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**A Trans-disciplinary (Proto) Model of Labour Markets**

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**Abstract.** Building upon trans-disciplinary insights from the ‘socio-economics of labour markets’ tradition and drawing upon critical realist meta-theory, this paper outlines a trans-disciplinary (proto<sup>1</sup>) model of labour markets as an alternative to the orthodox model.

## **Introduction**

There are, essentially, two conceptualisations of labour markets: the well known neoclassical, mainstream or orthodox approach, and what I call the ‘socio-economic’ approach. The former results in the orthodox model of labour markets; the latter approach does not have this level of coherence and so does not constitute a model. In this introduction I sketch the basics of both the orthodox model and the socio-economic approach, noting the shortcomings of each.<sup>2</sup> These shortcomings motivate the argument that an alternative to the orthodox model is necessary, and that the raw material out of which such an alternative can be fashioned can be drawn from trans-disciplinary insights available within the socio-economic approach – when, that is, it is rooted in critical realist meta-theory.

## **Orthodox model of labour markets**

The orthodox model of labour markets is rooted firmly in the idea that, at the heart of labour markets there exist functional relations between wage rates and the supply and demand for labour, that is, supply and demand curves for labour. It is only on the conceptualisation of well behaved, and correctly signed, supply and demand functions (or curves) that it makes sense to claim that as the wage rate increases, demand for labour falls and supply of labour increases. It is only on this conceptualisation that it makes sense to claim that if we could only succeed in removing ‘impediments’ or ‘frictions’ (a.k.a. institutions) that distort the operation of supply and demand functions, we could make labour markets more flexible and more efficient. As Blank and Freeman (1994: 30) put matters:

The argument that social protection harms economic outcomes is familiar to economists because it is derived from first principles about the effect of interventions in perfectly functioning markets.

Most institutional interventions create incentives for market participants to behave differently than they otherwise would, implying some distortionary loss of social welfare from the competitive ideal.

This model has, of course, been augmented over the 80 years since Hicks (1932) first penned it in a coherent manner. Indeed, it has recently become commonplace for orthodox labour economists to recognise the existence of what they generically, but ambiguously, refer to as 'institutions', and to recognise that these 'institutions' influence the operation of labour markets. Hence we find, within the orthodox literature, discussion of phenomena like: trade unions, families, gender, race, efficiency wages, principle-agent distinctions, insider-outsider distinctions and so on. It is considerations like this that prompted no less a figure than Solow (1990) to write a short book entitled *The Labour Market as a Social Institution*; and more recently St Paul (2000) to write a book entitled *The Political Economy of Labour Market Institutions*. Many (but by no means all) contemporary orthodox labour economist's text books mention institutions, and some even devote chapters to these phenomena (e.g. Bosworth, Dawkins and Stromback 1996).

Recognising the fact that institutions exist and influence the operation of labour markets does not, however, mean that orthodox labour economists are *able to analyse them, and analyse them adequately*. Indeed, a strong case can be made that the analysis of 'institutions' offered by orthodox labour economists is extremely *inadequate*. Several factors combine to make this so, the most important are listed below.

First, orthodox labour economics claims to have made advances relative to Institutionalist labour economics in recent decades because the former has become a 'science' (Fleisher 1971: 1). Whilst the meta-theoretical approach is nowhere explicitly stated, it appears to involve some kind of positivist philosophy of science, Hypothetico-Deductive (H-D) method and a preoccupation with quantification, mathematics and statistics.<sup>3</sup> This approach has allowed orthodox labour economics to throw off its previous 'Cinderella

status' and progress by: displaying greater 'theoretical rigour'; becoming more 'analytical'; more 'quantitative'; and started to use 'advanced econometric techniques'. Fallon and Very, articulate the point well:

Firstly, what used to be a largely descriptive and institutional subject, often virtually synonymous with industrial relations, has become more *analytical*. Secondly, the subject has become more quantitative. Some very advanced econometric techniques are now commonly used in labour economics research (Fallon and Very 1988; ix).

Almost two decades later, McConnell, Brue and Macpherson repeat the sentiment:

Economists have achieved important *analytical* breakthroughs in studying labor markets and labor problems. As a result, economic analysis has crowded out historical, institutional, legal, and anecdotal material. Labor economics increasingly became applied micro and macro theory (McConnell, Brue and Macpherson 2006: 3, emphasis added).

Rather than see these meta-theoretical commitments as an advance, however, many critics see them as a serious handicap. Because many institutions or aspects of institutions are non-quantifiable, they cannot be dealt with adequately with this 'scientific' approach and are often quietly ignored.

Furthermore, orthodox labour economics faces an irresolvable contradiction. To be plausible, a model of labour markets must *either* explain the complete range of labour market phenomena within its disciplinary borders; *or* it must be able to transcend these borders, to collaborate with other social scientists and properly embrace some of their concepts: unfortunately it can do neither. The mono-disciplinarity of orthodox labour economics cannot be overcome by a trans-disciplinary manoeuvre whilst remaining faithful to the 'scientific' approach because it would undermine the very ('scientific') basis upon which

orthodox economics alleges to have made significant advances. In any case, orthodox economists cannot collaborate with other social scientists because many (perhaps most) of the latter abandoned *homo economicus*, rational choice and individualism, decades ago, and for whom positivism, the H-D method and the preoccupation with quantification, mathematics and statistics is a bogus kind of science - better described as 'scientism'.

Second, according to one orthodox economist: 'Currently, labour economics consists of the competitive model with *bits bolted onto it* to explain away anomalies. The result is often not a pretty sight' (Manning 2003: 11, emphasis added)<sup>4</sup>. And some of the 'bits' that eventually get 'bolted on' are 'institutions'. Because the orthodox model of labour markets has no real place for these 'institutions', the term 'institutions' ends up being used as a kind of dustbin category in which to place a variety of phenomena that are in a sense recognised (how could they not be) but not elaborated upon – although see caveats in the third and fourth points below. If we unpack this term, however, we see it refers to a wide range of phenomena that are *social and cultural* (including rules, social and cultural structures, conventions, norms, values, rules and regulations); *economic* (understood as far more than the behaviour of maximising individuals competing for scarce resources); *organisational* (including organisations themselves, and the roles and customs); *political and ideological* (including power, class, gender, race etc); and *social-psychological* (including notions of habit or *habitus*). For ease of exposition I will refer to these as *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*.<sup>5</sup> Orthodox labour economic theory is ill-equipped to deal with phenomena like these. Where, for example, does one bring power, political ideology or (relatively unconscious) habit into the orthodox model?

Furthermore, the possibility that institutions might actually dominate, or even completely negate, the 'economic' forces of wages, supply and demand, so that the analysis of labour markets becomes the analysis of these institutions, is never seriously entertained. As Hyclak, Johnes and Thornton, (2004: 19) put matters: 'Adjustment to a demand and supply equilibrium may be

complicated by institutional factors, but we would nevertheless expect supply and demand to be major influences on labour market outcomes.<sup>6</sup> This is, however, more of an article of faith than an article of analysis. Orthodox economists simply hope that this is the case: if institutions, rather than supply and demand, are the major influences on labour market outcomes, then the orthodox model of labour markets is just about as wrong as it is possible to be.

Third, where attempts are made to analyse 'institutions', they are often conceptualised in such a way that they can be analysed 'scientifically', for example by conceptualising them in terms of a rational agent maximising some (quantifiable) return under a constraint, within a perfect or imperfectly competitive environment. According to Elliott (1991: xvii) 'the neoclassical paradigm' is 'grounded in a view of rational maximising behaviour on the part of the individual, a group of individuals or a firm [that] provides a logical framework with which to interpret and to predict behaviour in labor markets'. A good example of this is the orthodox analysis of the 'institution', a trade union. Rather than understanding trade unions as complex social, economic, cultural, political, ideological and social-psychological phenomena, they are reduced, typically, to rational agents maximising membership or some other relatively naïve objective. The cost of analysing 'institutions' 'scientifically', however, is to empty the institution of many of its most important (and explanatory) features.<sup>7</sup>

Fourth, where attempts are made to incorporate 'institutions' in the model, the analysis is not aimed at probing into the nature of 'institutions', and explaining exactly what they are and exactly how they operate, but is aimed at measuring their effect on things like wages, employment levels and speed of adjustment. Fallon and Very (1988) are up-front about this:

We do not believe that labour economics can be studied in a historical or institutional vacuum. Nevertheless pure description is rarely enlightening. The best of current research in labour economics...does not ignore institutions, customs or convention but

attempts to analyse what constraints they impose on more traditional economic motivations such as cost minimisation, profit maximisation and utility maximisation...[E]ach of these subjects is now treated much more *rigorously* ( Fallon and Very 1988; ix).

Nowhere is this focus on measuring the effect of 'institutions' on things like wages, employment levels and speed of adjustment more apparent than in the 'institutions versus market forces' literature.<sup>8</sup> A good example of this is a recent book by Carneiro, Gill and Paes de Barros (2006) illuminatingly called *The Third Dimension of Labour Markets: Demand, Supply and Institutions in Brazil*. In the introduction they refer to the:

three sides of the labour market: labor demand, labor supply and the institutional framework...[W]e consider labor market institutions, including regulations and interventions as the main source of concern in the search for a well functioning labour market (3).

[T]his book introduces novel aspects in the analysis by bringing into play the 'third side' of the labour market (institutions) along with labor demand and supply (8).

Apart from not defining the term 'institution' the book fails to really examine 'the third side', that is, 'institutions' in their own right. Institutions are considered, primarily, because they influence labour market outcomes in terms of wages, labour supplied and labour demanded. In a paper entitled 'Labour Market Institutions and Performance' and a section entitled 'Labour Market Institutions', Nickell and Layard reveal what is, arguably, the typical way of dealing with institutions:

It is difficult to define precisely what we mean by labour market institutions, so we simply provide a list of these features of the labour market which we shall consider. The boundaries of the list are somewhat arbitrary (1999: 3037).

If truth be told, they are not very interested in probing deeply into the nature of these institutions, and finding out how they do what they do; they are far more interested in measuring the impact of their chosen 'institutions', namely: 'the level of labour taxation; the system of employment protection; trade union activity and minimum wages; income support for the unemployed and active labour market policy; and education and skill formation' (1999: 3031). It would be nice to know exactly what institutions are, how they operate, how agents interact with them and so on, before rushing out and measuring them.

Fifth, orthodoxy's commitment to ontological, epistemological and methodological individualism (Hodgson 2006a) means that institutions *must* (on pain of contradiction) be conceived of, reductively, as the mere outcome of individuals enacting their preferences. The idea that there is an ontological distinction between institutions and the individuals that reproduce or transform them; or that institutions influence the preferences and actions of these individuals, ideas that are virtually unanimously agreed upon in sociological theory, cannot be sustained. The same goes for all those versions of New Institutionalism prevalent within the economics literature, taking their lead from transaction cost economics introduced by Coase, or satisficing behaviour introduced by Williamson.<sup>9</sup> In labour economics, this approach is typified by Marsden (1999).

Sixth, many orthodox labour economists, occasionally feel the need to refer to reality and realism.<sup>10</sup> Manning (2003: 5), for example, reminds us that we should 'choose an assumption that is a reasonable approximation of reality'. Unfortunately, even Manning lapses into unrealisticness whenever mathematical tractability dictates, and he makes use of theories like marginal productivity which are extremely unrealistic. Relaxing a few assumptions from the perfectly competitive model, whilst keeping the rest of the theory intact, and remaining committed to positivism, the H-D method, quantification, mathematics and statistics, is most unlikely to deliver anything but unrealistic models. This is because the majority of assumptions underpinning the orthodox model of labour markets are not used on the grounds that economists have actually studied real human beings engaging with real



institutions and concluded from detailed anthropological, empirical investigations, that they are a 'good enough' approximation to reality. These assumptions are made for the sole purpose of formal or mathematical tractability. Leaving institutions out of the model or treating them as no more than phenomena that impact upon labour market outcomes leads to unrealistic models.

### **Socio-economic approach to labour markets**

It is possible to identify a body of knowledge that I call the '*socio-economics of labour markets*'.<sup>11</sup> It consists in the work of heterodox economists such as economic-sociologists, evolutionary economists, feminists, (Old) Institutionalists, Marxists, post-Keynesians, regulationists, and segmented labour market theorists, as well as those who would not describe themselves as 'economists', yet who write on labour markets, coming from disciplines like: industrial or employment relations, labour law, human resource management, education research, organisational and management theory, sociology of work and employment, state theory, urban geography and so on. Within this body of knowledge can be found, valuable, trans-disciplinary *insights* (i.e. ideas, concepts, theories, observations, empirical data and so on) about the nature of labour markets. By this I mean *insights into the way labour markets are produced (i.e. made), reproduced or transformed the way they are, as opposed to some other way*. It is important to note that the production, reproduction and transformation of labour markets is not an act of God or some other miracle: it is an entirely anthropic affair. Labour markets only exist because different sets of agents interact with different sets of social, economic, cultural, political, ideological and social-psychological phenomena, in different spatio-temporal locations. If human agents produce, reproduce and transform labour markets in particular ways, then it leaves open the possibility that they could produce, reproduce and transform them in different ways if they so choose.

Many socio-economists of labour markets reject (all or large parts of) the orthodox model of labour markets. There are various reasons for this, some noted above, but the following is a crucial one. The orthodox model at best

ignores, and at worst has a superficial analysis of, the social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes through which labour markets are produced, produced the way they are, and reproduced or transformed. It is precisely these phenomena that are central to socio-economic analysis of labour markets.

Whilst there are many valuable, trans-disciplinary, socio-economic insights currently available into the nature of labour markets, there is a shortcoming: they exist in a rather partial and fragmented manner. Whilst these insights are the raw material out of which an alternative trans-disciplinary model might be fashioned, more work needs to be done to actually synthesise them to form such a model. And here is where meta-theory comes in again. If partial and fragmented insights existing at the 'theoretical' and/or 'empirical' levels are to be synthesised, then it makes sense to seek the synthesis at, metaphorically speaking, the 'deeper' level of the meta-theoretical. *Critical realism* lends itself to this task whilst allowing us to avoid the problems associated with the (quasi) positivist philosophy of science, (quasi) H-D method, and the preoccupation with quantification, mathematics and inferential statistics underpinning the orthodox model. Many socio-economists are starting to accept critical realism as a plausible meta-theoretical foundation.

### **Taking stock**

Socio-economists criticize the orthodox model of labour economics because it is bedevilled by serious shortcomings, samples of which are noted above. When orthodox economists do respond to criticism of this kind (and such responses are nowadays rare) they have an extremely strong trump card to play. Their response, typically, is: 'well at least we have a model and not just a set of descriptions'. Robert Elliott, author of a textbook on labour economics, and one who is aware of some of these shortcomings puts the point well:

Throughout this text, and despite the urgings of some of those who read the text, the neoclassical paradigm represents the maintained hypothesis....Until an alternative and superior analytical framework

is provided, I am reluctant to abandon the one we have (Elliott 1991: xvii).

Socio-economists find this difficult to respond to for two reasons. First, because, valuable as their trans-disciplinary insights are, they are partial, fragmented and do not add up to anything resembling a 'superior analytical framework'. There is no alternative, trans-disciplinary model so the orthodox model 'wins' by default. Second, whilst many socio-economists have abandoned the positivist philosophy of science, Hypothetico-Deductive (H-D) method and a preoccupation with quantification, mathematics and statistics, they appear unsure what meta-theoretical apparatus to replace it with. This compounds the first difficulty of not having a model of some kind. How, then, should socio-economists proceed? My suggestion is this: we take the valuable trans-disciplinary insights from the socio-economics of labour markets as the raw material for an alternative model, and couple this with critical realist meta-theory, enabling us to synthesise these insights into a coherent whole. And this is precisely the objective of this paper. The objective is to sketch, in fairly rough outline, the beginnings of an alternative, trans-disciplinary (*proto*) model of labour markets. I make no apologies for the speculative nature of the paper. The kind of paradigm shift we can, and I believe should, be making is most unlikely to occur without some initial speculation: unless someone starts somewhere, an alternative will never materialise. Paraphrasing Elliott, we might say that: 'until an alternative and superior analytical framework is provided (even if it is initially speculative) economists will be reluctant to abandon the one they have'.

The paper proceeds in three parts. Part one identifies the insights currently available via the socio-economic tradition; part two turns to meta-theory and briefly rehearses critical realism; and part three builds up the alternative model in five stages to eventually provide a trans-disciplinary (*proto*) model of labour markets.

### **1. Existing socio-economists insights**

Socio-economists appear committed to the general idea that, whatever labour markets are, they cannot operate without institutions and/or social structures. This is expressed variously, by referring to the institutionalised nature of labour markets, or to labour markets being *embedded* in institutions - and/or social structures, a term absent from orthodox economics, but central to much social theory. Whilst this is an advance over orthodox labour economics, we need to go much farther than this, because the idea of 'embedding' is not unproblematic. It presupposes the existence of *two* phenomena; one called 'labour markets', and the other called 'institutions and social structures' (i.e. social, economic, cultural, political, ideological and social-psychological phenomena) with the former embedded in the latter. It presupposes a separate place or space, nested within the realms of the social, economic, cultural, political, ideological and social-psychological, where something called 'labour markets' exist. What is wrong with this conception becomes clear the moment one asks: Where are these labour markets? Setting the question up in this way leaves us searching for a place or space where something like a 'pure' labour market, characterised perhaps by supply and demand functions, operates. When matters are put like this, and they rarely are, it becomes clear that no such place or space exists. Instead of conceiving of labour markets as *embedded* in economic, cultural, political, ideological and social-psychological phenomena, I offer a more radical conception. For me, *labour markets just are, or are exhausted by, the social, economic, cultural, political, ideological and social-psychological phenomena, that constitute them.*<sup>12</sup>

I might be the first to make this claim with such a degree of boldness and precision, but the insights I draw upon are not new, and many post-war Institutional economists would probably wonder what the fuss is all about! Consider some examples.

Markets are co-extensive, or wholly contained within, institutions. More precisely, markets are clusters of working rules that guide conduct in transactions....Yngve Ramstad explained that 'the price mechanism' is mentally inseparable from the instituted working rules of which it is but an active description. Indeed, without an

understanding of the specific rules themselves, one cannot understand how the mechanism functions (Brown, 2005: 922).

[L]abor markets are not things unto themselves; their attributes, their properties, are to a significant degree what employers [i.e. organisations] make them out to be (Berg and Kallenberg 2001: 12).

The role of firm's employment policies in structuring the external labour market has been largely unexplored...In practice, the external labour market takes its form through the influence of a whole range of institutions including the family, the state and employing organizations (Rubery and Wilkinson 1994: 14).<sup>13</sup>

The reason no-one has yet managed to complete the task of synthesising these partial and fragmented, trans-disciplinary insights into a coherent whole, apart from the enormity of the task, is meta-theoretical.<sup>14</sup> The task requires a meta-theory suited to the task. It is to this we now turn.

## **2. Meta-theory**

The meta-theory underpinning the proto model I sketch below is *critical realism*.<sup>15</sup> There is now a fairly extensive literature on critical realism in economics, so I will restrict my comments to the following cursory remarks. Critical realists advocate a *causal-explanatory* method. Whilst in open systems, prediction (based on induction) is not possible, *explanation* is, and so explanation replaces prediction as the objective of social science. To explain, is to provide a causal account, one that provides information about (a) the causal mechanisms at work, and (b) the agents who engage with these causal mechanisms.<sup>16</sup>

For critical realism, a *theory* is (minimally)<sup>17</sup> a set of statements designed, not to sustain a prediction or hypothesis, but to sustain a causal explanatory account. Whilst the statements that constitute a theory should be empirically testable, in open systems, testing theories via the usual statistical tests of their predictions is not possible. But in open systems, explanations can be evaluated to ascertain which theories are more explanatorily powerful than others. True, this is not a straightforward matter, and more work needs to be

done to elaborate what is involved in deciding what constitutes explanatory power. But the simple fact is, with prediction ruled out, there really is nothing else: we have to proceed with explanation at the objective, and explanatory power as the criterion for evaluating theories.

For critical realism, a *model* is a set of theories consistently and coherently arranged to express or reflect the reality which it purports to model. A model is not a description of reality, because it abstracts from key features of reality. But this does not license the kinds of flights of fancy common in orthodox models. A model cannot contain *known* falsehoods or fictions, as this would immediately negate the requirement that a model should express or reflect reality. A model, then, must be *realistic*.

For critical realism, *there is no reason why a theory has to be mathematical and hence no reason why a model has to be mathematical*. A non-mathematical model of labour markets is totally acceptable. It consists of theories (i.e. statements designed to sustain a causal explanatory account) of the main social, economic, cultural, political, ideological and social-psychological phenomena that constitute the labour market. This must include an account of labour market agents and how they engage with these phenomena. Hence, for critical realism, a model is based upon an agency – structure conception.

The (*proto*) model sketched in part three is based upon a method of *successive approximation* involving five *steps*. Each step starts with a diagram, followed by a narrative, showing in rough chronological terms the main *stages* involved in the operation of labour markets. Step one is a ‘first cut’, introducing the stages undertaken by a typical *supplier* of labour services. Step two is another ‘first cut’, this time introducing the stages undertaken by a typical *demand*er of labour services. Step three returns to the typical supplier of labour services and takes a ‘second cut’, adding more complexity. Step four returns to the typical demander of labour services and also takes a ‘second cut’. The final step brings all this together.

The method of *successive approximation* is based on the idea of building complexity into the analysis step by step so that the final step (five) approximates reality more fully than the first; and the final step is less abstract than the first. Note, however, that whilst many orthodox economists *claim* to do something similar, their steps almost always involve *not abstraction*, but *fiction*. They start with assumptions that are *known to be fictions* (or falsehoods) and are used only because they are mathematically tractable. Some, but by no means all, of these assumptions are gradually relaxed – although in many cases, others are added to shore the model up as complexity is added (Fleetwood 2001a, see also 1999a; 1999b; 2001b). The *proto* model sketched below contains nothing that is known to be fictitious or false – although, being fallible, I may have made a mistake, but this is an entirely different matter.

The following outline is carried out at a high level of abstraction. Stones' (1996) metaphor of floating over the landscape in a balloon is useful here. In a balloon, we see all the main components that constitute the landscape, but not in any detail. In our case, we see the main components that constitute labour markets, but not in any detail. This abstract sketch of the most important social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes, often means giving scant mention of important things (e.g. unions, employment law, migration, self-employment, health, housing and transport) and abstracting from others completely (e.g. place and space, macro-economic factors, macro and micro-economic policy and globalisation). This cannot be avoided. But if the outline is initially plausible, then it can gradually be elaborated upon.

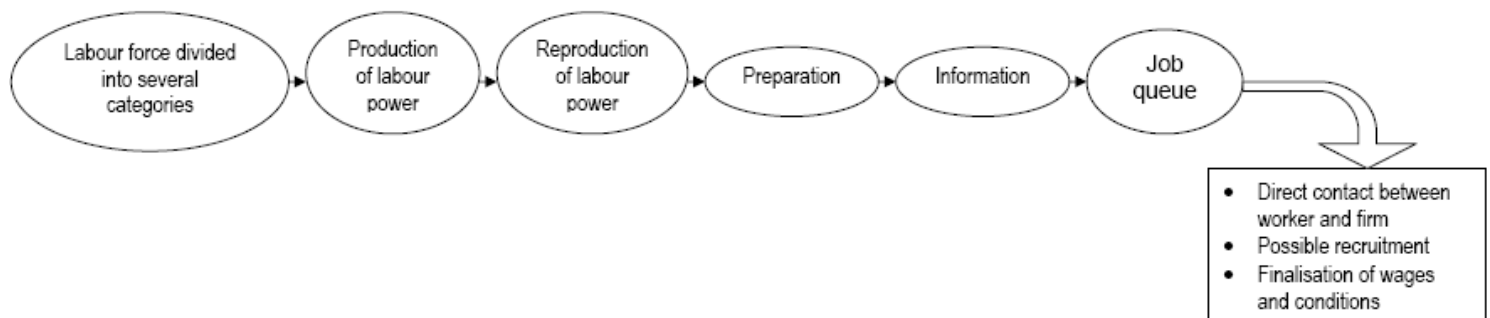
Finally, whilst I have laid out the various stages in a 'rough chronology' there is an important caveat: causality is *complex and recursive*. It is (spatially) complex in the sense that causal factors affecting the 'supply side' are often rooted in the 'demand side' (and *vice versa*). It is (chronologically) complex in the sense that causal factors affecting the chronology are not always linear. The actions of firms can, for example, have an impact on the way individuals will think and act in labour markets, even before they are born, socialised or

educated. Causality is recursive in the sense that feed-back loops exist. The labour market is not, for example, the *direct* or *proximate* cause of the division of gender or race in the sense that membership of these categories pre-dates activity in the labour market. But activity in the labour market, typically, reinforces men's and white's relative advantages over women and blacks and so can be considered an *indirect* or *distal* cause of this categorical division.

Now that we have some idea of the meta-theory that might allow us to synthesise the valuable, trans-disciplinary insights, let us move to the next section and start the process of building the *proto* model.

### **3.1 Step 1: The stages undertaken by a typical supplier of labour services: first cut**

Perhaps the best way to understand this section is to imagine the following (roughly chronological) stages. Imagine a family; that family having a child; that child being brought up so that s/he is prepared (mentally and physically) for his or her eventual involvement in labour markets and world of work; informed about the available jobs and how to join the labour queue and possibly gain employment. For any individual to successfully negotiate these stages (i.e. from being born to being recruited and beyond) and, thereby, to successfully supply their labour services, s/he must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*. Let us consider some of the more fundamental ones.





## **Division of the labour force**

The (potential) working population is heterogeneous. Before any exposure to labour markets, it is divided by class, gender, race, (dis)ability, family type, space and place, health (physical and mental), housing status, longevity, nationality, political persuasion, religion, sexual orientation, national residency status (relating to various categories of migrant labour) and, as part of the gender division, various forms of caring responsibilities (primarily children and elderly relatives) not to mention things like hairstyle, (good) looks, body shape, size and weight, the presence of body piercings and tattoos, and the use of alcohol, cigarettes and recreational drugs. All potential labour market participants are located in one, or several, of these categories. This is a far cry from *homo economicus*, the agent at the centre of orthodox economics, who is located in none of these categories – although feminist economists have pointed out that the underlying presupposition is that *homo economicus* is male.

The following six points might help to clarify issues relating to this heterogeneity. First, in order to avoid having to run through this (above) list every time a reference to heterogeneity in general is required, I will simply refer to the working population being '*divided into several categories*', or the '*categorical division of the working population*' or some variant. Second, the criterion for inclusion in the list is that being located in one, or several, of these categories is likely to have an impact upon the way participants think and act in relation to labour markets. Third, the list is open to contestation: some things I have excluded might, arguably, be added; and some things I have included might, arguably, be dropped. But the categories I have chosen are neither arbitrary nor infinite. Fourth, being located in one, or several, of these categories says nothing about the strength of the impact membership has on labour market participation. If gender has a stronger impact upon a person's labour market participation and/or activity than, say, smoking, this does not alter the fact that both gender and smoking might have an impact. Deciding what matters and how much, is an empirical issue. Fifth, is the objection that this or that category is a 'special case', and it can be left out of the analysis so that a more encompassing, general approach can be taken. A glance at the

list shows that many of these categories are far from minority, special cases. And even those that are, must be open to analysis within any plausible model. Finally, people may be located in one, or several, of these categories; they may also be able to move in and out of some of them. But there is no avoiding being located in one, or several of them.

The second point is crucial. Things like whether a person enters the labour market or not, whereabouts in the labour queue they are ranked, which segment of the labour market they enter, which industry, occupation or even firm they end up working in, the wages, fringe benefits, pensions they earn, and health benefits (if any) they are offered, the employment conditions, the degree of self-expression, creativity, self actualisation, autonomy, empowerment they experience, or perhaps the degree of alienation, commodification, precariousness, vulnerability and insecurity they experience, will almost certainly be influenced by their membership of one or several of these categories. Note well, however, that this influence occurs because membership of one or several of these categories exposes the member to a range of social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes, and it is these things, not simply membership of the category itself, that is causal.

### **Producing, reproducing, preparing and informing the labour force**

A workforce does not emerge out of thin air: it is produced in two senses. First, the 'raw material' (i.e. a human population) is produced, and reproduced, in some form of family unit. Second, a workforce is not necessarily a *prepared* workforce, that is, one that is educated and skilled, in both 'hard' and 'soft' skills, active in the sense of actively job-seeking, and motivated in the sense of being ready and willing to work with a degree of commitment once on the job. And a prepared workforce is not necessarily an informed workforce. An informed workforce is one that knows about the quality and quantity of available jobs, and knows how to enter the labour queue. There are, of course, degrees of activity, motivation and information.

Information comes from a variety of sources, a crucial one being recruitment networks.

To the extent that such a thing exists, how does a prepared (i.e. educated, skilled, active and motivated) and informed workforce come into being? Some of the causal impulses come from within the individual labour market agents in the form of their own needs and preferences, although even here, we should be cognisant of things like the alienating nature of many kinds of work, which are not always simply a matter of subjective preferences. Other impulses come from outside the individual, primarily, from three sets of interconnected organisations: the family; the firm and the state (local, national and supra-national); and secondarily from social structures and organisations in which these organisations are located. I will elaborate on these in step three below.

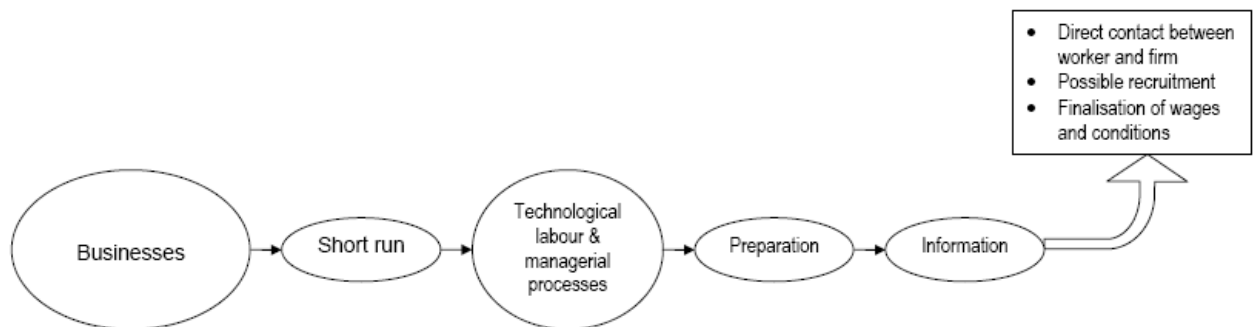
### **Joining the labour queue and recruitment**

The penultimate stage occurs when a potential labour market participant enters the labour queue. The participant waits, as it were, in line, for an employer to register the possibility of recruitment – at the next stage. Here, membership of one, or several, of the above categories has causal implications for whereabouts in the labour queue the participant is ranked. Potential employers are not neutral *vis-à-vis* the type of workers they prefer to hire, and in many cases this results in certain categories of workers being overlooked in the queue. The final stage occurs when a labour market participant is recruited from the job queue. At this point pay and conditions (widely conceived) are *eventually* agreed upon, although there are, typically, many mechanisms through which this can occur. I will say more about this under step three below.

Let me sum up stage one. For any individual to successfully negotiate the various stages just sketched and, thereby, to successfully supply their labour services, s/he must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*.

### 3.2. Step 2: The stages undertaken by a typical demander of labour services: first cut

Perhaps the best way to understand this section is to imagine the following: a firm; that firm operating in the short run by deciding upon crewing levels, on-the job training, and managing technical and labour processes - long run activity will be considered in step four. For any individual firm to successfully negotiate the various stages just sketched and, thereby, to successfully recruit those who seek to supply their labour services, it must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*. Let us consider some of the more fundamental ones.



#### Division of firms

The set of firms that demand labour is heterogeneous. Firms are divided by size, corporate structure, nature of production (process, manufacturing, extractive, service), nature of the technology employed, stage of maturity, whether it is private or public, and so on. These factors often play a key role in the way firms subsequently carry out the activities that constitute the very labour market that they are presumed to operate within, This will become a little clearer in step four.

#### Short run: technology, labour and management processes

By the 'short run' I mean an actual period of historical time, not the orthodox economic concept of the short run, a fictionalised 'time' where nothing happens. The point of introducing it is simply to illustrate that during the short

run, the firm will be operating with technological, labour and management processes that have a degree of fixity to them. This does not mean they are fixed (as marginal productivity theory suggests); it does mean that the exact degree of fixity is an empirical matter. At any point in time, for example, a firm will be operating with a workforce that was, largely, educated (at school, college or university) in a past time period; either came to the firm with certain skills, or is in the process of augmenting these skills on the job via some kind of training. It will also be operating with a set of jobs, flexible working arrangements, and employment contracts the qualitative nature of which cannot be altered significantly without re-designing the technological, labour and management processes.

It is in the short run, that the firm makes decisions about crewing levels. One thing is clear: the idea that crewing levels, and hence the firms demand for labour, is determined by firms substituting infinitesimal amounts of (putty-like) labour and capital in responses to changes in the price of these two inputs is a complete fiction. Real production systems are, of course, nothing like this. This does not mean relative factor price has no influence, simply that other influences are likely to be more causally efficacious. Decisions about how to integrate workers with machinery are multi-causal and multi-dimensional, and take into account a range of causal factors that I have referred to generally, as having a technological, labour and management nature. So, whilst an extra pilot cannot be substituted for an aircraft wing, neither can a robot be substituted for a nurse with a 'good bedside manner'. Even where factor substitution is *technologically* possible, crewing levels are, typically, the subject of extensive bargaining which may or may not involve unions or other unofficial workplace representatives; always involves management; and always involves issues of power. Crewing levels, and hence the basis of the demand for labour, is better understood as being 'administrated'.

### **Preparation, information and recruitment**

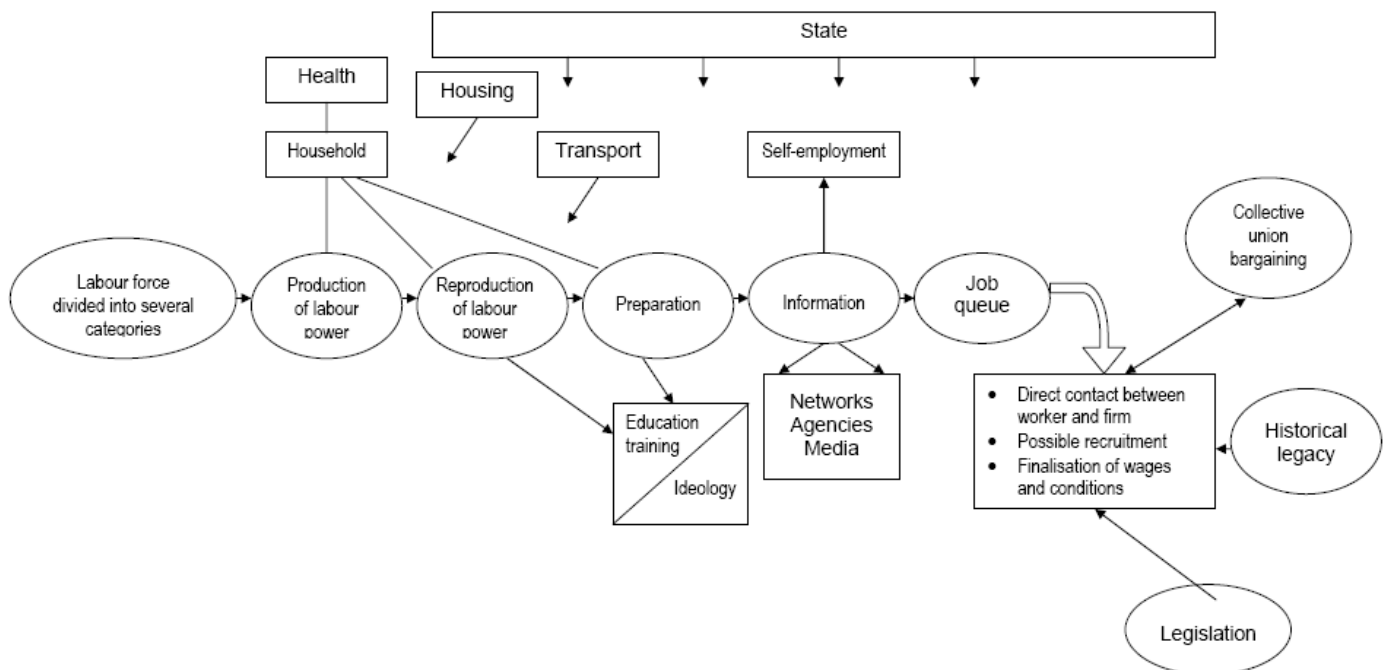
In the short run, firms are not involved in preparation in the sense noted above – this will become clearer below. An informed firm is one that knows about

available labour supply and knows how to get it from the labour queue. Firms play a role in establishing the supply networks (although perhaps not, or not entirely, the recruitment networks) through which they recruit labour services. The final stage occurs when a labour market participant is recruited from the job queue. I will elaborate on this in the next step.

Let me sum up step two. For any individual firm to successfully negotiate the various (short run) stages just sketched and, thereby, to successfully recruit those who seek to supply their labour services, it must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*.

### 3.3 Step 3: The stages undertaken by a typical supplier of labour services: second cut

This section returns to the typical supplier of labour, but in this ‘second cut’, more complexity is added, and the model becomes more realistic, by introducing those of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes* that were abstracted from in step one.



## **Production and reproduction of the workforce**

To the extent that such a thing exists, a prepared (i.e. educated, skilled, active and motivated) and informed workforce comes into being, in part, from impulses arising from outside the individual, primarily from three sets of interconnected organisations: the family; business organisations and the state (local, national and supra-national) and secondarily from social structures and organisations in which these organisations are located. I will discuss family and state here, discuss the state again in the next step, and discuss the firm exclusively in step four.

### **The family**

It is well known that labour power is a quasi-commodity, in part because it is not produced and reproduced via the market: there are no farms producing and selling children – or at least not yet! Indeed, labour power is produced and reproduced in the family. Whilst Marxists and feminists once crossed swords in the ‘domestic labour debate’<sup>18</sup> this debate has quietly been forgotten. Yet many of the issues that were debated are extremely important today, and many have now been accepted by non-Marxists and non-feminists. Let me briefly sketch why domestic labour matters for labour market analysis. Whilst this sketch is at a very high level of abstraction, and is not intended to express any particular conception of the family (and other institutions) it does presuppose something like an under-elaborated male-breadwinner model.

In order for society to be reproduced, two kinds of work are necessary: that which is paid, and that which is unpaid. Much of the latter falls in the category of ‘domestic labour’, primarily involving a set of tasks such as *caring* for children, elderly people and disabled people, and running the household. Caring for children includes biological and also socio-psychological caring as one of the main sites of primary socialisation is the family. For good or evil, the main responsibility for *caring* has passed onto the shoulders of women. Those who perform all (or most of) the domestic labour, typically have no (or a relatively small) income from paid work; those who perform no (or a relatively small part of) domestic labour, typically have an income from paid work; those

who 'share' (which does not necessarily imply the 'share' is equal) domestic labour with a partner, typically, have an income from part-time work and share the income of their partner. This division of labour is a socio-economic arrangement that allows the family to reproduce itself, but it has two consequences that are almost impossible to overstate. First, the family produces a steady supply of (duly socialised) potential workers at absolutely no cost to the firms who will eventually hire them. This is the only input into production (apart perhaps for air) that the firm gets for nothing. It is not free of course, it costs those who perform domestic labour their labour time. Second, the responsibility for performing domestic labour casts a long shadow over women's participation in the labour market and work, and is largely responsible for various forms of discrimination. Firms (and the state) clearly have a powerful interest in maintaining the family in something like its current form. As long as women are providing domestic labour free of charge, firms and the state can avoid the additional cost that might be incurred if they had to provide these services themselves.

### **Preparation and the family**

The family also plays a role in the stage of preparation via the process of socialisation, or the process of establishing the *habitus* or habits. For the context of labour market analysis, this is important because a workforce is not just a mass of workers waiting in the labour queue, it is a mass of workers who have acquired an appropriate set of habits. These might, for example, be the habits involved with getting out of bed in the morning and turning up, on time, at school, and later at work. Or they might, for example, be the habits involved with expectations of 'fairness', something that might even dispose the person towards (or against) trade union membership later in life. Clearly, whilst the family does inculcate habits that are not explicitly sought by employers, the family almost certainly inculcates some that are so sought.

Moreover, the categorical differences noted earlier also have a role to play here. Working class families might instil in their children the habits associated with deferring to their 'elders and betters'; whilst ruling class families might



instil in their children the habits associated with being the 'betters'. Working class families might instil in their children the habits associated with working hard at school, and choosing courses that allow them to 'get a good job'; whilst middle class families might instil in their children the habits associated with 'education for education sake'. The family is also an organisation where boys and girls learn their gendered roles. Little boys learn that, in the future, they might think about being a welder, but not a beautician; whereas little girls learn that, in the future, they might think about being a beautician, but not a welder. I could go on here to discuss our attitudes to race, sexual orientation, disability, age, migrants and so on, but the point is, hopefully, taken. It is not difficult to see that a range of habits learned in the family have enormous influence on the ideas we eventually come to hold about whether we enter the labour market or not, which segment of the labour market we enter, which industry, occupation or even firm we consider working in, the wages, fringe benefits, pensions and employment conditions we consider fair, the degree of self-expression, creativity, self actualisation, autonomy, empowerment, or perhaps the degree of alienation, commodification, precariousness, vulnerability and insecurity we expect and so on. Clearly, the way the family instils these habits, and the consequences that they have for our labour market participation, is an extremely complicated process. But it is not as if we do not know how a great deal of this works: socio-economics has a great deal to teach us on these matters.

### **Information, the family and self employment**

From Granovetter's pioneering work, it is now well known, the family extends to kinship networks, and becomes one of the key causal mechanisms in gaining information about where vacancies exist, not to mention 'inside' information on the nature of potential jobs and on whether the employer is 'good' or 'bad'. Over the last couple of decades many workers have become 'self-employed'. In many cases, this has not involved a shift in the nature of the work, and often not even in the place of work: it has merely resulted in a shift from being an 'employee' earning a wage, to being some kind of sub-contractor, earning a non-wage income. In many cases this results in a

serious deterioration of conditions, even in cases where the actual income is greater than the previous wage.

### **The state**

I will leave a more detailed discussion of the state until step four, except to point out that the state engages in several activities that shape the ways in which potential suppliers of labour think and act in labour markets.

### **Recruitment**

The final stage occurs when labour market participants are recruited from the job queue. At this point in time, several things are finally decided upon, most notably, pay and conditions; the employment level of the firm; the quality (e.g. skill, motivation) of the workforce; the nature of employment relations and the nature and mix of employment contracts. This is also where the consequences of the initial categorisation of the workforce come into effect as (say) whites are recruited before blacks. It is, however, absolutely crucial to understand that whilst these things are 'finally decided' upon at this stage, the causal chain of factors that led up to this point are a fundamental part of the explanation of these things. For example, the causal factors at work in the decision to recruit whites before blacks, or to offer better pay and conditions to whites than blacks, and so on, are *distributed throughout the entire process taking place in the five steps I am sketching here*. To establish causality requires tracing these steps to their origins.

Consider the example of wages. Whilst the wage rate is 'finally decided' upon, or *proximately* caused, at this stage by the new employee and the representative of the firm, the entire causal chain of factors that led up to this point are a fundamental part of the determination of the wage rate. The level of any particular wage rate, for an individual or appropriate group, is *distally* caused by a range of social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes sketched above, and *proximately* caused by a set of administrative mechanisms. Socio-economists

have coined the term 'administered wages' to reflect this last point. The administrative causal mechanisms I have in mind here are as follows:

- Psychological contract, including notions of fairness and justice
- Motivational philosophies, strategies and mechanisms
- Empowerment philosophies, strategies and mechanisms
- Job evaluation mechanisms
- Job and competency analysis
- Equal pay mechanisms
- Pay audits
- Pay structures
  - Narrow graded
  - Broad banded
  - Job family
- Reward philosophies, strategies and mechanisms (individual and/or team) such as:
  - Performance related pay
  - Profit related pay
  - Competence related pay
  - Contribution related pay
  - Skill-based pay
  - Shopfloor incentive schemes
  - Non-financial rewards
- Performance management strategies and mechanisms
- Employee benefits – cars, expenses etc
- Pension schemes
- Managing the reward of special groups, such as:
  - Senior executives
  - International and expatriates
  - Sales staff

Furthermore, the 'administered wage' might be set by the firm's recruitment specialists using some of the above factors, then offered to the potential

recruit on a take it or leave it basis, or it might be bargained over. Alternatively, the wage might be set and offered to the individual on the basis of on-going collective bargaining; set and offered to the individual on the basis of collective bargaining taking place elsewhere; set and offered to the individual on the basis of customs and practice, with a historical legacy adding inertia; set and offered to the individual on the basis of legislation such as minimum wage or equal opportunities legislation, EU directives on working hours, health and safety legislation, and so on. The operation of these administrative causal mechanisms are well known within disciplines such as HRM and Employment Relations (e.g. Armstrong 2003). It might not need saying, but we should not forget that these administrative causal mechanisms also involve a range of social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes.

### **Housing, health and transport**

I noted in step one that the potential working population is divided into several categories. Here causality gets a little complicated because the categorical division often combines with things like housing, health and transport to have an impact upon labour market activity. Women, for example, tend to have less access to cars, and are more reliant on public transport to commute. This has a relatively negative influence on women's ability to consider jobs in certain locations, and perhaps even to remain in them and progress through any career ladders there are. Similarly, social class is likely to be a key determinant of which neighbourhood, or which type of house we reside in. And this is likely to have an influence on our education, and our chances of being recruited by certain firms – one might live on the 'wrong side of the tracks'. Class is also likely to have an impact upon things like health and longevity, which has implications for things like health insurance and pensions.

Before we leave this section, consider what is for the orthodox model, a crucial issue: the quantity and quality of labour supplied to the firm. The orthodox theory of labour supply assumes the individual worker is free to

decide the number of hours s/he works in accordance with his/her preferences and subject to an income constraint – a few other variables can be ‘bolted on’. The overall supply of labour is assumed to be the aggregate outcome of free choices by individual workers who have expressed their preference for it to be this length. This conception simply leaves out of the picture, most of the important causal mechanisms involved with the determination of the quantity of labour supply. Agents are, manifestly, not able to substitute infinitesimal amounts of labour hours and leisure hours in responses to changes in the price of labour, or transfer payments. Indeed, recent EU legislation surrounding the right to request (but, not to be granted) flexible working hours is necessary to allow workers some, limited, choice of hours. Most decisions about what hours to work are, to a greater or lesser extent, influenced by the employer, and take into account a range of causal factors that I have referred to generally, as having a technological, labour and management nature. Hours of work are better understood as ‘administered’. Even when decisions about what hours to work are not influenced directly by the employer they always involve some of the social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes discussed here.

What about quality of the labour supply? Orthodox theory deals with this almost exclusively via Human Capital Theory. Rather than point out the (many) limitations of Human Capital Theory, I will simply note that if the amount of human capital matters, then so too do other forms of capital such as: financial, social and cultural. And this introduces social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes into the model.

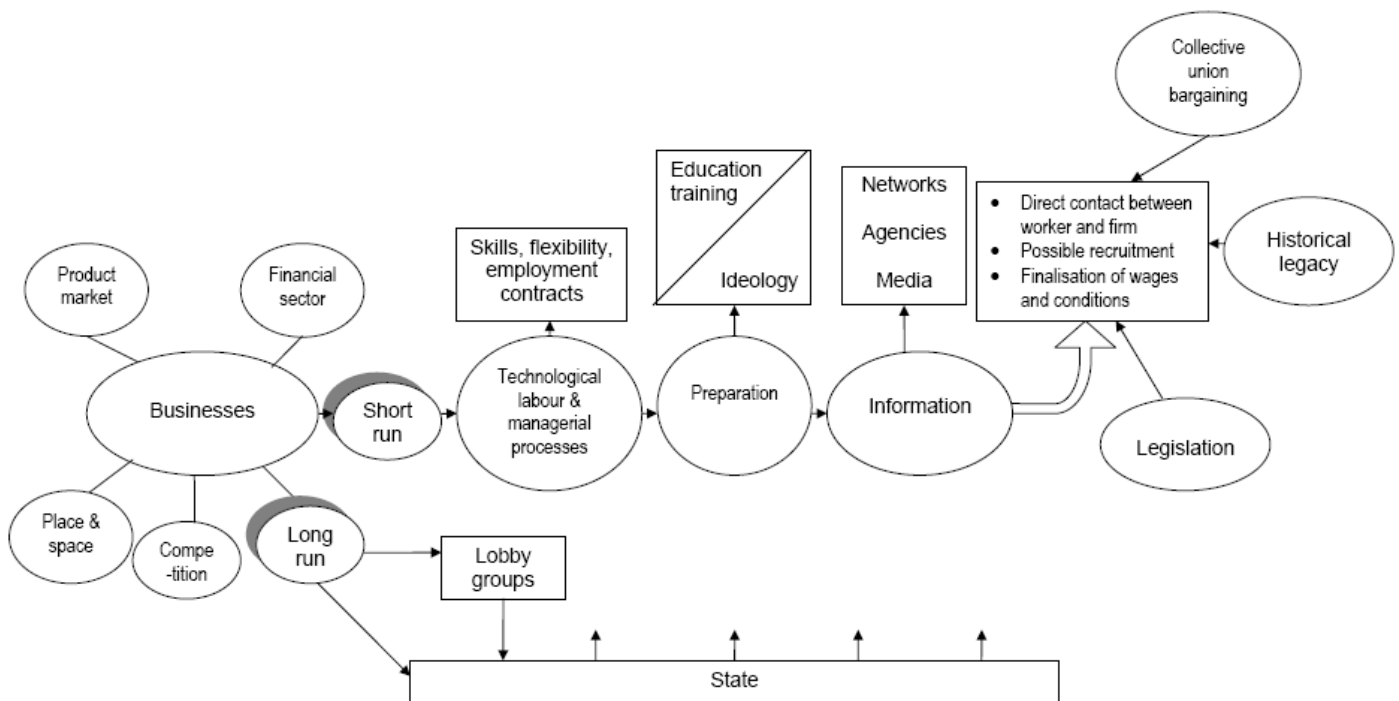
Orthodox labour economists are, of course, aware that social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes are involved in determining the quality and quantity of labour supplied. But the moment these things are allowed into the model of labour supply, however, the model ceases to ‘work’. The idea of a simple choice between working an hour more or an hour less because of a change in taste, non-wage income, or wage rates, evaporates, as does the idea that

investment in more human capital leads to better jobs and higher pay. Uncertainty, indeterminism and unpredictability arise and the supply function evaporates.

Let me sum up step three. For any individual to successfully negotiate the various stages just sketched and, thereby, to successfully supply their labour services, s/he must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*.

### 3.4. Step 4: The stages undertaken by a typical demander of labour services: second cut

This section returns to the typical demander of labour, but in this ‘second cut’, more complexity is added by introducing those *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes* that were abstracted from in step one.



### **External environment surrounding the firm**

Different firms are located in different environments. They operate in different product markets and so are influenced differently by the nature of product market demand (differences in the fluctuation of demand for the product, or the degree to which this demand is seasonal or uncertain); they operate in place and space, so their operations might be local, domestic or international; they operate with different degrees of competition; and are related to different financial institutions. The structures, institutions and organisations that make up this external environment exert a direct causal influence on the firm and, therefore, an indirect influence on labour markets. This is, of course, well known and expressed in the idea that labour is a *derived demand*. But the causal influence of the social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes that make up this external environment do more than merely cause the firm to alter the quantity of labour it demands. Operating in a product market where demand for the product is erratic and unpredictable, for example, does not just cause the firm to alter the quantity of labour demanded. It may also cause the firm to re-design its employment relations and make use of temporally flexible labour supplied by an agency. Changes in the way financial organisations operate, to cite another example, exert a direct causal influence on the firm and, therefore, an indirect influence on labour markets. Firms subject to take over by Private Equity Finance firms, for example, often change the nature of employment relations, derecognising unions and altering terms and conditions. In both these examples, a change in the external environment caused not just a quantitative, but a qualitative change in the nature of labour markets.

### **Firms, the long run, preparation and information**

Private sector firms, especially Trans-National-Corporations, but not excluding Small to Medium Sized Enterprises are, arguably, the most powerful and influential organisations in society. Their primary objective is, of course, to generate and sustain a level of profit that allows them to remain in business - although they have various strategies for meeting this goal. Because the way

labour markets operate has a significant impact upon this objective, those who own and/or control firms often use their power to, along with other agencies, make labour markets work, and make them work in ways that suit their needs.

In the long run the firm initiates a whole range of actions that, over an extended time period, impacts upon the technology, labour and management processes occurring within the firm. This action can be done directly via the firm operating outside its boundaries, or indirectly via intermediaries such as the employers' lobby groups and national and supra-national institutions –of which more below. Firms undertake a variety of preparatory activities such as shaping and in some cases delivering education in schools, colleges and universities. Firms also play a role in creating recruitment and supply networks, employment agencies and the media responsible for advertising vacancies. Let us consider some examples.

A firm that recruits exclusively, or predominantly, from a particular group of workers, partly constitutes a labour market with characteristics that reflect the characteristics of these groups. For example, firms that explicitly recruit women, a particular ethnic minority, immigrants, youth, disadvantaged youth, or non-union workers, partly constitute female, ethnic, migrant, youth, disadvantaged youth, or non-union labour markets. Firms do not always just respond to the local labour market supply, they are often heavily involved in making it.

Some firms make use of *employee* or *family friendly* practices such as: flexi-time, term-time working, voluntary part-time, job-share, compressed working weeks, shift swapping, self rostering, time off in lieu, sabbaticals and career breaks. Some firms make use of *employer friendly* flexible working practices such as: involuntary temporary working and involuntary part-time working, zero hours contracts, unsocial hours working such as twilight shifts, 24 hour rotations, Saturday and Sunday working, overtime (especially enforced and/or unpaid), annualised hours, stand-by and call-out arrangements, seasonal work and job-and-finish. Labour markets characterized by all or some of these practices, can be called flexible. What is important for this context, is that it is



the actions of firms that determine whether local labour markets are predominantly employee or family friendly, or employer friendly.

Some firms actively encourage union recognition whilst others hire anti-union advisers, or use legislation to resist unionisation. Even where firms directly encourage union recognition, their motives are complex, and rooted in political and ideological strategies. Many firms realise they have little to fear from contemporary unions who appear to be less powerful than they were in the past. Firms, therefore, can recognise unions, engage with unions where it suits them (e.g. using collective bargaining to set pay and conditions for large workforces where individual bargaining would be too time consuming) and ignore them when it does not, whilst presenting themselves as being good employers who care enough about their workforce to let them have a union. Firms who engage with unions in these ways are, via this action, causally implicated in unionised labour markets where unions are 'hollow shells'. Firms that encourage or discourage union recognition are, via this action, causally implicated in making unionised or de-unionised labour markets.

### **The firm and the division of the workforce**

I noted above that the labour market is causally implicated in re-enforcing some of the divisions of the workforce, and amplifying the consequences of others. I also noted that activity in the labour market, typically, reinforces men's and white's relative advantages over women and blacks and so can be considered an indirect or distal cause of this categorical division. But we have to take care here not to reify 'the labour market'. The phrase 'activity in the labour market', means that some people are actively making decisions about other people, and in this context, this often occurs within the firm. It is not 'the firm' that hires a person, it is a dedicated person who can be the sole owner of a small business, an HR manager or a recruitment specialist in an employment agency. Moreover, whoever the person is who is doing the recruiting, s/he is influenced by the rules, conventions, norms and values of the organisation, not to mention the influence of wider social, economic, cultural, political, ideological and social-psychological phenomena, actions

and processes. Analysing phenomena like hiring (and the same goes for firing, placing, promoting and so on) demands that we delve deeply into these matters.

### **The firm and the labour market: the case of education**

Businesses get involved in education to pursue several objectives. One key objective is for businesses to use their knowledge and experience to provide pupils with 'soft skills' like: understanding organisational culture, the roles and responsibilities of employers and employees, how to work in teams, how to communicate effectively, ways of servicing customers and how to present themselves, not to mention 'skills' such as motivation, loyalty, enthusiasm, commitment and a willingness to engage in life-long learning. The unstated objective of this kind of pro-business education is, of course, to create a workforce not only with pro-business ideas and attitudes, but also with suitably lowered horizons vis-à-vis what they can expect from labour markets. Prospective labour market entrants are currently being 'ideologically groomed' as it were, to accept neo-liberal economic ideas and labour market policies as inevitable, perhaps even natural; not questioning the idea that there are no longer jobs for life; recognising that they will have to spend years working on temporary contracts, 'showcasing' their skills, (whilst being grateful to employers for making them 'employable') before being considered for one of the few permanent jobs; believing that having a constantly revolving clutch of dead-end jobs is a way of exercising individual autonomy, and so on. This is not only preparing young people for the labour market and the world of work, it is creating a workforce that suits the needs of business.

### **The firm and lobby groups**

The power and influence of businesses extends beyond their boundaries, because they are able to project it, and have it promoted by a range of local, national, supra-national and global institutions (Fleetwood 2008a). Indeed, the number and influence of organisations promoting business has grown remarkably over the last decade. See Farnsworth (2005: 66-7) for a list. There is also evidence of linkages between national and EU businesses and

Intergovernmental Organisations (IGOs) meeting through international business-coordinated meetings such as the World Economic Forum (WEF). These organisations represent some of the most important global businesses and 'the importance of their members alone is enough to guarantee that they have good access to policymakers at various levels' (Farnsworth 2005: 67). UK businesses, for example, have lobbied hard to ensure that the UK government does not capitulate to a EU agenda that they feel will restrict firms ability to be flexible. There is no need to presume that these lobby groups share an identical platform or seek the same detailed policies. All that is necessary is that they share a loose commitment to the following (current) ideas: to transform social policy so that it reduces disincentives to work; halt the propensity towards early retirement; reduce the burden of non-wage costs; promote supply-side measures such as improving education and skills training; provide more business-centred, demand-led, education and training; promote flexible working arrangements and labour markets; discourage interference with flexible wage rates and working hours; and reduce state expenditure and reduce the burden of taxation (Farnsworth 2005). The remarkable thing is that most of these ideas have found their way not only into the dominant policy discourse, but in many cases, into actual policy, strongly suggesting that the lobby groups sponsored by business are relatively successful.

### **The state**

When the state is mentioned by orthodox labour economists, it is either to discuss its role as an employer, or to measure the effects of this or that state action on labour market outcomes, typically, wage rates, supply and demand of labour and speed of adjustment. The nature and detailed functioning of the state, however, remains unexplained: the state remains an unopened 'black box'. Whilst there are several theories of the state, there is no need to associate with any one of them in this paper: we simply need to consider some of the activities that the state performs such as: maintaining the sexual division of labour, and existing family arrangements; legislating, regulating and shaping the education system and various other systems designed to

inculcate pro-business ideas into the workforce; influencing the ideological climate in which labour market activity occurs such as the industrial relations climate and much else besides. To push the latter point a little, which social scientist or economist interested in UK labour markets would, for example, deny the crucial role of the Thatcher government in fundamentally altering the balance of political power between unions and employers in the UK in the 1980s? Yet I have never come across an analysis of this in orthodox labour economics theory.

The general point, however, is this. If the state takes action, and that action is, in part, constitutive of labour markets, then a sophisticated analysis of the state, and its action, must be included in an analysis of labour markets. Let us consider three examples of this.

### **The state and welfare policies**

One aspect of the state that orthodox labour economists do investigate is its involvement in making various transfer payments that impact on labour market outcomes. But the politics and ideology underlying these payments is virtually ignored. Consider for a moment, taking a slightly different approach to welfare to work policies. Instead of asking the usual questions (e.g. 'is the level welfare payment X causing individuals to pursue rational, but damaging actions such as withdrawing, fully or partially, from supplying their labour?'), let us ask different ones. Is the real, but un-stated, purpose of welfare to work policies, essentially, to create a climate where the unemployed feel morally obliged to take the first job that comes along, even if it has appalling pay and conditions? Might it not be better to pursue policies that make employers feel morally obliged to offer better quality jobs at 'fair' rates of pay? (Peck and Theodore 2000: 123 & 133). These are rhetorical questions, and I do not intend to answer them here. They are designed simply to demonstrate the possibility that the state can take all kinds of actions that are never questioned by orthodox labour economics because it cannot look into the political and ideological realm.

### **The state and the education system**

The British state, for example, has been extremely active recently in allowing business to influence the form and content of education. Government departments work closely with businesses, schools and private sector education providers to ensure that businesses play a role in setting the curriculum and designing and delivering courses. All 14-19 year olds in the UK, for example, can now formally study courses like *Certificate in Job-Seeking Skills*, *Certificate in Preparation for Employment*; *Certificate in Career Planning*; *Certificate in Personal, Teamwork and Community Skills*; *Certificate of Personal Effectiveness* and *Qualification in Skills for Employment*. The OCR *Certificate in Career Planning* even has sections dedicated to *understanding labour markets*.

### **The state and the family**

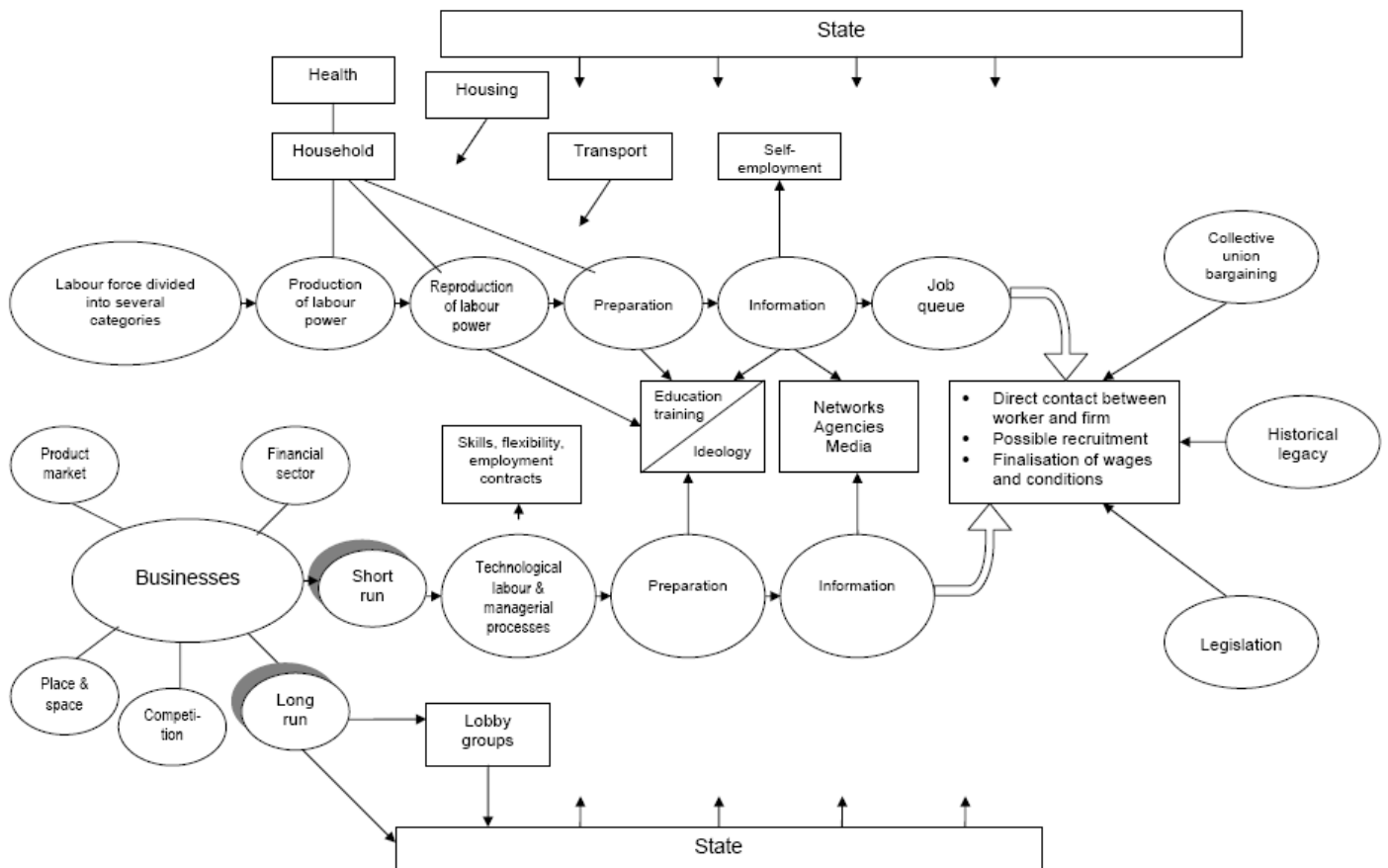
The relation between changing forms of family structures and changing modes of production, and hence changing forms of business structure, state structure and labour markets, is by no means straightforward (German 1989; 2007; Seccombe 1993; 1995). Throughout the history of capitalism, businesses (and *proto* businesses, often acting via state agencies, have taken measures to influence dominant family types. This has often involved attempts (successful or otherwise) to regulate things like marriage, sexuality, conception, contraception, abortion, childbirth, childrearing and provision for elderly care of the working class. In these cases, businesses often encouraged the state to legislate in its favour. Seccombe charts the twists and turns of this ranging from interventions in marriage following the labour shortages due to the Black Death; via poor law wardens forbidding the poor to marry to prevent them becoming a future tax burden on the parish; to the factory acts of the mid-nineteenth century that changed the nature of the family and paved the way for the 'family wage' - and rightly or wrongly, the family wage underlies a great deal of labour market activity and policy today. Summing up developments from the late nineteenth century to date, German writes:

Time and again those proposing...the demands of women's liberation...came up against the limits of class society. At their root was the clash between demands for equality, whether they were for free nurseries or equal pay, and the refusal of employers and governments to accede seriously to these demands, for fear that the costs would eat into their profits and make them uncompetitive with their rivals (German 2007: 16).

Let me sum up step four. For any individual firm to successfully negotiate the various (long run) stages just sketched and, thereby, to successfully recruit the suppliers of labour services, it must engage in, and with, a range of *social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes*.

### 3.5. Step 5: A trans-disciplinary (proto) model of labour markets.

The previous four steps, each one based upon a range of valuable insights drawn from socio-economic literature, can now be brought together to an overall outline of a trans-disciplinary (*proto*) model of labour markets. There is no need to add a narrative to the diagram, as I would simply be repeating claims made above.



## Conclusion

Now that we have a trans-disciplinary (*proto*) model of labour markets, two questions arise: Where do we go from here? How might this model, or a developed form of it, be used? In conclusion I want to deal with these two questions.

Where do we go from here? It seems to me that the next plausible step is to transform the model of labour markets outlined above from a *proto* model to a more elaborate, more detailed model. This will require each of the four steps to be re-visited and, in-keeping with the technique of successive approximation, each of the key social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes will need to be elaborated upon in far greater detail. I am currently engaged in writing a book that does precisely this. I envisage that a separate chapter would be needed for each of the primary phenomena, actions and processes, although some of the secondary phenomena, actions and processes could perhaps be 'bundled' together for purposes of saving space. Hence, whilst a separate chapter would be required, for example, on households and the state, it is possible that health, housing and transport might be 'bundled' together. At the end of the book, but not before, the model would have the elaboration and detail, and hence explanatory power, required to make it a *bone fide* model of labour markets.

How might such a more developed, more detailed, trans-disciplinary model be used? It would provide researchers with a kind of map of the terrain, allowing them to see how the social, economic, cultural, political, ideological and social-psychological components that constitute labour markets are produced, reproduced and transformed, by whom and for what ends. It would not, of course, be necessary for a researcher to trawl through the whole model every time s/he wanted to deal with one particular aspect of labour markets.<sup>19</sup> But having access to this trans-disciplinary model would encourage us to think more carefully about just which phenomena can, and cannot, be abstracted from in the analysis of any particular aspect of labour markets. Consider, by way of an example, a researcher interested in explaining gender

discrimination as a necessary first step to offering policies to tackle it. The model would assist in differentiating those social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes that must be included in the analysis from those that can legitimately be abstracted from. This might involve the researcher looking into the ways in which women are encouraged, and men discouraged, from performing domestic labour, coupled with the reluctance of the state and business, to significantly change the current arrangements because at present the costs are not borne by them, but by women as they provide unpaid labour.

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## Notes

<sup>1</sup> The term '*proto*' model expresses the fact that the model is at an early stage of development.

<sup>2</sup> Whilst I am critical of some aspects of the socio-economic approach, I essentially adopt this approach myself. I am, however, extremely critical of the orthodoxy. There have been many criticisms levelled by socio-economists of the orthodox model, too many in fact to cite. For my own critiques see Fleetwood 1999a, 2001b, 2006, 2007.

<sup>3</sup> See Nurmi (2006) for an up-to-date discussion of modelling in orthodox economics. It should be noted, however, that he appears ignorant not only of the critiques of the approach he defends, but also of developments in meta-theory over the last couple of decades.

<sup>4</sup> Whilst Manning's (2003) recent attempts to model imperfect, monopsonistic labour markets might be considered by some as a major advance (although many orthodox economists reject his approach) from the perspective of socio-economics, it remains firmly wedded to the orthodox tradition in terms of theory and meta-theory, and still gives hardly any insights into the nature and operation of institutions. The same goes for Garibaldi (2006).

<sup>5</sup> See Fleetwood (2008 b & c) and Hodgson (2006a), for elaboration of some of these terms.

<sup>6</sup> Saint-Paul (2000) is a good example of this. Misleadingly entitled *The Political Economy of Labour Market Institutions*, it contains virtually no insights into the nature of institutions: in fact they are not even defined.

<sup>7</sup> See Fleetwood 1999a for a critique of the economics of trade unions.

<sup>8</sup> See (Blanchard & Wolfers 2000; Maurin & Postel-Vinay (2005); Duque, Raos & Surinach (2006); Clar, Dreger & Ramos (2007); Koeniger, Leonardi & Nunziata (2007). Even work by, for example, Blau and Kahn (1996); Ayala, Martinez & Ruiz-Huerta (2002); Hancke & Rhodes (2005); Ebbinghaus & Kittell (2005) who have a far greater understanding of the way institutions operate, do not probe the way these institutions work, but end up playing the 'measurement game' with a handful of institutions.

<sup>9</sup> We need to tread carefully here as the term 'New Institutionalism' means very different things for, on the one hand, economists and on the other hand, those operating with a more sociological or political economy perspective – i.e. those whom I describe below as 'socio-economists'. I use the term 'New Institutionalism' to refer *only* to those operating within orthodox economics. Even here matters are not straightforward because within economics are found (Old) Institutionalists following Veblen, and exemplified in the contemporary work of Hodgson (2006a & b). Old Institutionalists (whom I mention below) have virtually nothing in common with New Institutionalists. Indeed, I consider Old Institutionalism as part of the 'socio-economic' approach, and New Institutionalism as part of orthodox economics. New Institutionalists, essentially, do no more than 'modify or broaden the mainstream



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toolkit' (Rogers 1994: 6). Furthermore, New Institutionalism, has nothing to do with those versions of Institutionalism found in sociology or political economy, such as the version advocated by the likes of Powell & DiMaggio (1991) or Granovetter (1992). See Nielsen (2006) for an excellent overview of the varied meanings of 'institution' in economics and wider social science.

<sup>10</sup> Bizzarely, in a paper that cannot by any stretch of the imagination be described as 'realistic' Selod & Zenou (2006) seem to value realism, mentioning it in a couple of places, and demonstrating certain conclusions 'under reasonable conditions' (1058). They are, however, quite happy to assume 'workers are risk neutral, optimally decide their place of residence...consume the same amount of land' and 'workers live forever, vacancies are filled according to a random Poisson process...' and so on. It is difficult to interpret these as 'reasonable conditions'.

<sup>11</sup> The socio-economic approach is exemplified by the following: Amadeo & Horton (1997); Benner, Leete, Pastor (2007); Block (1990); Bruegel (2000); Burchell, Deakin, Michie & Rubery (2003); Boyer, (1999); Boyer & Smith (2001); Brown (2005); Callaghan (1997); Dugger (1981); Edwards (2005); Edwards & Wajzman, (2005); Fevre (1992); Figart, Mutari & Power (2002); Fine (1998); Folbre (1994); Furaker (2005); Gardiner (1997); Granovetter (1992); Hillard, & McIntyre (1994); Hudson (2001); Korczynski, Hodson & Edwards (2006); McGovern (2007); McNulty, P. (1982); Martin (2000); Maurice & Sorge (2000); Michon (1992); Murphy (1993); Mutari & Figart (1997); Padavic & Reskin (2002); Piore (1993); Polanyi (1992); Peck (1996); Picchio (2000, 2003); Pollert (1996); Purdy (1988); Reskin & Roos (1990); Rubery (1997); Rees (1992); Rubery & Grimshaw (1998; 2003); Seccareccia (1991); Segal, (1986); Spencer (2003 & 2009); Standing (1999); Storper & Walker (1983; 1989); Thurow (1975); Villa (1987); Vogel (2000); Western (2005); and Wilson (2004). There are also two large collections by Berg & Kallenberg (2001) and Champlin & Knoedler (2004). Marsden (1999) might also be included here, although his commitment to deductivism and rationality mars his many insights. Others have useful insights about markets in general, but not labour markets *per se*, such as Sayer (2005); Sayer & Walker (1993); Fligstein (2001), Hodgson (2006b) and the collection by Rogers-Hollingsworth (2005).

<sup>12</sup> See Fleetwood (2006, 2007, 2008a) for elaboration of this idea. I might add, in parentheses that I consider labour markets to be akin to Bourdieu's (admittedly vague) conception of a *field* (Waquant 1989 and Jenkins 1996: 78-970). The labour market is a field, consisting of all the social, cultural, economic, political, ideological and social-psychological phenomena and actions involved in coordinating the ideas and actions of those who supply and those who demand, labour services.

<sup>13</sup> Some of the work that has inspired my own ideas and hinted at possible alternative models are Storper & Walker (1983); Tilley & Tilley (1998); and three decades of work inspired by Frank Wilkinson on Production Systems, and culminating in the collection by Burchell, Deakin, Michie, Rubery (2003).

<sup>14</sup> I use the term 'meta-theory' to refer to ontology, epistemology, methodology (and research techniques) and aetiology. To engage in meta-theorising is to engage at a different 'level' as it were, than to engage in theory. A theory of (say) how labour markets are transformed is different to (say) the ontology that underpins this theory.

<sup>15</sup> Key works on critical realism within the economics discipline include Lawson (1997 & 2001); Lewis (2004); Fleetwood (1999b) and Downward (2003). Edwards (2005) has recently extended this into industrial relations.

<sup>16</sup> The term 'causal mechanism' is a *portmanteau* term for a range of causal phenomena I summarised above using the phrase social, economic, cultural, political, ideological and social-psychological phenomena, actions and processes

<sup>17</sup> I say 'minimally' because there are other criteria that need to be met for something to be said to be a *bone fide* theory, such as falsifiability, generalisability, verisimilitude and parsimony.

<sup>18</sup> This debate has several dimensions to it such as: whether or not men extract 'surplus value' from their female partners in much the same way as capitalists extract surplus value from their workforce; how unpaid domestic labour contributes to the accumulation of capital; whether women should be paid for housework; whether or not all men benefit from women's exploitation, or just some men – i.e. capitalists etc. On the 'domestic labour' debate, see: Beasley (1994); Beechey (1987); Bubeck (1985); Cockburn (1991); Delphy (1977); Delphy & Leonard (2001); Eisenstein (1979) Folbre (1982); Fox (1980); Gardiner (1980, 1997); German (1989); Hartmann (1979); Himmelweit (1993); Himmelweit & Mohun (1977); Kuhn & Wolpe (1978); Mies (1988); Pilcher (2000); Quick (1992); Picchio (1992); Sargent, (1981); Vogel (1983, 2000); Walby (1987); Windebank (2001)

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<sup>19</sup> No-one would argue that we should run through the whole orthodox labour market model to deal with one aspect of labour markets, so in this respect, the two models are no different.

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