

# Flexible Labour Markets

**A2 Economics Presentation**

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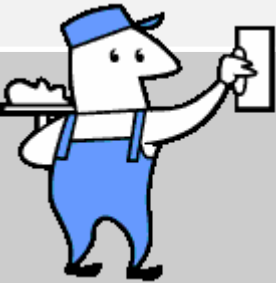

# Flexible Labour Markets

- (a) Flexible employment patterns at the workplace
  - Flexibility of hours worked
  - Flexibility of skills expected of people within the workplace
  - Flexibility of contracts (e.g. shorter term contracts)
- (b) Ease and cost of hiring and firing of workers
- (c) Greater flexibility in pay arrangements
  - Expansion of performance related pay
  - Regionalisation of pay awards
- (d) Increased locational flexibility of labour

# What is driving the desire for greater flexibility?

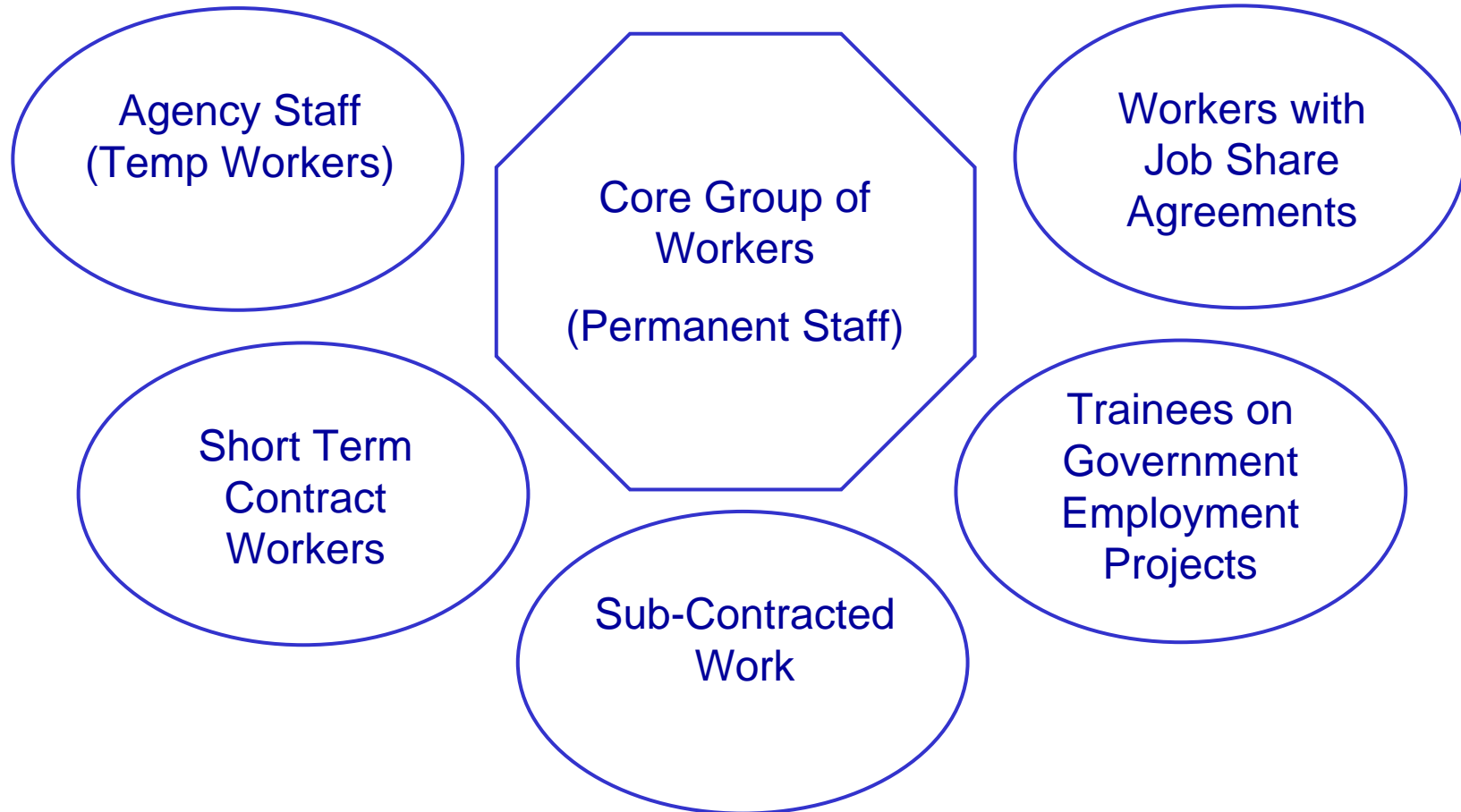
- Competition in Product Markets is driving Factor Market Flexibility
  - Technological developments / lower barriers to entry in an industry
    - Airline industry
    - Publishing and printing industry
  - Liberalisation of markets
    - Telecommunications, gas and other utilities
  - Increased competition from within the Single European Market
- Government regards increased flexibility as beneficial
  - Attractive to flows of inward investment
  - Helps to control the growth of wages and earnings
  - Helps to match employment more closely to output
  - Can help to reduce the average duration of unemployment
- Desire for greater flexibility is coming from many employees
  - Demand for part-time work, flexible hours

# Different Aspects of a Flexible Labour Market

Price (wage) Flexibility	Numerical Flexibility	Temporal Flexibility	Functional Flexibility	Locational Flexibility
Regional pay	Short term employment contracts	Working Time i.e. overtime and weekend working	Ability of labour force to use varied technology	Geographical flexibility
Pay reflecting skill differentials	Growth of home working	Increased use of part-time staff	Transferable skills across industries	
Performance related pay	Job share	Core of full-time employees		

# Flexible Labour Markets

## Flexible Employment Patterns



# Advantages of Increased Labour Market flexibility

- Greater occupational mobility of labour – less structural unemployment and a reduction in the natural rate
- Stronger employment creation during an economic upturn
- Makes British economy more attractive to inward investment
- Higher productivity growth in the long run (improved competitiveness)
- Contributes to an improvement in the inflation-unemployment trade off (see Phillips Curve)
- Economy can respond more flexibly to an external economic shock – because wages and employment are more flexible

# Disadvantages of Increased Labour Market flexibility

- Concerns about a lack of training for workers on short term contracts which has a long term effect on their ability to regain employment if they lose their jobs
- Rising job insecurity – the concept of “job security” is being gradually replaced by the concept of “employability”
- Frequent job changes for workers outside the “core” on the periphery – unsettling for them and for their families
- Concerns about link between a flexible labour market and growing relative poverty – because of the reduction in trade union membership and less employee-bargaining power in many jobs
- Shorter term employment contracts and eligibility for occupational pensions may lead to increased pensioner poverty in the long run
- Risk of “slash and burn” during an economic slowdown / recession as companies seek to cut their workforces aggressively during a downturn
- Longer term social implications of labour market flexibility – the “24 hours per day” work culture

# Evaluation: Has the UK labour market model worked?

- The UK labour market is among the most flexible within the EU
  - Employment growth in the UK has been strong over the last decade
  - The move towards more flexible working patterns has resulted in the largest ever number of part-time workers in the UK
  - Unemployment has come down yet inflation has remained low – suggesting a reduction in the natural rate of unemployment and an improvement in the unemployment-inflation trade off
  - Only limited evidence that employers have engaged in “slash and burn” when faced with an economic downturn – indeed growing evidence of labour-hoarding in industries where there are shortages of skilled labour
  - Flexibility of labour market continues to make the UK a favoured venue for overseas investment even though the UK is outside of the Euro Zone
- But
  - Productivity growth remains poor
  - The gap between high and low paid jobs is getting wider all the time
  - Concerns about the failure of business to provide sufficient training for their employees



# Government Evaluation of Labour Market Flexibility

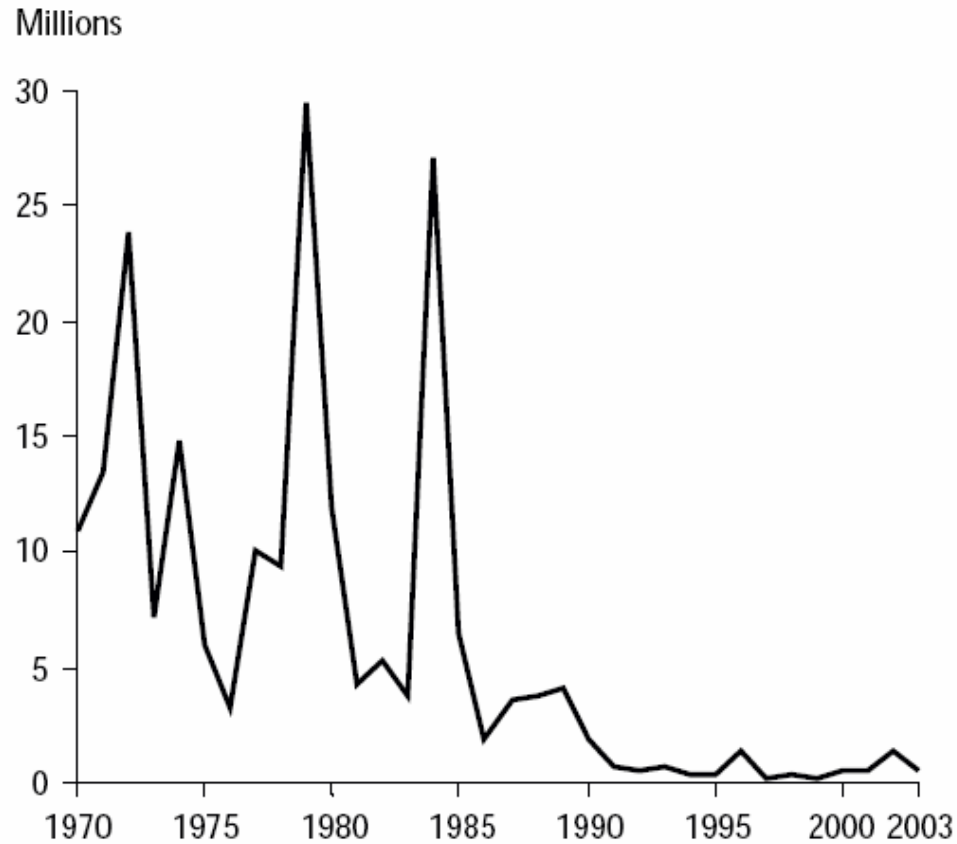
- The UK labour market generally exhibits a high degree of flexibility and this has helped to deliver a strong performance in recent years, despite uncertain global conditions
- With the right type of flexibility in British and European labour, capital and product markets, economic efficiency, employment opportunity and fairness can advance together
- In the UK, as in the rest of the EU, labour markets must foster job creation and provide the right work incentives, while maintaining minimum standards in work and providing security for those who cannot work

# Government Statement on need for Flexibility

- Flexibility is the ability to respond to economic change efficiently and quickly in a way that maintains high employment, low inflation and unemployment, and growth in real incomes
- Were the UK to join EMU, the need for flexibility would be even greater, as the ability to adjust interest and exchange rates would no longer be available at the national level
- In such circumstances, labour product and capital markets would need to respond dynamically to shocks, so as to avoid putting at risk high and stable levels of growth and employment.
- A sufficient level of wage flexibility is vital to eliminate imbalances between supply and demand; relative price adjustment is a particularly important mechanism to allow changes in competitiveness between countries
- A flexible and integrated capital market can provide the financial instruments that help consumers and firms stabilise their consumption following a shock

# Industrial Disputes

**Figure 11.10 Working days lost as a result of labour disputes, UK**



Source: Office for National Statistics