

Flexible labour markets: what do SMEs actually want?

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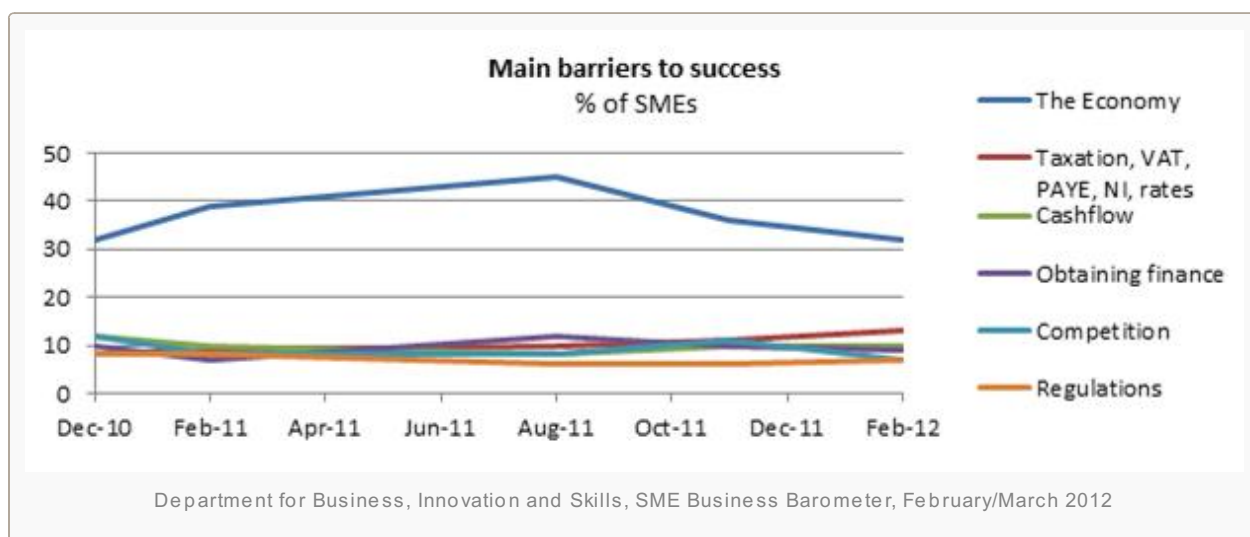
Nida Broughton analyses Adrian Beecroft's suggestions for labour market deregulation to stimulate growth in the light of recent surveys which suggest the performance of the economy – and not burdensome regulation – is the key factor currently limiting small business success in the UK



The controversial [Beecroft report](#) on employment law released this week argues that current employment law and regulation deters small businesses from taking on more employees, which in turn means that they grow more slowly. In [today's PMQs](#) Labour leader Ed Miliband characterised it as recommending that firms should be able to fire people at will. According to that great [socialist thinker](#) Vince Cable, it would “almost certainly be counterproductive to increase fear of dismissal.” Meanwhile, the Government is consulting on “no-fault dismissal” for micro firms of fewer than 10 employees.

There has been a great deal of discussion about whether there is any robust evidence of the benefits of further labour market deregulation in the UK. But less has been said about what employers think. Would small firms hire more workers if regulations were relaxed? The [BIS SME Barometer](#) is a series of surveys of small and medium sized enterprises (SMEs). The survey looks at how well businesses are performing, their needs and concerns, and what they consider to be barriers to growth. The most recent release of the survey is based on interviews conducted with SMEs over February and March 2012.

When asked what the main obstacle to success of their business was, 32 per cent of SME employers responded that it was the economy. Other factors, such as taxation, cashflow, obtaining finance, competition and regulation were much less likely to be mentioned as the main factor. Regulation in particular is one of the least likely to be mentioned – fewer than one in ten said it was the main barrier. This pattern has not changed over the last few barometer surveys.



According to the survey, uncertainty about the future, lack of demand from consumers, increased running costs and increased competition were all important reasons why SME employers said that the economy was the main barrier to success of their business.

[OECD indicators](#) suggest that the UK already has a flexible labour market compared to other OECD countries. And within the UK, small businesses already have more flexibility in terms of employment regulation. For example, there are different consultation requirements depending on the number of

employees a company is proposing to make redundant. The minimum period between the start of consultation and dismissal is 90 days when 100 more redundancies are proposed, but only 30 days for 20 – 99 proposed redundancies. Clearly, smaller businesses with fewer employees are much less likely to be affected by the 90 day requirement.

Compared to uncertainty and lack of demand from consumers, labour market regulation is likely to be a marginal factor – especially given that the UK already has relatively flexible labour markets and regulation that is sensitive to the size of different businesses. So the argument that regulation is deterring innovative SMEs seems weak. In fact, relaxing labour market regulation could even worsen the problem, by reducing consumer confidence, and thereby further reducing demand.

If we want to kick-start growth, reducing labour market regulation may not be the best place to start.

This article first appeared on the Social Market Foundation's [Market Square](#) blog.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the author

Nida Broughton is a Senior Economist at the Social Market Foundation. Nida previously worked at the House of Commons, where she advised MPs and committees on a broad range of economic issues, and in particular, on financial services. Nida also has in-depth expertise in regulation, competition policy and behavioural economics, gained whilst working at Ofcom.

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