Labour Market Flexibility
and
Regional Economic Performance in the UK,
1979-1998

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by

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Abstract

Over the last two decades labour market flexibility has gained recognition as an important factor for good economic performance. Over the same period, the UK has followed a significant labour market deregulation programme, achieving probably the most flexible labour market in Europe.

The main purpose of this study is to offer a concrete analysis of labour market flexibility and measure the impact that changes in flexibility in the UK have had on its regional economic performance. The thesis starts with a review of the forces that have created the conditions for enhanced labour market flexibility. This includes a discussion of the elements of flexibility, identifying its different forms, types, sources and targets. Through a systematic literature review the relationship between labour market flexibility and economic performance is examined. Some original international empirical evidence is also offered, based on a panel of data from the OECD.

I then proceed to develop a technical economic model, examining the effects of labour standards deregulation on economic outcomes and inequalities in economic opportunities. This is followed by a theoretical discussion of regional dynamics in relation to labour market flexibility, where issues of spatial dependence are considered. In the main body of the empirical analysis, a large number of flexibility measures are developed and their evolution over time and across space is thoroughly discussed. Then, the economic effects of labour market flexibility are formally examined.

The conclusion of this empirical analysis is that, on balance, labour market flexibility seems to have improved economic performance in the UK regions, although efficiency gains have coincided with larger inequalities in labour compensation and economic opportunities. The various elements of flexibility, however, are found to have variable, often opposing effects, suggesting that the issue of flexibility and improved economic performance is not purely quantitative, but mostly related to the specific combination of labour market arrangements which can lead to better or worse social and economic outcomes. It follows that this issue cannot be studied in isolation from its socio-economic environment, as the economic benefits of flexibility are not universal but rather place- and context-specific.
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