

UK facing three-pronged assault on its labour market flexibility

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From Prof Willem H. Buiter.

Sir, A three-pronged assault on the flexibility of UK labour markets is in progress.

The first is the 6 per cent increase on October 1 2006 in the minimum wage to £5.35 an hour for workers aged 22 and older. This compares with the US federal minimum wage of \$5.15 (£2.72).

The highest US state minimum wage is Oregon's at \$7.50 (£3.96). The proposed increase will bring the UK minimum wage close to the French level of €8.27 (£5.53). This increase in the minimum wage will further subvert the right of the unskilled to earn a living. Unfortunately, it is a "done deal".

The second threat to UK labour market flexibility comes from Brussels. The British opt-out from the European Union working time directive is under threat. This directive prevents employees from working more than 48 hours a week even if they are quite willing and able to do so.

The directive is the brainchild of dirigiste continental European nations keen to impose their short-hours culture on the UK, and capable of doing so by misrepresenting working hours as a universal health and safety issue. The problem of truck drivers falling asleep at the wheel can be addressed without blanket measures such as the working time directive.

The third threat, like the first, is home-made. Since 2004, the entry into the UK labour market of about 500,000 mainly skilled workers from the new EU members of central and eastern Europe, has boosted the growth of UK potential output and eased inflationary pressures.

It now looks as though the enlightened policy that permitted free entry into the UK labour market by citizens of the class of 2004 of new EU members, will not be extended to Bulgaria and Romania when they join the EU in 2007.

The UK, with clapped-out infrastructure and a human capital stock of low average quality (the product of an educational system consisting of a few small islands of excellence in a sea of mediocrity), needs flexible markets, including flexible labour markets, if it is to prosper in spite of these handicaps.

Bit by bit, but inexorably, the UK is undermining a key determinant of its international competitiveness.