

## Sketching a Socio-Economic Model of Labour Markets<sup>1</sup>

### Introduction

In replying to arguments that they underplay labour markets and overplay institutions, Grimshaw, Rubery & Figueiredo (2005: 420) insist that, whilst we 'ought not to ignore the role of markets', we need a 'broader conception of the market than the one described in neoclassical economics textbooks'. Unfortunately, *conceptions* (i.e. *theoretical representations* or *models*) of labour markets, other than the neoclassical model, are virtually non-existent and those that do exist are not well elaborated. This creates difficulties for anyone who considers the neoclassical, or orthodox, model to be fatally flawed. The model might be fatally flawed, but at present there is no alternative. The objective of this paper, therefore, is to start work on an alternative, by offering the first sketch of what I call a *socio-economic model of labour markets*.

Fortunately, there is no need to start from scratch. The raw material for this alternative model exists in the valuable *insights* (i.e. *ideas, concepts, theories, observations and empirical data*) about the nature and operation of labour markets held by 'socio-economists of labour markets'.<sup>2</sup> Their *oeuvre*, the '*socio-economics of labour markets*,' consists of social scientists who study labour markets from disciplines like labour law, industrial or employment relations, human resource management, education research, socio-health studies, industrial organization theory, organisational and management theory, social theory, sociology of work and employment, state theory, urban geography, women's studies, working life science and so on. It also consists of heterodox labour economists such as Feminists, Institutionalists,<sup>3</sup> Marxists, Post-Keynesian's, Segmented Labour Market theorists and the Societal Effects and Regulation Schools, those who treat labour markets as key parts of *Systems of Production, Business Systems, Welfare Systems* and *Employment Systems*, some of those taking a *Varieties of Capitalism* approach, and many of those who specialise in international comparative labour market analysis. There are far too many of these insights to list, but some of the more well-known insights, will form the basis of the model sketched in section three.

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<sup>1</sup> I wish to thank the following people for extremely useful comment on previous drafts of this paper: Andrew Brown, Damian Grimshaw, Jan Karlsson, Jamie Morgan, Andrew Sayer and David Spencer.

<sup>2</sup> I consider myself a member of this group, some of whom are as follows: Berg & Kalleberg (2001); Benner, Leete & Pastor (2007); Block (1990); Bruegel (2000); Burchell *et al* (2003); Boyer (1999); Boyer & Smith (2001); Brown (2005); Callaghan (1997); Campbell & Duffy (1992); Doogan (2009); Dugger (1981); Figart, Mutari & Power (2002); Fine (1998); Folbre (1994); Furaker (2005); Gardiner (1997); Glucksmann & Nolan (2007); Granovetter (1992); Hillard, & McIntyre (1994); Hudson (2001); McGovern (2007); Maurice & Sorge (2000); Mutari & Figart (1997); Polanyi (1992); Peck (1996); Picchio (1992, 2003); Purdy (1988); Reskin & Roos (1990); Rubery (1997); Rubery & Grimshaw (1998; 2003); Rubery & Wilkinson (1994); Segal (1986); Standing (1999); Storper & Walker (1983); Tilly & Tilly (1998); Thurow (1975); Villa (1987); Vogel (2000); Watson (2002); Western (2005); Whitley (2000); Wilkinson (2003); and Wilson (2007).

<sup>3</sup> (Old) Institutionalists have little in common with New Institutionalists or Neoinstitutionalists who are, arguably, still orthodox economists because they merely 'modify or broaden the mainstream toolkit' (Rogers 1994: 6). See Nielsen (2006) for an elaboration of the varied meanings of 'institution' in economics and wider social science.

At this point, we run into the following paradox: if socio-economists already know so much about the operation of labour markets, why have we not yet managed to build an alternative model? Whilst there are several reasons, the following one stands out.<sup>4</sup> We know what a socio-economic model *should not* look like: it should not look, theoretically or meta-theoretically, like the neoclassical model. But we have no real idea what it *should* look like. And until we have some idea of the kind of thing we should be building, it is going to be difficult to press on and build it. The problem, as I see it, is that we lack the *theoretical* and *meta-theoretical* apparatus with which to synthesize the insights we currently have, to create the model we want.

A handful of socio-economists have recognised the need for some kind of synthesis. Tilly & Tilly's (1998: 71-3) 'Analytical Frame' attempts to synthesise 'key units of work relationships' such as: transactions, contracts, roles, networks and organizations, by telling a 'causal story' about the relationship between history, past relations, culture, bargaining, objectives, and labour mechanisms – i.e. incentives, embeddedness, contracting, autonomy, matching, mobility and training. Beynon *et al* (2002: 26) write of the need for an 'integrated approach', an 'integrated and iterative analysis between the macro and micro and the external and the internal labour market systems'. Rubery & Grimshaw (2003: 51) set themselves the task of overcoming the 'artificial separation' between 'employment systems and production regimes' – and even cite others who have called for more 'fusion' between the insights of various socio-economists (2002: 46). Indeed, the societal systems approach they favour, and the model they offer, as well as the model developed by Beynon *et al* (2002: 27) are certainly moves towards some kind of synthesis. Similar sentiments can be found in the contributions in Burchell *et al* (2003), especially those by Wilkinson (2003), Harvey (2003) and Deakin (2003); Clarke, de Gijssel & Janssen (2000); Berg & Kucera (2008) and Peck (1996). There are also many socio-economists who, whilst not explicitly concerned with attempts at synthesis, nevertheless steadfastly refuse to ignore the interconnected nature of labour markets, institutions, organizations and other phenomena – see Marchington *et al* (2005); Wood & James (2006) and some of the contributions in Berg & Kalleberg (2001) and Champlin & Knodler (2004). The most ambitious attempt to build a socio-economic model of labour markets, however, was done over twenty five years ago by Storper & Walker (1983). Unfortunately they have not elaborated upon their ideas since.<sup>5</sup> Moreover, because they run through a series of alternative models before presenting their own, they do not get much beyond preliminaries which is, again, extremely unfortunate. To the best of my knowledge, then, no-one is currently working on an alternative model of labour markets

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<sup>4</sup> Another reason might be due to the *partial* nature of these insights. Different groups of socio-economists tend to focus, quite legitimately, on specific areas of labour markets: Feminists tend to focus on gender, Marxists on class, labour lawyers on legislation and so on. Being partial does not, of course, make these insights erroneous.

<sup>5</sup> Marsden's (1999) attempt to build a model of labour markets is hampered by his commitment to what I refer to below as 'scientism'. Because of this he ends up, essentially, with an orthodox model with New Institutionalists tweaks.

It is precisely because no-one is currently trying to develop an alternative that I decided to try. The first part of the paper is *theoretical* and builds upon a previous idea that instead of conceiving of labour markets as being embedded in institutions, we should conceive of them as institutions – which I widen and call ‘socio-economic phenomena’. From this, a radically new definition of labour markets emerges that breaks entirely from orthodox labour economics and paves the way for an alternative. Part two is *meta-theoretical* and identifies several useful *critical realist* concepts. Part three puts these theoretical and meta-theoretical developments to work on the insights we already have, and offers the first sketch of a socio-economic model of labour markets.

### **1. Socio-economic theory of labour markets - and beyond**

Neoclassical, or *orthodox*, labour economic theory casts a long, and damaging, shadow over socio-economic theory. Rubery (1997; 347) has spotted this, noting that the ‘dominance of the supply and demand paradigm...leads most economists, even those predisposed to an Institutionalists analysis...[towards] a market based explanation’. If a socio-economic model of labour markets is to be a genuine alternative, it must step out of this shadow and break entirely with the labour supply and demand paradigm.<sup>6</sup>

Let us consider some basics. In order for production of any kind (including services) to occur, appropriately skilled workers must be in the appropriate space/place, at the appropriate time, with the appropriate equipment and with appropriate co-workers. In capitalist modes of production the *coordination of labouring activities* necessary for production to occur is, largely, dependent upon the exchange of the *quasi-commodity* labour for wages and, therefore, on labour markets. Agents enter labour markets in order to try and meet various *employment-related needs*. Workers need wages and employment along with, *inter alia*, career progression, security, voice, control, empowerment, well-being, creative outlet, justice, dignity and so on. Employers (or firms) need profits, which they obtain by producing goods and services and, to do this, they need workers. Workers can only meet these needs by entering into relations of exchange with employers. This is, essentially, why it is a labour *market* and not some other coordinating mechanism, such as a slave system. To summarise, workers need employers, employers need workers, and workers and employers think, consciously or unconsciously (i.e. habitually) that by entering labour markets, these employment-related needs will be met. In this way, labour markets *coordinate* labouring activity.<sup>7</sup>

That most socio-economists take institutions seriously can be inferred from commonly used phrases like, the ‘institutionalised nature of labour markets’, ‘labour markets as institutionalised processes’, the

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<sup>6</sup> This is not to suggest that the forces of labour supply and demand play no role, but that they are merely one set of forces alongside scores of others.

<sup>7</sup> I avoid consideration of how well or badly labour markets perform this coordinating function.

‘institutional embeddedness of labour markets’ and such like. They see the institutions that *embed* labour markets, not the forces of labour supply and demand, as *primarily* responsible for coordinating labouring activity. Taking *institutional embedding* seriously is not, however, the same as having a solid understanding of these concepts. In fact, these concepts need refining before they can do the job we want them to.

### ***From institutions to socio-economic phenomena***

I have argued elsewhere (Fleetwood 2008 a & b, see also Hodgson 2006) that the term ‘institutions’ is often used ambiguously.<sup>8</sup> I will not repeat these arguments, largely, because when socio-economists use the term, it is often as a *portmanteau* term referring to a set of phenomena such as: political (including legal and ideological), economic, social, spatial, cultural (including discursive, linguistic and semiotic), historical, artefactual (including technological) and demographic as well as institutions (including rules, conventions, norms, values and customs) social structures, organisations and mechanisms. The snag with using ‘institutions’ as a *portmanteau* term is that institutions are a component of this set. Yet without a *portmanteau* term of some kind, we would have to run through a very long list of phenomena every time we wanted to generalise. To get around this problem I will replace the *portmanteau* term ‘institutions’ with the *portmanteau* term ‘*socio-economic phenomena*’.

### ***Limitations of the embedding concept***

Whilst recognising that labour markets are embedded in socio-economic phenomena has led socio-economists to come up with many valuable insights, there are limitations to the concept of embedding (Fleetwood 2006, 2007, 2008c & 2008d). Essentially, it encourages us to think in terms of *two* entities: one called ‘labour markets’ and the other called (‘institutions’ or) ‘socio-economic phenomena’, with labour markets embedded in socio-economic phenomena. If, however, there really are things called labour markets that are *separate from, but embedded in*, socio-economic phenomena, then where are they located and what do they look like? I tried looking for them and locating them, but to no avail. Indeed, even I found it extremely difficult not think of labour markets in terms of intersecting labour supply and demand curves - albeit embedded in socio-economic phenomena. And then, I had a ‘Eureka’ moment. I realised that there are not *two* entities. There are not labour markets **and** socio-economic phenomena with the former embedded in the latter. There is only *one* entity. ***Labour markets are socio-economic phenomena.*** Labour markets just are, are made out of, or are constituted by, socio-economic phenomena. Different sets of socio-economic phenomena constitute different labour

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<sup>8</sup> I have defined institutions as follows. *An institution is a system of established rules, conventions, norms, values and customs that become embodied or internalized within agents as habits or habitus, via a process of habituation rooted in the nervous system, to assist in rendering (relatively) predictable, the intentions and actions of agents who draw upon, reproduce or transform these phenomena, whilst simultaneously reproducing and transforming themselves and who may, via a process of reconstitutive downward causation, have their intentions and actions transformed.*

markets.<sup>9</sup> This radically new way of conceptualising labour markets, however, demands a radically new way of conceptualising the relationship between labour markets and the people who populate them.

### ***Labour markets and labour market agents***

Critical realists have been at the forefront of developing the 'agency-structure' approach. Because 'structures' is used here as a *portmanteau* term, in much the same way as 'institutions', it makes sense to substitute the term 'socio-economic phenomena' for the term 'structures'. If it helps, think of an 'agency-socio-economic phenomena' approach. Archer (1995, 1998, 2003) has done more than anyone to develop this approach, which she refers to as the 'morphostatic-morphogenetic (M-M) approach'. The basis of the M-M approach is the idea that agents and structures, or agents and socio-economic phenomena are different kinds of things, and are separated in time. Agents are born into a social world that pre-exists them, a world replete with socio-economic phenomena. They did not produce these phenomena but in order to act, they have no option but to engage with them or draw upon them. By drawing upon them, they either reproduce them (hence morphostasis), or transform them (hence morphogenesis). Moreover, as they reproduce or transform these socio-economic phenomena, they simultaneously reproduce or transform themselves as agents. Via this process, both the social phenomena, and these agents, continue to exist into the next period.

Let us put this in the context of labour markets. Labour market agents are born into a pre-existing world replete not only with socio-economic phenomena in general, but with the social structures and discourses of gender in particular. In order to act in labour markets, they must draw upon these structures and discourses. By drawing upon them, they reproduce or transform them. As they reproduce or transform them, they simultaneously reproduce or transform themselves as classed and gendered labour market agents. Via this process, some of the social structures and discourses of gender that constitute labour markets, and the gendered labour market agents, continue their existence.

Allow me to give another example. Workers<sup>10</sup> are born into a pre-existing world replete with, *inter alia*, social structures of class, laws, rules and discourses governing the legitimate and acceptable exchange of labour services for wages. These (and other) socio-economic phenomena ensure that labouring activity is a quasi-commodity. And this quasi-commodity, labour, is traded in labour markets. In order to act in labour markets, then, workers must draw upon these social structures of class, laws, rules and discourses. By drawing upon them, they reproduce or transform them. As they reproduce or transform them, they simultaneously reproduce or transform themselves as sellers of the quasi-commodity labour power. Via this process, the social structures of class, laws, rules and discourses governing the

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<sup>9</sup> The well spring of this idea is found in Brown (2005: 922); Berg & Kalleberg (2001: 12) and (Rubery & Wilkinson 1994: 14).

<sup>10</sup> I could do the same for employers, but the same point can be made with the example of workers.

legitimate and acceptable exchange of labour services for wages that constitute labour markets, and workers as commodified agents, continue their existence.

By combining the ideas set out in this section, I arrive at the following definition.

*Labour markets, as social mechanisms that coordinate the labouring activity of society, are sets of socio-economic phenomena that are reproduced or transformed by labour market agents who draw upon these phenomena in order to engage in actions they think (consciously or unconsciously) will meet their employment-related needs.*

Several noteworthy things arise from this definition.

First, this definition is entirely different from orthodox conceptualisation where a labour market is defined, typically, as: 'the "place" where labour supply and labour demand come together, to determine the prices and quantities of labour services exchanged' (Bosworth, Dawkins & Stromback 1996: 3).

Second, this definition *appears* to be an identity statement - i.e. labour markets = the socio-economic phenomena that constitute labour markets. This *appearance* comes only from the fact that the socio-economic phenomena are not specified. The reason they are not specified is, quite simply, because there are too many of them to include in a definition. It is not, however, difficult to specify these socio-economic phenomena, making it a *bone fide* definition.

Third, this definition is abstract. But it can be made less abstract by including more socio-economic phenomena, and then specifying each one more elaborately. Whilst below I simply assume the existence of child-youth-adult transition through education and training systems, for example, only the word limit prevents me from elaborating upon the range of education and training organisations involved in a country, or in different countries.

Fourth, this definition is *general* and *universal*. It makes no reference to the particularities of labour markets in different spatio-temporal locations and the socio-economic phenomena that constitute labour markets remain unspecified. There are, however, limits to its generality and universality. It is constructed with labour markets in *developed* economies in mind, not newly developing countries and whether it would apply to transition economies would depend on the economy in question.

Finally, it is important to fully grasp what I am *not* claiming. It is often claimed, implied or hinted that labour markets are *shaped*, *influenced*, *deeply associated* or *intertwined with*, or *enmeshed* or

embedded in, institutions or socio-economic phenomena.<sup>11</sup> I am *not* claiming this. I am claiming, instead, that labour markets *are* socio-economic phenomena. This is a different, and far more radical, claim.

## 2. Meta-theory

The meta-theory underpinning orthodox labour economic theory also casts a long, and damaging, shadow over the meta-theory underpinning much socio-economic theory. If a socio-economic model of labour markets is to be a genuine alternative, then it must step out of this shadow and abandon the meta-theoretical apparatus used by orthodoxy – **i.e. the quasi-positivist philosophy of science, consisting of: the deductive method;<sup>12</sup> the preoccupation with quantification, mathematics and inferential statistics; the atomistic ontology of events; aetiology based on event regularity; and empiricist epistemology based on observed events.** I have referred to this meta-theoretical apparatus elsewhere as ‘*scientism*’ (Fleetwood & Hesketh 2010a). Critical realists (and others) have provided an extensive critique of scientism, which I will not repeat here, except to note the following. Scientism must be abandoned, if for no other reason than its inability to deal adequately with (or gloss) the kind of socio-economic phenomena that are at the heart of virtually all socio-economic insights – see fn 24.

Now, many socio-economists are critical of scientism; many have a ‘gut feel’ for (something like) critical realism; a small number explicitly use critical realism,<sup>13</sup> but generally speaking, most have overlooked meta-theory. The result of this is that whilst socio-economists have a good idea what an alternative model should *not* look like, we have no real idea about what it *should* look like. This is where critical realism comes in because it helps us to see what such a *model* should look like.

Critical realists have recently contributed significant meta-theoretical insights into non-orthodox economics. Whilst a substantial literature now exists, I am limited, in this paper, to merely stating those critical realist concepts necessary for sketching the socio-economic model of labour markets. For further elaboration, please see these references.<sup>14</sup>

### **Ontology and aetiology**

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<sup>11</sup> For example: ‘[L]abour market actors are very seldom guided by price signals alone, since they are embedded in a network of social relations which...largely shapes their behaviour and determines the outcome’ (Regini, 2003:11).

<sup>12</sup> The *method* used by orthodox labour economists is an *ad hoc* jumble of ambiguous quasi-positivist ideas, drawing upon variants or combinations of the deductive-nomological, hypothetico-deductive, inductive-statistical and/or covering law model. Following Lawson (1997; 2003) I refer to this method as the *deductive method*.

<sup>13</sup> Storper & Walker (1983) explicitly use critical realism, as does Lovering (1990). Beynon *et al* (2002: 34-36) note briefly that critical realism ‘fits well with our analysis’. Figart, Mutari & Power (2002: 58-63) use Practice Theory, which seems consistent with the M-M approach.

<sup>14</sup> Key critical realist work in economics includes Lawson (1997 & 2003); Fleetwood (1999b); Lewis (2004); and Downward (2003). Edwards (2005) has recently extended this into industrial relations. Fleetwood (1999a, 2001a, 2001b, 2006, 2007, 2008c & 2008d) uses critical realism in a labour economic context. Fleetwood & Hesketh (2010a) elaborates at length on critical realism, and offers an extensive critique of scientism.

The social world is *transformational* in the sense elaborated above in the section on the M-M approach. The social world is also *layered* in the sense that there are three levels: the *empirical*, *actual* and *'deep'* – wherein lie various *causal* mechanisms (part of the set of socio-economic phenomena) that govern the flux of empirical events. These three dimensions are *out of phase* with one another. The effect of this is to complicate the relation between the operation of some causal mechanism and the events it governs. Any causal mechanism(s) governing the flux of events do so *tendentially*: causality is present where causal mechanisms act *tendentially*. Tendencies, for critical realists, are not some kind of under-elaborated, under-conceptualised 'rough and ready' event regularity. In fact, tendencies are not events at all. Tendencies are *the way of acting* of causal mechanisms.<sup>15</sup>

### **Open and closed systems<sup>16</sup>**

The fact that causal mechanisms and the events they govern are out of phase with one another, makes *event regularities* most unlikely to occur in the social world. Causal mechanism  $CM_1$  may be in operation, tending to bring about event  $E_1$ . But event  $E_1$  is also likely to be influenced by causal mechanisms  $CM_2, CM_3, \dots, CM_n$ , operating somewhere else in the social system. This makes a simple cause-effect relation between  $CM_1$  and  $E_1$  most unlikely. Critical realists refer to systems displaying *event regularities* as *open systems* and those displaying no event regularities as *closed systems*. From a scientific perspective, *causality is based upon event regularity* such that if some event ( $x$ ) is regularly conjoined with another event ( $y$ ), then causality is assumed to be present. This gives rise to a conception of causal laws as event regularities expressed, typically, as functional relations  $y = f(x_1, x_2, \dots, x_n)$ . Amongst the most well known laws in orthodox economics are the so-called laws of labour supply and demand – indeed, these laws define labour markets.<sup>17</sup> These laws, expressed in the form of  $L_d = f(w)$  and  $L_s = f(w)$ <sup>18</sup> not only presuppose a simple cause-effect relation between wages and quantities of labour services, they also presuppose the labour market to be a closed system.

Most orthodox economists do not use this terminology. This is unfortunate, because if they did, they would spot the following contradiction. On the one hand, their conception of laws is intelligible only if it is based upon the presupposition of event regularities, and hence closed systems. On the other hand, they often deny that such a simple cause-effect relation characterises the laws of labour supply and demand, and hence implicitly recognise open systems. It is in recognition of the latter that they either conceptualise these laws stochastically; and/or why they fall back on the idea that these laws are

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<sup>15</sup> For elaboration on tendencies, see Fleetwood (2009, 2010b, 2010c) and Fleetwood & Hesketh (2010a chapter 6).

<sup>16</sup> There are several theoretical and empirical arguments that make the open/closed systems distinction stronger, but I cannot go into them here. For elaboration on these systems see Lawson (2003); Chick & Dow (2005); Dow (2006); Fleetwood (2006); Mearman (2006); and Bigo (2006). For elaboration on stochastic closure see Fleetwood & Hesketh (2010a chapter 4).

<sup>17</sup> See Bosworth, Dawkins & Stromback's definition above.

<sup>18</sup> Writing more complicated supply and demand functions does not alter the argument.



tendencies.<sup>19</sup> Expressing event regularities stochastically, however, does not resolve the problem: *stochastically closed systems are still closed systems.*<sup>20</sup> Expressing event regularities as tendencies does not work either because this simply (mis)uses the term ‘tendency’ in an under-elaborated and under-conceptualised manner to mean no more than some kind of ‘rough and ready event regularity’ or ‘rough and ready cause-effect relationship’. The implicit commitment of orthodox economists to causality as event regularity, places a *genuine* account of tendencies out of their reach.

### **Epistemology and methodology**

Whilst in open systems, *prediction* 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 to answers ‘How?’ and ‘Why?’ questions. And such an account is one couched in terms of a set of agents and the causal mechanisms (or socio-economic phenomena more generally) they draw upon and reproduce of transform.<sup>21</sup>

Critical realists insist that theories, or causal-explanatory accounts, must be empirically testable – which does not mean testable via the ‘usual’ battery of statistical tests. In open systems (only) 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 as the objective, and explanatory power as the criterion for evaluating competing theories or causal-explanatory accounts.

### **Theories and models**

The concepts ‘theory’ and ‘model’ have been colonised by orthodox economics and have now become synonymous with scientism in general and mathematics in particular. If socio-economists are to build an alternative model of labour markets, we need to re-claim and re-conceptualise these terms. Unfortunately, there is no consensus on their use and, if truth be told, they are almost always (mis)used without adequate reflection. What follows is my interpretation grounded, of course, in critical realism.

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<sup>19</sup> According to Hamermesh (1993: 58) ‘that there is a *tendency for firms to reduce employment when wages increase and to shift relative employment towards workers who become relatively less expensive* is undeniable’. For Begg, Fischer & Dornbusch (2005: 27) ‘If behaviour shows no systematic tendencies (tendencies to do the same thing when confronted by the same situation) there is little to discuss’.

<sup>20</sup> A *stochastically* closed system might be expressed something like this: the mean (or expected value) of variables  $x_1, x_2...x_n$  are constantly conjoined with the mean (or expected value) of variable  $y$ . Some of the observed values of  $x_1, x_2...x_n$  will, whilst others will not, be constantly conjoined with  $y$  – which is where the ‘rough and readiness’ comes in. The presumption, however, is that ‘enough’ of the values of  $x_1, x_2...x_n$  will be constantly conjoined with  $y$  to make it possible to *presume* a causal relation. Any causality that is presumed to be present, therefore, remains rooted in event regularity, and this is not altered by the fact that the event regularity is only ‘rough and ready’.

<sup>21</sup> Tilly & Tilly (1998: 72) refer to telling a ‘causal story’.

A *theory* is (minimally)<sup>22</sup> a set of statements designed, not to generate a prediction or hypothesis, but a *causal-explanatory account*. A causal-explanatory account, typically, takes the form of a bundle of ideas, stories, concepts, theories, observations and empirical data that, taken together, explain *how* and *why* the phenomena under investigation do what they do.

A *model* consists of a set of causal-explanatory accounts consistently and coherently arranged to *express* (i.e. reflect, grasp, correspond to, or some such) some part of the world. A model is not a (mere) description of reality because it has to simplify and abstract. But simplification and abstraction should not be confused with the practices, also referred to as simplification and abstraction, used in orthodox economics. I have in mind here practices involving the use of assumptions that are *known* to be fictitious, used solely for mathematical tractability – e.g. infinitely lived individuals. To claim that this kind of thing is an ‘abstraction’ is to use it as a fig-leaf to cover meta-theoretical nakedness. The use of *known* fictions fractures the link between concept and object, undermining the requirement that a model should *express* some part of the world, and invalidates whatever ‘explanation’ it generates. A model should, and can, be *abstract and realistic*.

There is, of course, no reason why *theories*, or *causal-explanatory accounts*, have to be mathematical and hence no reason why *models* have to be mathematical. A non-mathematical model of labour markets is perfectly acceptable.

### **Abstraction**

The role of abstraction has played an understated role in critical realism, presupposed by many critical realists, but elaborated upon by very few (e.g. Sayer 1998). Abstraction is an epistemic technique. To abstract is not only to leave out that which is not essential to the analysis at the level of analysis being used, but to leave it out in a way that does not fracture the link between concept and object. There is no gainsaying the difficulty of this endeavour. But we will never begin to abstract properly until we recognise the difference between abstraction and the kinds of practices used in orthodox economics.

Abstraction can shift levels and be used to present a model in a series of steps that move the presentation *from the abstract to the concrete* – where the term ‘concrete’ means something like ‘the concrete as it is thought or conceptualised’. Moving from the abstract to the concrete ought not, however, to be confused with the technique of *successive approximation* which some orthodox economists use to defend their meta-theoretical approach. A small number of the knowingly fictitious assumptions are successively relaxed in an attempt to make the model ‘approximate’ reality. An example of this is the shift from assuming perfect competition to assuming imperfect competition.

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<sup>22</sup> There are, of course, other criteria that need to be met for something to be a *bone fide* theory, such as falsifiability, generalisability, verisimilitude and parsimony.

Unfortunately, the latter still contains scores of assumptions that are known to be fictitious. Moreover, the technique often backfires as, very often, more fictitious assumptions have to be added to shore-up the model as complexity is added. The socio-economic model sketched below, however, contains nothing known to be fictitious.<sup>23</sup>

### ***Pause to take stock***

Combining the theoretical developments of part one, and critical realist meta-theoretical developments of part two, allows us to see what a socio-economic model of labour markets should look like. It should be abstract, realistic, general and universal. It should consist of a set of causal-explanatory accounts, consistently and coherently arranged to explain how and why the socio-economic phenomena that constitute labour markets are produced and reproduced by the actions of workers and employers engaging in actions they think (consciously or unconsciously) will meet their employment related needs.

### **3. Sketching a socio-economic model of labour markets**

In order to avoid becoming distracted when I start sketching the model, please allow me to head-off three potential misinterpretations at this point.

First, the *general* and *universal* nature of the model raises important concerns.<sup>24</sup> Empirical work *by socio-economists* on international comparative labour markets (ICLM) has convincingly shown that very different sets of institutional phenomena, or socio-economic phenomena, exist in different countries. Moreover, these different sets of socio-economic phenomena cause labour markets to work in different ways in different countries, stimulating empirical research into these phenomena. Indeed, this research is often used as a critique of the orthodox model on the grounds that the orthodox model's *generality* and *universality* glosses important socio-economic phenomena.<sup>25</sup> And here two concerns surface. (i) If the socio-economic phenomena that constitute labour markets are so different, then attempting to construct a general and universal model based on some underlying universal properties is doomed to failure because such properties do not exist. (ii) It is difficult to sustain the socio-economic / ICLM critique that the orthodox model's *generality* and *universality* glosses important socio-economic

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<sup>23</sup> Being fallible, I may have made a mistake, but this is an entirely different matter.

<sup>24</sup> I am indebted to an anonymous reviewer for raising these concerns.

<sup>25</sup> Orthodox economists recognise that (what they call) 'institutions' (or 'socio-economic phenomena') influence labour markets. Whilst they might recognise (some of) them, they are unable to deal *adequately* with them. Some orthodox economists 'bolt' a handful of 'institutions' onto the orthodox model, and then proceed to deduce the effects of these 'institutions' on variables like unemployment and wages. Some go one step further and attempt to measure these effects. Yet in both cases (a) nothing fundamentally disrupts the normal *modus operandi*, and orthodox economists carry on pretty much as before; and (b) these 'institutions' are never understood in any depth, nor are they analysed as important phenomena in their own right. To do this would require orthodox economists to step outside their discipline – something they are unwilling and/or unable to do. Some attempt to deal with 'institutions' by transposing them into a form that can be dealt with via the orthodox toolkit, provided some New Institutional tools are added. 'Institutions' are, thereby, transposed into nothing more than under-elaborated restrictions or constraints on a rational agent's maximizing action. The result is an exceptionally emaciated interpretation of institutions. I use the term 'glossing' in recognition of all this.

phenomena, when the socio-economic model under construction is itself general and universal. Now, whilst I understand these concerns, I think they can be accommodated within the socio-economic model I sketch below. Let me deal with them in turn.

i) It is perfectly possible for different socio-economic phenomena, constituting different labour markets, to exist along with underlying universal properties. Whilst matters relating to what exists are ontological, they often get confused with epistemological matters. Let us delve a little deeper with the help of an abstract and universal claim pointed out by an anonymous reviewer. Below I will claim that: 'in the short run, firms are not involved in preparing (i.e. educating, skilling....) the labour force, but operate with the levels of preparation already existing'. In other words, if firms are not prepared to train workers, then they have to take them as they find them. This is an ontological claim about an underlying universal property.<sup>26</sup> It says nothing whatsoever about country-specific socio-economic phenomena. But it could. I could easily augment this with empirical detail and make additional ontological claims about how firms operate with the levels of preparation already existing; about what these levels might be; about the industrial sector we are dealing with; about education or skill-based pay systems; and about the education and training systems at work in the specific country. I could identify those countries with education and training systems that turn-out highly educated workers, implying that even if these workers lack firm-specific skills, their education and training might make it possible for them to turn their hand to the tasks confronting them and do a reasonable job. I could also identify other countries whose inferior education and training systems mean this will not be the case. And so on. The key point to note, however, is that both the first and subsequent sets of claims are ontological; they are claims about the way the world is. But both sets of claims are advanced at *different levels of abstraction*. This makes them look not only as if they are different ontological claims, it also makes them appear incompatible when they are not.

ii) To deal with the second concern, let us consider another general and universal claim I will make below: 'Crewing levels are subject of extensive bargaining which may or may not involve unions or other workers representatives, always involves management and always involves issues of conflict and power.' In-keeping with critical realist meta-theory, and despite the high level of abstraction, this claim is realistic and is *about* a set of socio-economic phenomena. It is derived from insights generated by empirical research into things like technological, labour and management processes, collective bargaining and relations of conflict and power. Set up in this way, the socio-economic model positively encourages us to proceed *beyond* its

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<sup>26</sup> Whilst I consider this claim to be true, if it turns out to be false it would not invalidate the overall argument. I would simply have to find another example.

boundaries, probing ever deeper into the socio-economic phenomena that constitute labour markets, and developing better theory and empirical data. This is in complete contrast to the orthodox model. Here, whilst claims made about crewing levels are general and universal, they are *not* abstract, *nor* are they realistic. They are not *about* a set of socio-economic phenomena, they gloss such phenomena. These claims are no more than *known* fictions about rational individuals responding to marginal changes in factor prices and (in a simple cause-effect manner) resulting in factor substitution. They are not derived from insights generated by empirical research, but are spun out of the 'usual' orthodox axioms and assumptions. The orthodox model positively *discourages* us from proceeding *beyond* its boundaries, probing into socio-economic phenomena, and developing better theory and empirical data, because it could not deal adequately with the socio-economic phenomena it would find and those it did deal with would be glossed. It is, after all, possible to sustain the socio-economic / ICLM critique of the orthodox model whilst constructing a general and universal socio-economic model. Whilst both models are general and universal, only the socio-economic model is abstract and realistic. Moreover, because this model is based on a definition of labour markets as socio-economic phenomena, there is no reason to gloss the latter, and every reason to probe ever deeper into them. And one way to do this is to engage in ICLM research.

Second, whilst the socio-economic model focuses upon workers and employees and related socio-economic phenomena, it abstracts from many other labour market agents and many other socio-economic phenomena. The model largely abstracts from agents working in employment agencies or job centres; macro-economic forces, macro-economic policy and economic recession; supra national, national and local state policy; changing forms of corporate governance and corporate finance; and changes in political ideology to name but a few. There is, however, no way around this: it is the nature of an abstract and general model.

Third, the focus on workers and employers does not imply some kind of socio-economic version of the orthodox model with an elaboration of the supply-side, followed by one of the demand-side, culminating in a worker being recruited by an employer upon the establishment of a specific wage rate. It recognises the centrality of these two sets of agents, but offers a completely different explanation of how they 'find' each other.

Finally, it is difficult to capture any sense of time, movement and recursive or feed-back activity in a sketch. In a moment I will depict a kind of 'life cycle' which looks like it has a clearly defined start, clearly defined finish, and linear progress between the two states. This is not the case and I guard against such a (mis)interpretation. Two examples might serve as a more general warning.

- i) Although the details of pay and conditions might be finalised at the point where the worker is eventually recruited, this should not be interpreted to suggest some kind of self contained exchange carried out between worker and employer *at this point*. Any agreement reached will have been influenced by a complex causal chain of (synchronic and diachronic) factors that led up to this point. 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, are distributed throughout the entire process involving socio-economic phenomena in all the steps sketched here.
- ii) Whilst it appears that the model terminates at the stage when a worker is recruited from the job queue, this is not so. The way a worker negotiates the various stages of the labour market usually continues to exert an influence on what goes on in the workplace. A worker recruited on a temporary contract, for example, might remain uncommitted to the employer years later, even if s/he is eventually given a permanent contract. Moreover, pay and conditions, especially when influenced by collective bargaining, are never finalised in any literal sense, rather, they are always being re-negotiated.

With these potential misinterpretations out of the way, I will now sketch the model in five steps, each one having its own diagram. Steps one and two are at the same level of abstraction. The level of abstraction is lowered a notch in steps three and four. Step five, at the same level of abstraction as steps three and four, brings all the previous steps together. In the diagrams, each circle represents a set of socio-economic phenomena. The narrative that follows adds some detail about the phenomena and processes involved.

### **Step 1. Workers and socio-economic phenomena: first level of abstraction**

The first step is taken by considering some of the socio-economic phenomena that are drawn upon, reproduced or transformed, by *workers* trying to gain employment.

#### ***Diagram 1. Workers and socio-economic phenomena at the first level of abstraction***

Workers are born into a pre-existing world replete with social structures of class, and laws, rules and discourses governing the legitimate and acceptable exchange of labour services for wages. These (and other socio-economic) phenomena ensure that labouring activity is a quasi-*commodity*.

Workers who sell this quasi-commodity are 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) and so on. All workers are located in one, or several, of these categories - although they may be able to move in and out of some of them. Moreover, being located in one, or several, of these categories has an impact upon the way workers think and act in labour markets.

Workers undergo a series of stages from being born to becoming employed, a kind of 'labour market life-cycle'. To grasp the point, imagine a family; that family having a child; that child being brought up and socialised so that s/he is prepared (physically and mentally) for his/her eventual involvement in labour markets; prepared vis-à-vis education and skills; informed about the available jobs; and informed about how to join the labour queue and, hopefully, get recruited. As they attempt to negotiate these stages, workers draw upon socio-economic phenomena - often relative to their categorical location.

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

The totality of workers that constitutes a labour force 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, typically, in some form of family unit. Second, a labour force is not necessarily a *prepared* labour force, 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. A prepared labour force is not necessarily an *informed* labour force. An informed labour force is one that knows about the quality and quantity of available jobs, and knows how to enter the labour queue. A prepared and informed labour force is, however, a social accomplishment. Some of the causal impulses have their origin in labour market agents themselves in the form of their own employment-related needs, although even here, we should be aware of the way these needs can be created in discourse or ideology and are often more than mere subjective preferences. Other impulses come from socio-economic phenomena outside the individual, from, *inter alia*, families, firms and the state, to mention the three most obvious ones – although these will be considered in later steps.

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

At some stage, workers enter the labour queue. Here they 'wait', as it were, for an employer to register an interest in recruiting them. It is here that membership of one, or several, of the above categories has causal implications not only for which labour queue the agent enters, but also for whereabouts in the queue they are ranked. Employers are not neutral vis-à-vis the type of workers they prefer, and in many cases this results in certain categories of workers being overlooked, thereby, remaining in the queue. At some point, workers are recruited from the job queue.

## **Step 2. Employers and socio-economic phenomena: first level of abstraction**

The second step is taken by considering some of the socio-economic phenomena that are drawn upon, reproduced or transformed, by *employers* trying to recruit workers.

### ***Diagram 2. Employers and socio-economic phenomena at the first level of abstraction***

To grasp the point, imagine 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 negotiate these stages and recruit workers it must draw upon a range of socio-economic phenomena.

#### ***Division of firms***

Firms are heterogeneous, divided by size, corporate structure and culture, nature of production (process, manufacturing, extractive, service), the nature of the technology employed, the way they are financed, the stage of maturity, private or public sector, and so on. These factors often play a role in the way firms take actions, some of which are involved in reproducing or transforming labour markets.

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

In the short run, firms will be operating with technological, labour and management processes that have a degree of fixity to them. At any point in time a firm will be operating with a labour force 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 firms make decisions about crewing levels. Decisions about how to coordinate 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. 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, typically, involve a complex set of socio-economic phenomena. Crewing levels are, for example, the subject of extensive bargaining which may or may not involve unions or other workers representatives, always involves management and always involves issues of conflict and power.

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



In the short run, firms are not involved in preparing (i.e. educating, skilling, activating and motivating) the labour force, but operate with the levels of preparation already existing. Similarly, in the short run, firms are not involved in creating the means by which information is transmitted, firms simply know about workers and know how to get them from the labour queue. At some point, workers are recruited from the job queue.

### **Step 3. Workers and socio-economic phenomena: second level of abstraction**

In the third step we re-visit the socio-economic phenomena (of step one) that are drawn upon, reproduced or transformed by workers trying to gain employment. But now the level of abstraction is lowered and more detail is introduced. Diagram 3 illustrates this by the addition of rectangular boxes that represent this additional detail. The arrows are more indicative than literal, intended to show the complexity of the causal relations at work. A literal version would have so many arrows, connecting so many boxes and circles, the basic point would be missed. Diagram 1 is reproduced and shown shaded.

#### ***Diagram 3. Workers and socio-economic phenomena at the second level of abstraction***

### ***Production and reproduction of the labour force***

A prepared and informed labour force is created by agents drawing upon a set of socio-economic phenomena, of which the families, firms and states are central. I will discuss the family here, mention the state briefly, and leave firms for later steps.

### ***The family***

Labouring activity is a quasi-commodity, in part because it is not produced and reproduced via the market: there are no farms producing and selling children. Labour power is produced and reproduced in the family. Whilst Marxists and feminists once crossed swords in the 'domestic labour debate', and whilst this debate has quietly been forgotten, it nevertheless still informs a great deal of our current understanding of the production and reproduction of labouring activity.

Unpaid domestic labour involves a set of tasks such as *caring* for children, elderly people and disabled people, and running the household, where 'caring' has biological and also socio-psychological dimensions. As we know, the main responsibility for *caring* has passed onto the shoulders of women and the ensuing gendered division of labour has three main consequences. First, the family produces a steady supply of (duly socialised) 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 firms get free of charge. 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 labour markets and work, and is largely responsible for various forms of discrimination. Third, firms, (and the state) clearly have an incentive 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. Incidentally, the recent rise of women working part-time has not ended this state of affairs, it has merely altered it.

### ***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. A labour force 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. It is in the family 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 labour markets or not, which segment of labour markets we enter, which industry, occupation or even firms 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 labour market participation, is an extremely complicated process.

### ***Family and the state***

In recent years, and to different extents in different countries, the state has taken a more active role in production and reproduction of labouring activity. Particularly in Scandinavia, state provision of care, funded out of taxation, has gone some way to ameliorating the burden of domestic labour, although even here it has not been eliminated. In other countries such as UK, neo-liberal orientated governments have created the means through which private provision of nurseries and other forms of child care have commodified previously non-commodified caring labouring.

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

From Granovetter's pioneering work, we know that the family extends to kinship networks, and becomes one of the key socio-economic phenomena allowing information to be transmitted 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 actual tasks done, and often not even in the place of work: it has merely resulted in a shift from being an employee to being some kind of sub-contractor.

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

The initial division of the population into several categories 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 workers reside in and this is likely to have an influence on their education and their chances of being recruited (or not) by certain firms. Class is also likely to have an impact upon things like health and longevity, which has implications for things like health insurance and pensions.

### ***Recruitment***

When workers are recruited from the job queue, 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 labour force; the nature of employment relations and the nature; mix of employment contracts etc. This is also where the consequences of the initial categorisation of the labour force come into effect as (say) whites are recruited before blacks.

### ***Collective bargaining, historical legacies and legislation***

The 'final decision' about things like pay and conditions, the nature of employment relations and the nature and mix of employment contracts in operation, is influenced by socio-economic phenomena like collective bargaining and, therefore, labour unions, historical legacies and legislation, especially labour laws.

### **Step four. Employers and socio-economic phenomena: second level of abstraction**

In the fourth step we re-visit the socio-economic phenomena (of step two) that are drawn upon, reproduced or transformed, by employers trying to recruit workers. But now the level of abstraction is

lowered and more detail is introduced. Diagram 4 illustrates this by the addition of rectangular boxes that represent this additional detail. Diagram 2 is reproduced and shown shaded.

The level of abstraction used in step two might have implied that firms are passive entities, simply 'using' labour markets to recruit. This is not quite right. We will see below that firms are 'active' in the sense that many of the actions they take, end up playing a part in reproducing or transforming labour markets. This means firms and labour markets are not actually two separate and independent phenomena, pace the orthodox model, but are inextricably linked.

#### ***Diagram 4. Employers and socio-economic phenomena at the second level of abstraction***

##### ***External environment surrounding firms***

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 socio-economic phenomena that make up this external environment exert a direct causal influence on firms 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 these socio-economic phenomena do more than merely cause firms to alter the *quantity* of labour they demand. Operating in a product market where demand for the product is erratic and unpredictable, for example, might cause a 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 firms and, therefore, an indirect influence on labour markets. Manufacturing 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 causes not just a *quantitative*, but a *qualitative* change in the actions of firms and, as a consequence, a change in labour markets.

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

In the long run, firms take a range of actions that impact upon their technology, labour and management processes. These actions can be taken directly by firms operating outside their boundaries, or indirectly via intermediaries. Let us consider some examples.

Some firms explicitly recruit women, a particular ethnic minority, immigrants, disadvantaged youth, or non-union workers. Through these actions firms play a role in reproducing female, ethnic, migrant, disadvantaged youth, or non-union labour markets.

The way firms react to a downturn is not mechanically governed but open to a degree of managerial discretion. There are several ways of dealing with a downturn, ranging from immediately downsizing and shedding labour, via making alterations to the way existing labour is utilised, managed and new labour recruited, to hoarding labour and waiting for an upturn. Through these actions, firms play a role in producing or transforming slack or tight labour markets.

Firms often make use of temporally flexible working practices such as, *inter alia*, flexi-time, term-time working, job-share, compressed working weeks, shift swapping, self-rostering, shift-working and annualised hours. Flexibility also extends to the mix of the workforce vis-à-vis permanent and thereby relatively secure employment, and temporary or insecure employment. Many firms have shed permanent (core) employees and recruited temporary (peripheral) workers in their place. Through these actions, firms play a role in reproducing or transforming flexible labour markets.

Some firms actively encourage union recognition whilst others hire anti-union advisers, or use legislation to resist attempts by their employees to gain union recognition. Firms that encourage or discourage union recognition are, via these actions, playing a crucial role in reproducing unionised or de-unionised labour markets. Matters are, of course, more complicated than this. Even where firms directly encourage union recognition, their motives are not always as they seem. Many firms realise they have little to fear from unions who are presumed to be less powerful than in the past. These firms can 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 good employers who care enough about their workforce to let them have a union. Through these actions, firms play a role in reproducing or transforming flexible labour markets with unions as 'hollow shells'.

### ***Firms, education, the state and lobby groups***

In the long run, firms are often involved in influencing the state, sometimes directly and sometimes indirectly via outside organisations such as employers' associations, think-tanks and various lobby groups. Indeed, the power and influence of firms 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 organisations.

Some firms have taken a far greater role recently in shaping the education system, and shaping it in ways that meet their needs. This influence might be applied directly (as in the case of UK Academy schools) where firms have some control over the curriculum, or indirectly as firms use various outside organisations to influence the state's education agenda. Through these actions, firms and the state reproduce or transform labour markets characterised by workers who are educated in ways that suit the needs of firms.

The state often plays a crucial role, especially in terms of funding and administering a whole raft of welfare provisions out of taxation. This plays a key role in partially de-commodifying labouring activity and differentiating between labour markets in Coordinated Market Economies (CME's) and Liberal Market Economies (LMEs). In CME's, for example, policies have lifted some of the 'double burden' from the shoulders of women, allowing them to enter labour markets and employment in greater numbers with subsequent effects on the gender pay gap. In LME's, for example, welfare to work policies create a climate where the unemployed feel morally obliged to take the first job that comes along, even if it has relatively poor pay and conditions. Through these actions, the state reproduces or transforms labour markets characterised either by male and female workers being paid relatively equal wages; or by workers who are ideologically prepared in ways that suit the needs of firms.

#### **Step 5: A sketch of a socio-economic model of labour markets**

The four steps sketched above, and their accompanying diagrams, can be combined in a fifth step and expressed in diagram 5. We now have the first sketch of a socio-economic model of labour markets.

#### ***Diagram 5. Workers, employers and socio-economic phenomena that constitute labour markets***

The model is, essentially, an abstract, realistic, general and universal causal-explanatory account of the set of socio-economic phenomena that constitute labour markets. The steps outlines above contain an explanation of how these socio-economic phenomena are produced and reproduced by the actions of workers and employers engaging in actions they think (consciously or unconsciously) will meet their employment related needs.

#### **Conclusion**

Now that we have the first sketch of a socio-economic model of labour markets, what should we do with it? I suggest two things. First, we should make it far more elaborate. I am currently working on a book that takes the model as a starting point, engages in more than the five steps outlined in this paper, and includes far more substantive and empirical detail about the operation of labour markets in each step. Even when the book is finished, however, more elaboration will be needed because, quite simply, no one can possibly come up with a full-blown model of labour markets single-handedly. Second, we can

use the model to inform *theory* and *meta-theory*, *teaching*, *empirical research* and *policy*. Let me conclude by briefly considering these matters in turn.

With a socio-economic model of labour markets, socio-economists can finally step out of the shadow of orthodox economic theory. And this can influence teaching. The usual approach taken by socio-economists is to introduce students to the orthodox supply and demand model and then, later on in the course, bring in the socio-economic phenomena in which labour markets are embedded. This carries with it the danger that students, especially those majoring in economics, focus on the concepts of supply and demand and treat the rest as some kind of 'optional extra'. Now we can introduce students immediately to the socio-economic phenomena that constitute labour markets, simultaneously encouraging them to adopt a trans-disciplinary perspective.

With a critical realist meta-theory, socio-economists can finally step out of the shadow of scientism. Critical realism offers a layered and transformational ontology, a causal-explanatory method, access to a far broader set of research techniques, aetiology based on tendencies, and an epistemology guided by abstraction. This can also influence teaching by allowing us to introduce students straight away to a non-mathematical model of labour markets, thereby, showing that labour economic theory does not have to be a branch of mathematics and statistics.

With a socio-economic model of labour markets, socio-economists can re-orientate empirical research and policy. Empirical research on ICLM, for example, differentiates between LME's that coordinate labouring activity primarily through the price (wage) mechanism or the market, and CME's that coordinate it primarily through institutions or socio-economic phenomena. Unfortunately this presupposes a separation between labour markets and socio-economic phenomena, often reflected in phrases like 'markets versus institutions'. This fuels a research agenda preoccupied with testing predictions about whether it is desirable to have 'more' markets and 'less' institutions or socio-economic phenomena - or *vice versa*. It also fuels policy agendas. Advocates of free markets design policies to remove the socio-economic phenomena they think restrict market forces; whilst their opponents design policies to put institutions or socio-economic phenomena in place in order to minimise the fallout they think will come from market forces. Once labour markets are conceived of as constituted by socio-economic phenomena, different policy and research agendas emerge. Because all economies, even the most liberal, coordinate labouring activity through socio-economic phenomena, the very notion of 'more' markets and 'less' phenomena (or *vice versa*) can be seen as a clear misconception. The socio-economic model not only encourages us to see that policy should focus on designing different sets of institutions or socio-economic phenomena, it also provides some idea of the range of institutions or socio-economic phenomena from which to choose. Finally, with the open and closed system

distinction understood, empirical research can finally abandon prediction in favour of explanation, as the objective of social science.



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