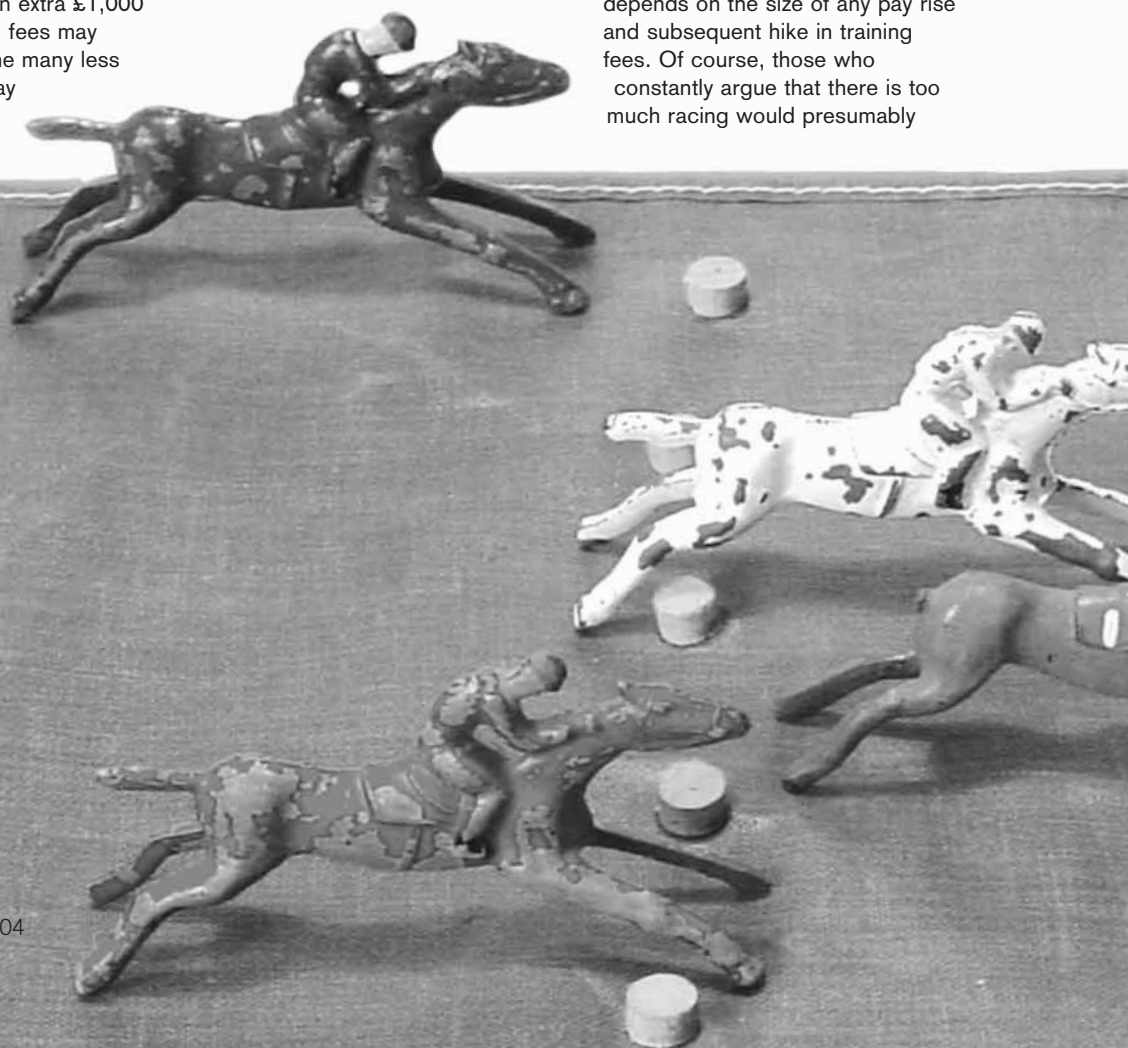
Second, is it easy to substitute capital or other workers for the group whose pay rises? It is not possible to replace riders with a machine, but it might be possible to find other stable lads, perhaps from countries about to be in the EU, like Poland or the Czech Republic. Providing any collective agreement between the National Trainers Federation and the Stable Lads is properly enforced, however, trainers have less incentive to seek such substitute labour because they would have to pay the employees from abroad similar rates. So, on this criterion, employment is likely to be quite insensitive to a pay rise.

Third, how sensitive is the demand for the product to any price increase resulting from the wage hike? For example, in the 1970s coal miners had huge clout because almost all

our power stations were coal-fired and few coal imports were allowed. The demand for coal (and hence coal miners) was pretty unresponsive to its cost. The "product" here is keeping the horse in training and the following questions need answers.

Would trainers automatically pass on to owners any pay increase for stable staff in the form of higher training fees? Many trainers already operate on low margins and would have no option. Maybe those Newmarket trainers charging around £25,000 a year per horse would not increase their fees, but they are probably paying their staff above the nationally agreed rates already.

Next, if training fees rise, how will owners react? The number of horses in training in recent years has been pretty steady at around 13,000. It is simply impossible to tell in advance whether this number would fall and by how much – it all depends on the size of any pay rise and subsequent hike in training fees. Of course, those who constantly argue that there is too much racing would presumably



welcome such a cut in the horse population – a smaller, more highly paid labour force looking after fewer horses.

So theory does not provide an unambiguous answer. While employment is insensitive to a pay rise, because it is difficult to use lower paid alternative staff, the fact that labour costs comprise a relatively high fraction of training fees means that trainers, and to some extent owners, have an incentive to economise on staff.

In recent years there has been a substantial increase in prize money – albeit from a very low base – which may make owners a bit more willing to put up with higher training fees. Certainly, if the boost in prize money continues, it would be easier to accommodate any pay hike for stable staff. But, if prize money stagnates or is eroded, such accommodation would be more difficult.

This leads to the “performance” element in stable staff pay. The mix varies according to the type of race, but presently prize money is allocated roughly as follows:

	%
owners	80
trainers	8
jockeys	6
stable staff	5
other	1

With prize money of some £80 million, the annual pool for stable staff when horses are in the frame is, therefore, £4 million, which averages out at some £1,000 per head – but obviously the lion's share goes to the successful yards.

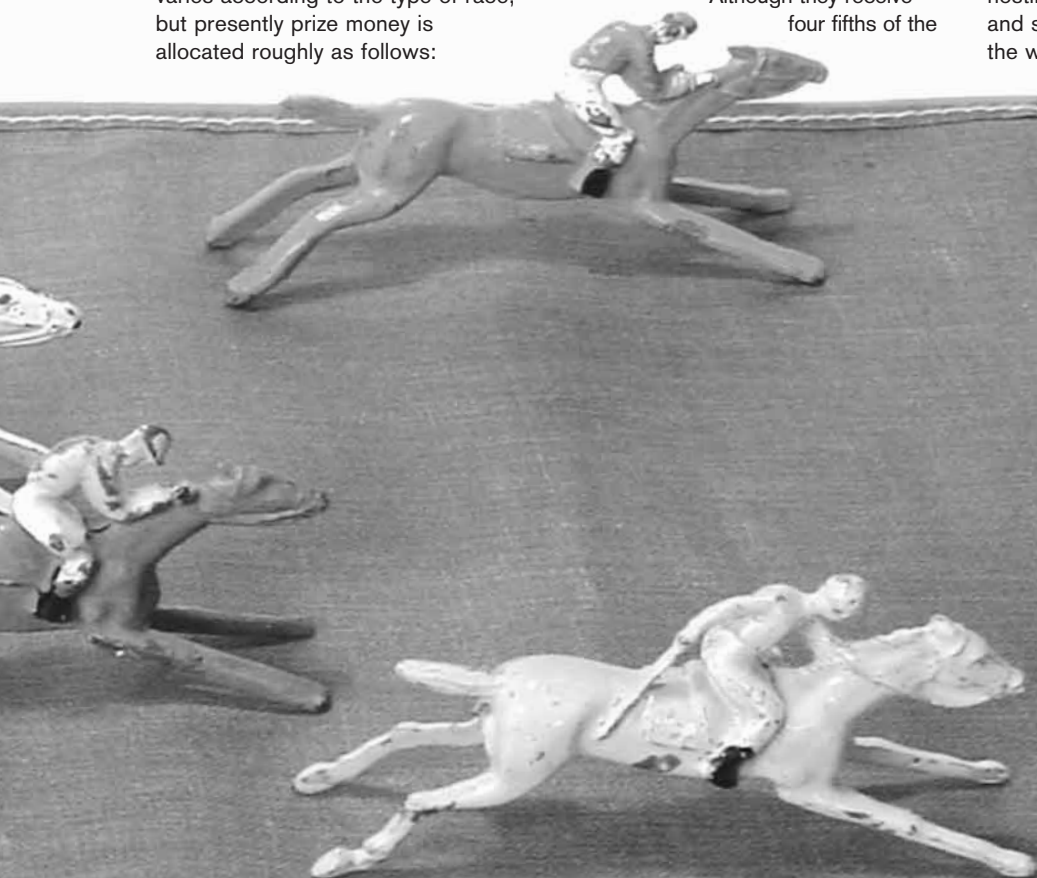
Would it be possible, or sensible, to increase this performance related pay? Even if the pool were doubled, on average stable staff would only get around an extra £1,000 each, with many getting almost nothing because their yard has fewer winners or placed horses. Further, who would pay for the doubling of the stables' share from 5% to 10%? It seems unlikely that the jockeys or trainers would easily submit to a reduction in their share. And owners are already rattling their sabres about the prize money on offer at particular tracks.

Although they receive four fifths of the

total, they would be reluctant to see that share diminish.

In the light of last year's boycott of the Sandown Park meeting by jockeys over the arcane matter of the use of mobile phones it is worth asking what gives workers power. In broad terms, power flows from two things: first, a closed shop giving workers some control over the labour supply; and, second, a credible threat of strike action that could impose real costs on the employer or, via collateral damage, on third parties.

Stable staff have never even been properly unionised, so it is no surprise that they have not had a proper closed shop. The Stable Lads Association – set up in 1975 in the wake of an unsuccessful strike by TGWU – is an unusual union because it is funded (since 2001) via a (very small) percentage of prize money and all stable employees are automatically members, though many stable staff seem unaware of this. The SLA has difficulty in organising effectively in the context of employer hostility, small, scattered workplaces and staff who care very much for the welfare of the horses.



The strike threat normally requires solidarity, either across the whole sector or more selectively. Frankly, there seems little chance of solidarity across all yards. However, if stable staff threatened to refuse to transport and look after horses scheduled to run at Cheltenham or Royal Ascot, for example, such a threat would need to be taken very seriously. Racing's "product" is perishable – like a newspaper or a tube journey – and any such selective action would have a profound impact on the whole industry. So it is much better to get the vexed issue of staff pay and conditions properly dealt with before it comes to this.

The racing industry was ahead of its time in the 1990s when there was no minimum wage protection for British employees. The collective agreement between the NTF and the SLA provided a *de facto* minimum wage for racing staff. The key to this was the enforcement mechanism: any trainer found paying below collectively agreed rates was at risk of losing his or her licence to train.

Since 1999 we have had a National Minimum Wage (NMW) – £4.85 an hour from October this year. The introduction

of the NMW and the subsequent upratings (covering some 1.5 million workers) provide a natural experiment to help answer the question whether a substantial increase in wages automatically leads to job losses. The theory discussed earlier did not yield an unambiguous answer in the case of horse racing. Fortunately, the evidence for the UK labour market is clearer. Mark Stewart and Steve Machin at Warwick University and the CEP respectively are agreed that, taking the labour market as a whole, the NMW has not caused job losses.

Even in the special case of care homes, which – like racing – are labour intensive and which have difficulty in passing on any increase in wage costs (because the Department of Social Security caps the payments that they receive), a 10% increase in pay only cut employment by between 2 and 4%. If a similar response held for racing, it would imply that a wage rise of, for example, £30 - £40 a week would only cause some 150 job losses.

In the overall labour market the NMW may even have given a boost to employment by making it easier to fill

job vacancies (in the jargon, the bottom end of the labour market may be monopsonistic). There is an important parallel with racing here. Tied housing, workers' love of particular horses in the yard and geographically isolated yards all combine together to give trainers some hold over workers. In such circumstances, a judicious pay rise will not automatically result in job losses. Surely the time has come for racing to recognise the dedicated, caring, knowledgeable workers who contribute so much to owners' pleasure and whose efforts provide bookmakers with their licence to print money.

David Metcalf is Professor of Industrial Relations at the LSE and a member of the CEP. He is an independent member of the Low Pay Commission. He is a local Jockey Club Steward at Plumpton and Folkestone and a member of the Economic Security partnership, which has two national hunt horses in training with Paul Webber.

This article is based on evidence submitted to the investigation by the Stable and Stud Staff Commission. The full evidence is available from http://cep.lse.ac.uk/people/cv/david_metcalf.pdf (click on [Stable and Stud Staff Commission]).

