

# The UK's low wage future inside the EU

*We're becoming the world's first third-world economy in a cold climate.*

*(from Peter Hitchens (journalist and author) writes in his blog on 22<sup>nd</sup> March 2015)*

Have you ever wondered why so many low wage, often part-time, jobs are being created in the United Kingdom while high income jobs are increasingly hard to find and people are not, in general, feeling (or getting) richer? Behind the more obvious effects, there are more subtle imperatives at work which the EU and our EU-supporting government are making worse.

Job creation in the private sector needs investment, risk taking and the availability of suitable resources. And most importantly, customers who can and want to buy the products on offer rather than other competing products. Muck around with any of these and the only option is to create low wage jobs or not to bother at all. And after all, why try to create skilled, highly-paid jobs if you are stigmatised for doing so and 'profit' is considered a dirty word rather than essential for a successful, competitive future?

Thus the EU and our government are undermining the future success of many businesses through direct taxation, while their excessive bureaucracy and regulation further undermine competitiveness. By doing this, they are aggravating this country's long-standing poor record of productivity improvement.

Obviously, where there is an abundant supply of poorly paid, unskilled labour it is tempting to create low wage jobs, in preference to high wage jobs. Less investment is required to

make a reasonable profit – and why make a big profit if you will be heavily taxed? Consequently, we can expect to find increasing openings for low wage work, through the expansion of existing businesses and the creation of new ones. In turn, this draws in more low cost labour to fill these jobs. It is being made attractive for employers to create low wage jobs here and consequently, low skilled people come here because of the presence of many low paid jobs.

Furthermore, it is not attractive or even possible to create high value-adding or high investment businesses, partly because, as a result of this unimaginative approach to making a quick profit, the resources are not available. The financial investment and investment in brainpower (research, development, training etc. and/or the intellectual effort) required is greater, thus making it less appealing to create high value jobs. Also there is a disincentive because it requires a greater risk to break even, leaving less of a margin for error. It can also be made harder still because of a brain drain of our brightest and best to pastures greener.

Cycles or motion of economic effects, once established, tend to be self-reinforcing, leading to more of the same. The cycle arising from an abundant supply of low wage, low skilled labour leads to an upward or increasing spiral of low wage job creation and a downward spiral of wages (wage compression) which is only moderated by minimum wage legislation. If the economy is effectively 'geared up' to producing low wage jobs, it is then difficult to start creating high wage jobs because the means to do so are increasingly absent as a result of EU and government action. If things do not change, we could well lose the ability to create such jobs altogether.

Viewed from the perspective of a large business, the UK's increasingly low wage economy offers some attractions. Low skilled, low wage operations can be set up and closed down much more easily here than in many other countries. Given the principle of free movement of people, it is unsurprising that

the management of such companies are calling for the UK to remain in the EU in order to maintain the supply of cheap labour.

In conclusion, without leaving the EU and thus being in a position to address positively the facilitators of high value job creation, including creating a favourable environment for free enterprise, the future does look increasingly grim – especially for the most vulnerable, who are likely to remain stuck in poverty, dependent on benefits to top up their meagre wages and with little hope of finding better paid employment.

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