Sir, The article by Sarah O’Connor on British wages falling in real terms (May 18) gives a stark warning about the British economy, which has not been spelt out. Ms O’Connor wrote that wages were going down in real terms despite the fact that the labour market was tight (unemployment is at 4.6 per cent) there were less secure and more flexible forms employment. And that the productivity has decreased.

Flexible labour contracts are a two-edged sword. When unemployment is high employers benefit from flexibility, and employees are not secure about having a job. This motivates them to work harder and smarter. But in the tight employment market, employees feel secure about having a job, as there is always another job round the corner.

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It is generally accepted that people behave in line with incentives. Staff are demoralised by a tight but flexible employment market and falling wages. On one side they don’t feel their work is appreciated, on the other their risk of losing the job, or not getting one after losing the job, is minimal. Not feeling a valued employee, combined with no fear about not having a job, results in lower productivity. This creates a gradual downward spiral: lower productivity precludes wages increases, which in turn — on the tight labour market — demoralises employees even further. And so on.

The long-term effect is worrying. It’s very hard to remotivate demoralised employees and turn round their working practices. This creates a risk that Britain is sleepwalking into a ‘low-wage, low-productivity’ economy. And this will not be the right place to be, especially after Brexit.

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Source: Financial Times. Read more...