Marino Regini

The dilemmas of labour market regulation

Chapter 1 in: G.Esping-Andersen, M.Regini (eds.), *Why De-Regulate Labour Markets?*, Oxford, Oxford University Press, 2000

1. Labour markets between regulation and flexibility

Labour markets have traditionally been among the most heavily regulated areas of the Western economies, whether by law and the administrative activity of the state, or by collective bargaining, or by corporatist bodies which involve the social partners in labour policy formation and implementation, or, again, by networks of strong or weak ties which constrain the behaviour of labour market actors. Indeed, it is widely recognised that nowhere has any such thing as a ‘market’ for labour ever existed - and not just for the obvious reason that this is a commodity with very special, indeed unique, features (Solow 1990). Even more importantly, labour market actors are very seldom guided by price signals alone, since they are embedded in a network of social relations which, even in the absence of strong institutional regulation, largely shape their behaviour and determine the outcome of their encounter (Granovetter 1985).

To be sure, institutional regulation has additionally helped restrict the scope for pure market clearing. In all mature economies, institutions have come to govern several areas and aspects of the labour market. Some of these areas and aspects are especially relevant to the current debate, not just because they have everywhere been a major focus of institutional regulation, but more importantly because they are the main targets of attacks against the ‘rigidity’ of European labour markets, and arguably therefore in need of greater flexibility.

The first of these areas - the one that most markedly differentiates continental European labour markets from the US - is employment protection, namely the complex set of legislative measures and collective agreements which constrain employers' ability to fire and hire at will. A second area is welfare state benefits for those involuntarily leaving the labour market, and especially such income security measures as the various forms of unemployment insurance. A third aspect of the labour market traditionally subjected to institutional regulation is working time. Finally, wage levels and wage structures have been a primary object of collective bargaining, and in several countries of statutory regulation or tripartite agreements as well.

Several factors account for the emergence of labour market regulation. First, economists themselves are ready to acknowledge that some forms of the institutional regulation of labour markets may have positive economic functions. Of these functions, frequently mentioned are the following: to off-set market failures (Williamson 1975, Lindblom 1977), because labour markets are especially imperfect and failures may stem from uncertainty and asymmetrical information; to increase efficiency, because labour standards compel firms to raise efficiency or go under (Sengenberger and Campbell 1994); to lower costs, because the welfare state greatly assists in socializing the costs of labour reproduction (O'Connor 1973); and to foster mass consumption, because collective bargaining or minimum wage legislation help raise wages in low skill-based mass production (Boyer 1986).

However, economic reasons alone are not enough to explain the widely different extent of labour market regulation in the advanced economies. Nor can they account for the resilience of such regulation. Sociological and political factors - such as the extension of social citizenship rights (Marshall 1964), or the need for consensus by a highly organized and mobilized labour movement (Pizzorno 1978) - must be cited as well. Job and income security for all workers has always been of paramount importance to the European trade unions, as opposed to American-style business unionism, which is more narrowly concerned with wage demands for unionized workers alone (Crouch 1993). Hence, objectives of social equity and redistribution in order to off-set the inequalities of income and power produced by the market have been at the centre of the social contract that, in one way or another, has characterized most European countries since the Second World War (Esping-Andersen 1990). These objectives have been pursued primarily through the construction of the modern welfare state; but the institutionalization of collective bargaining on wages and working conditions, as well as legislation protecting jobs and basic employees' rights, have also been part of the deal.

In the 1980s and 1990s, however, profound changes have taken place in labour markets and labour market policies; changes which have threatened the existing social contract and have called for a re-negotiation. At the macro-level, the crisis of the Keynesian welfare state has substantially decreased labour demand. In fact, macro-economic policies based on counter-cyclical public expenditure had been instrumental in sustaining demand and achieving full employment. Also, the welfare state, whose initial objective was simply to reduce social insecurity, had become a major employer in its own right, since its functioning required large amounts of public employees. However, the very achievement of these goals provoked a series of unintended consequences, which eventually weakened the entire edifice of public intervention (Regini 1995). Politically induced full employment - not induced, that is, by the 'natural' workings of the market - thus became one of the chief targets of criticism during the 1980s, and an objective which even the left-wing European governments found increasingly difficult to pursue, with the temporary exception of Sweden (Scharpf 1984).

At the micro-level, on the other hand, industrial adjustment to increased competition and the ensuing re-organization of production have bred a growing need for the flexible deployment of labour. The organization of the Fordist factory was based on a system of rules which applied in relatively uniform manner to all productive units and to all work relationships (Piore and Sabel 1984, Boyer 1986). Its corresponding system of industrial relations consisted, in practice, of bargaining over these rules according to equally uniform and standardized criteria, or of setting the price for their acceptance. With the crisis of the Fordist system, however, this uniformity has faded and company strategies have diversified according to the type of production re-organization that each individual firm has decided to implement. Moreover, the human resource policies adopted by individual companies do not apply equally to all categories of the workforce. As a consequence, the production of uniform rules at the central-national level to regulate wages, working hours, mobility, or labour market entry is regarded by companies as increasingly less appropriate to their problems. Flexibility is now considered to be a key element in the organization of production, and greater labour flexibility, in particular, has become of vital importance to firms.

Finally, at the policy level, the new phenomenon of unemployment hysteresis or low responsiveness to the business cycle has prompted reconsideration of the effects of labour market regulation, which is increasingly re-conceptualised as labour market 'rigidity'. Since this is the specific topic of this volume as a whole, I shall not elaborate the point further.

What should be noted here, however, is that the second and third changes mentioned above have gradually become the focus of attention, while the first has been largely overlooked. As a result, the issues of labour flexibility and labour market deregulation have moved to the centre of both scientific and policy debate, and also - in some cases - to the top of the policy-makers' agendas. However, the economic and sociological literature has developed sharply different approaches to these issues. Not only do the assumptions on which it rests diverge widely, but more importantly, the evidence so far produced is rather fragmentary and contradictory. Moreover, comparative analyses in this area often suffer from over-simplification and reductionism. Indicators of labour market 'rigidity' are used which have different meanings and different implications in the various countries concerned. And the role of social institutions other than state and market - for example, family and social networks - in producing different unemployment outcomes is frequently neglected.

Although neither the scientific and policy debate nor actual labour market trends have followed uniform paths in the European countries, there is a general tendency to equate the concepts of flexibility and de-regulation. A close association is usually discerned between employers' demand for greater labour flexibility and «a perceived need to remove legal restraints on the employment of labour by the extension or regaining of managerial prerogatives» (EIRR 1985:24). Or, to quote Ralf Dahrendorf (1995:24), «flexibility means eliminating rigidities, hence ... de-regulating and limiting government's interference ... The word 'flexibility' has become practically synonymous with the relaxation of constraints on the labour market's operation: greater freedom in hiring and firing, a possibility to increase or decrease wages, more part-time and temporary work, higher labour turnover» [translation provided[1]].

[1] Translation into English and page number are from the Italian edition, published as *Quadrare il cerchio. Benessere economico, coesione sociale e libertà politica*, Bari: Laterza, 1995.

However, as we shall see below, the two concepts of 'flexibility' and 'de-regulation' address quite different phenomena. Further, these phenomena are not necessarily inter-related, since labour flexibility may be the outcome of labour market de-regulation but more often results either from a change in the regulatory regime or from informal adjustments to new pressures which leave the level of formal labour market regulation unchanged.

2. Types of labour flexibility: trade-offs and contradictions

Flexibility seems to have become the catch-all word for everything that employers find desirable and for every recipe prescribed by policy advisors to fight unemployment and the loss of competitiveness. Not surprisingly, therefore, any serious discussion of flexibility usually starts with the warning that flexibility is a somewhat vague and multi-purpose concept; and indeed flexibility in economic activities and in labour markets may be defined in several ways.[2]

Some authors define organizational flexibility as the ability to use machines and workers in different combinations in order to adapt to changing market conditions (Piore and Sabel 1984). By extension, labour flexibility may be taken to mean the ability to combine the different components of the employment relation (wage levels, skills, working time, job security, etc.) in different ways. There are two other meanings of flexibility which are probably of greater significance for the analysis of labour markets. Both public policies and industrial relations systems tend to regulate labour markets in ways that are both 'sticky', in the sense that their renegotiation is difficult and takes time (Olson 1982), and uniform in that they tend to be identical or similar for different sectors, regions, firms and categories of workers (Streeck 1987). Hence, when advocating labour flexibility, some commentators (e.g. Accornero 1992) as well as policy-makers place special stress on the components of non-standardization, diversification, non-uniformity of labour performance and conditions. In this sense, demand for greater flexibility may arise both from companies (seeking to de-standardize labour contracts or wages) and employees (more often interested in the diversification of working time or work roles). Other authors, drawing on a seminal

[2] Given the purpose of this review, the focus is of course on labour flexibility. However, for companies the demands for more flexible systems of employment are (or should be) inseparable from the simultaneous search for higher flexibility of product ranges, technology, capital equipment, methods of finance, and relationships with suppliers (Streeck 1987).

work by Stigler (1939) on the different ways in which companies react to market volatility, equate flexibility in labour markets with adaptability and versatility, namely with the ability to adjust quickly to change. More generally, flexibility is then seen as the capacity of enterprises to reorganize in close response to fluctuations in their environment.

Under all the above meanings, labour flexibility - whether understood as the ability to combine resources, to accept diversified regulation, or to adjust to the company's changing needs - is crucial if new modes of production are to function properly. Both post-Fordist manufacturing and the organization of services require far more labour flexibility than does traditional mass-production industry. But such flexibility may relate to four different areas of the employment relationship: entry and exit from employment; the assignment of tasks and horizontal and vertical mobility; the level and structure of compensation; and working time. Put differently, flexibility may concern both the form in which labour is contracted and the scope provided to management by the contract of employment for varying labour inputs. There is wide consensus in the literature (Piore 1986, Atkinson 1987, Streeck 1987) that different types of labour flexibility correspond to these areas. Although both the number of types and the terminology used vary, they are most often called numerical (or external, or employment) flexibility, functional (or internal, or technical-organisational) flexibility, wage (or financial) flexibility, and temporal (or working-time) flexibility, respectively.

Numerical flexibility «refers to the ease with which the numbers of workers employed can be adapted to meet fluctuations in demand» (EIRR 1985:26) or technological innovation. More generally, it denotes managerial capacity to dismiss employees in order to allow downsizing or the replacement of workers whose skills have become obsolete, and to use new forms of employment - such as atypical, temporary, or contingent work - when hiring new workers. All countries have some forms of social control over lay-off decisions; even in the USA, where employers can in theory discharge employees without cause, the courts have set increasing constraints on this practice and forced policy-makers to reconsider the need for regulation. On the other hand, flexibility in hirings meets with less opposition and, in the last ten years, has greatly increased in Europe.

Functional flexibility refers to «the ease with which the tasks carried out by employees can be adapted to changes in demand» (EIRR 1985:26). At stake here is the employers' ability to move their employees from one task or department to another, or to change the content of their jobs. This type of flexibility «refers to employers' ability to reorganize their existing workforce so as to adapt to new technologies and new ways of utilizing their human resources by means such as job rotation, multi-skilling, retraining, mobility and so on» (Kalleberg 1990:18). This ability is based on mutual acceptance of a broad definition of the tasks implicit in a job, as well as on the existence of internal labour markets or incentives to horizontal and vertical mobility within the company. From this point of view, Germany and Japan are often contrasted with Britain and the United States in terms of the general absence of the job demarcation and seniority rules common in the latter countries. «Important aspects of this are redeployment and retraining, which require institutions and payment systems that motivate workers to take over new tasks, acquire new qualifications, and generally accept continuous fast adjustments in the organisation of work» (Streeck 1987:67). Although external and internal flexibility are the most frequently discussed forms, this latter point suggests the importance of two other types of labour flexibility.

Wage flexibility concerns the extent to which management is free to alter wages and wage systems in response to changing labour market or competitive conditions; that is, to adopt pay structures and pay levels not fully determined by collective agreements or statutory regulation. Wage flexibility may work upwards, as in the case of incentives - the 'pay systems that motivate workers to take over new tasks' referred to above - or downwards, when there are no minimum wages set by the law or by collective agreements, or, more frequently, when derogations from such minimum wages are allowed for specific areas, occupational groups and the like. This type of flexibility affects the extent to which wage differentials are governed unilaterally by employers or are instead the object of institutional regulation. From a macro perspective, however, such institutional regulation - or the various functional equivalents that allow for a high degree of wage coordination in some economies (Soskice 1990) - has positive effects on real wage adjustment to changing conditions of international competition and on the ability to create employment, as highlighted by the Dutch case.

Finally, *temporal flexibility* refers to the possibility of adjusting the amount of labour utilized in accordance with cyclical or seasonal shifts in demand by varying the number of hours worked in a day, week or year, rather than the number of people employed or the degree of stability of their employment (see Adam and Canziani 1998). Well-known examples are overtime, shiftwork, flexible part-time, and weekly or annual working time arrangements. This form of flexibility is often viewed as a variant of functional flexibility, since both types imply adjustment in the work performance of employees, as opposed to variation in their wages or their security of employment. However, adjusting working time is, from many points of view, a matter quite distinct from adjusting tasks and skills. The two options are likely to be used to differing degrees in different countries, industries and companies, depending on their skill structure but also on their institutions and social norms.

2.1. The varying role of flexibility in companies' strategies

Each type of labour flexibility varies in its importance to a company according to its product market strategy; that is, according to the specific manner in which the company chooses to compete. This therefore requires a brief discussion of the competitive strategies available to companies,[3] in order to assess the role that the various forms of labour flexibility come to play. In the 'post-Fordist' era, firms are able to choose among a wide range of organizational and market strategies. While price constraints remain important to all of them, some compete chiefly on quality or design, others on product diversification, and yet others on organizational flexibility, in the sense of versatility and rapid adjustment to changing demand. For the purposes of this discussion, I shall call the first of these market strategies 'diversified quality production' (DQP), borrowing Streeck's (1991) term but giving it a somewhat different meaning. The second I shall call 'flexible mass production' (FMP), taking up the distinctions drawn by Boyer (1987). The third is 'flexible specialization' (FS), although this concept, in its original formulation (Piore and Sabel 1984), was wider in its scope.

In the terminology used here, a DQP strategy is adopted by firms which set out to compete on the quality - and to a lesser extent on the diversification - of their products, rather than solely on their price. Their aim is to avoid competition from low-wage

[3] For which I draw extensively on Regini (1997).

economies by targeting higher market segments, by responding to the greater sophistication and volatility of demand through product customization, and so on. Quality thus defined is made possible by various factors, such as significant organizational and coordination capacities; but a crucial role is played by the high and broad skilling of all occupational groups in the workforce, by the workers' ability to integrate several tasks in the performance of work, as well as to learn new tasks rapidly, and by their involvement in corporate objectives of constant improvement and incremental innovation. To this corresponds a pattern of human resources utilization where a large proportion of the workforce receives extensive vocational training - both basic and company-specific - and is encouraged to develop such social skills as initiative, a problem-solving attitude, and an ability to work with others, as well as a high degree of identification with the company. In sum, high functional flexibility is required of the whole workforce, and this is matched by low levels of numerical, wage, and temporal types of flexibility.

A FMP strategy is instead based on the mass production of a variety of goods (rather than the standard goods of classic Fordism) in order to meet changing demand and volatile markets while holding prices down. Programmable automation enables the company to compete simultaneously on both price and product diversification, by mass-producing a wide range of products and drastically reducing demand for medium-to-low skilled personnel (blue-collar production workers and administrative staff), as well as emphasising adaptability to change and cooperation rather than technical abilities. On the other hand, demand for high-level skills is concentrated on a few key occupational groups, especially middle management, technicians, and personnel in the commercial area (sales, marketing, customer relations). The pattern of human resources utilization deriving from these features exhibits a polarization between highly-skilled personnel belonging to these occupational groups and the low-skilled, as well as workers whose skills have become obsolete. Hence, the entire workforce is required to display a high level of flexibility; but this is mainly of the functional (polyvalence) and wage (incentives) types for the core occupational groups, while it is mainly numerical (temporary work, training and work contracts, possibility to lay-off) for the low-skilled groups.

The FS strategy - in which the principal weapon in the company's competitive armoury is its versatility and rapid adjustment to changes in demand - is particularly common among small firms, although it is not confined to these. In fact, small-firm systems typified by low costs for entry into the market and exit from it, extremely low organizational costs, and low costs for production plan selection and errors, are best equipped to respond rapidly to quantitative and qualitative changes in demand, or even to anticipate them. Diffuse-production systems, in fact, enable a wide range of products to be placed on the market, leaving it up to the market to select the 'fittest'. The crucial human resource in this type of firm is the entrepreneur him/herself (and his/her assistants), who must be able to carry out a wide range of functions - productive, commercial, administrative, etc. - using external consultants but often with very few employees. The entrepreneur and his/her assistants must possess broad and varied - if not necessarily very sophisticated - technical expertise, and social skills which are difficult to acquire through formal training. The small number of employees in these firms - usually enjoying less institutional protection - know that they are 'naturally' subject to numerical flexibility. Yet it is crucial that they exhibit high temporal and functional flexibility, pragmatic adaptability, and a general willingness to cooperate, since they must be able to shift among different machines and adjust their workload to changing demand.

The discussion so far has been restricted to the industrial sector. Though extremely important for employment creation, in fact, services have received less attention as far as their competitive strategies are concerned, and stylized discussion of what types of flexibility they most need is difficult. The available generalizations (e.g. Esping-Andersen 1990) may be too crude from this point of view, because they fail to disaggregate the two broad categories of personal and business-related services in a sufficiently detailed way. The only general statement that seems to be supported by the empirical evidence is that the dualism between low-skilled and high-skilled workforces, which has been discussed as characterizing FMP strategies, is especially relevant in services. Even more than in industrial companies, wage flexibility appears to be the only way to create employment for low-skilled personnel in services, whereas functional and temporal flexibility - and the availability of social-relational skills to an even greater extent - are generally demanded of the high-skilled.

2.2. Contradictions between the different types of flexibility

However - except perhaps for the FS-based firms - there seems to be a contradiction among the four types of labour flexibility, in that the determined managerial pursuit of some forms may make it impossible to achieve the others. The well known trade-off between numerical (and wage) flexibility on the one hand, and functional (and temporal) flexibility on the other, is of especial relevance here. Too much of the former usually prevents achievement of a sufficient amount of the latter, in that it implies a lack of trust and cooperation, an unwillingness to share information, a disincentive against long-term investment in human resources, greater resistance to technological and organizational change, and so on (Gutchess 1985, Deakin and Wilkinson 1996). However, «cooperation is required for flexibility in both the substantive areas such as information sharing and in the procedural ones involving change in work rules. The biggest obstacle in either case is the fear that the other party will not reciprocate and will seek to take advantage of the first party's cooperative stance and grasp all the fruits for itself ... It is very difficult to achieve mutual cooperation without the presence of trust, which we might define here as a mutual expectation of cooperative behaviour, and without some social or institutional framework to sustain that trust» (Marsden 1995: 76-77). The most obvious supporting framework is of course one which guarantees a fair level of protection against job and income losses.

This problem has long applied to traditional workplaces with a low degree of employment security, but similar observations have been made about the increasing use of temporary and atypical workers. As the *Wall Street Journal* put it as early as 1987, «some corporations aren't sure they like temps. That very lack of identification with the corporation and its aims and the absence of loyalty to the corporation and fellow workers is seen as a business handicap».[4] Hence, where numerical flexibility is high, firms tend to under-invest in human resource development, and employees are not encouraged to undertake firm-specific training and to show commitment to the organization.

On the other hand, «the conditions that lead to functional flexibility - long-term employment relations, strong attachment [to the company] - mean that labor becomes a

[4] Quoted in Kalleberg (1990:21)

fixed cost for the organization. Labor as a fixed cost, in turn, decreases employers' wage and employment flexibility. There is thus a contradiction between increasing commitment and functional flexibility, on the one hand, and obtaining greater employment/wage flexibility, on the other» (Kalleberg 1990:18-19). The most common way out of this dilemma is of course segmentation of the workforce. The Japanese recipe has long been high functional and temporal flexibility for a 'core' group of permanent employees and extreme numerical and wage flexibility for the large 'periphery' of temporary, contingent jobs. Yet this recipe has become decreasingly successful as companies have found it more and more difficult to guarantee employment security to the core workers even in recessionary periods, and as demands for equity and exposure to other cultures have made sharp labour market dualisms unsustainable in the long run.

Aside from Japan, continental European and Anglo-American countries have long displayed different responses to the trade-off between numerical (and wage) flexibility on the one hand and functional (and temporal) flexibility on the other. However, it seems increasingly necessary to consider the combined effects of the different types of flexibility by taking this trade-off into account and finding more balanced solutions than those tried to date. This may require deep changes in labour market regulatory regimes; changes which involve the mechanisms and the levels of regulation and which may require the imposition of 'beneficial constraints' on economic actors (Streeck 1987), thus giving rise to a different type of regulation, rather than just less of it. Which brings us to a second set of analytical clarifications.

3. Regulatory regimes and de-regulation in advanced economies

The debate on de-regulation reveals frequent misunderstandings of how advanced economies are regulated. Some conceptual clarifications and analytical discussion are therefore needed if actual trends in recent years are to be properly assessed.

First, only too often in the policy debate is the meaning itself of 'regulation' or governance of the economic system reduced to that of state intervention as opposed to the workings of the market, or any aspect that prevents the market from operating properly. However, in the political economy literature, 'regulation of the economy' denotes the various ways in which the set of activities and relationships associated with the production and distribution of economic resources «is coordinated, [these] resources allocated, and the related conflicts, whether real or potential, structured (that is, prevented or reconciled)» (Lange and Regini 1989:4).

Second, reference to the 'various modes' or forms of regulation of the economy by itself suggests the existence of both a plurality of institutions with a regulatory role in advanced economies and a plurality of levels at which economic activities may be coordinated. Let us first briefly recall what the institutions in question actually are (for the classic analysis of this issue, see Polanyi 1944).

- The market is the regulatory institution of the economy *par excellence*. Where it predominates, the coordination of activities, allocation of resources and structuring of conflicts occurs as the outcome of exchanges based on prices determined by the interaction of supply and demand under conditions of competition. In the idealized market, competition is widely dispersed and is not influenced by normative linkages or by the exercise of power and authority. Of course, this rarely occurs in reality, especially as far as labour markets are concerned.
- The state can coordinate activities, allocate resources and structure conflicts primarily through the exercise of its authority, which, in the last analysis, is based on its monopoly of legitimate coercion. In this case, regulative activity occurs primarily by means of laws and administrative rulings which are binding on the actors involved.
- Where community institutions and social networks predominate, the coordination of activities and the allocation of resources takes place primarily through forms of normative compliance or spontaneous solidarity. This solidarity can be rooted in norms, habits, or values shared by members of the community, and it is based on respect, trust, or simply identification with the community and thus with its rules and hierarchy.
- Finally, a wide range of economic activities appear to be regulated by accords reached among a few large interest associations with quasi-monopoly of representation of functional interests and a high level of disruptive power, and which, as a result, are able to obtain privileged recognition from other associations and political authorities. (Streeck and Schmitter 1985).

Moreover, economic activities may be coordinated at numerous levels, among which the ‘micro’ levels of the firm and of the region are of increasing importance. In several European countries, new patterns of micro-concertation, whether formal or informal, have emerged, demonstrating their ability to encourage economic adjustment. These are all forms of consensual coordination at the company level, and sometimes at the territorial level as well, based on the shared acceptance of goals, constraints and compatibilities (Regini 1995).

Third, as far as the labour market is concerned in particular, the decline of both rigid state legislation and tripartite concertation at the macro-national level in the late 1980s has not, in general, led to a crisis *tout court* in its regulation. This is partly because a dualism between what can be called the ‘overt’ aspect of the institutional environment - which in most of Europe apparently operates through constraining mechanisms - and the more ‘covert’ aspect of the inadequacy of most of them - which enables constraints to be circumvented - has long operated in most European labour markets. It has been widely observed that even where public policies apparently assign a leading role to state regulation, various mechanisms for circumventing it are often set in motion; or else the state’s rules are only weakly and inefficiently implemented, with the consequence that sometimes even the opposite result is achieved. This allows for ‘hidden flexibilities’ to exist alongside the official rigidities, so that when opportunities to break such rigidities materialize, few actors try to exploit them to achieve full de-regulation (see below).

On the other hand, ‘hidden rigidities’ preventing a potential excess of flexibility are often observed in the most de-regulated countries like the United States (see for example the various studies on the non-union sector or on ‘greenfield sites’ in that country). After all, even the ‘Wild West’ needs some rules, and the failure of legislation and collective bargaining to provide them may paradoxically result in a ‘rigidification’ of labour relations through the enhanced role of such mechanisms as informal negotiation, practices or conventions, normative bonds and values shared by the working community - not to mention court rulings on such issues as dismissals.

Hence, the regulatory regime of any advanced economies is a complex one. Opening fire against some modes or levels of regulation may simply lead to their substitution by other modes or levels. As regards labour markets in particular, very rarely can changes in their regulatory regime be understood as simply an extension or a restriction of the role of statutory and associational regulation to the advantage or disadvantage of market mechanisms.

Fourth, any regulatory regime has multiple, and often contradictory, effects on the economy. Depending on their interests, economic actors are likely to focus on some effects while overlooking the others - or to conceptualize them in consistently positive or negative ways - whereas the overall picture is often mixed and even blurred. At the most general level, a regulatory regime creates rules on individual behaviour, and institutions which embody these rules. However, some of these rules and institutions may work (or may be understood) as constraints, burdens, or even ‘rigidities’, on economic action, whereas others may provide (or be perceived as providing) resources, opportunities, or even ‘collective goods’. In other words, institutional regulation - whether public or associational - may be facilitative rather than restrictive in character. This is especially true of the role of institutions *vis-à-vis* firms; a role that does not stop at the simple imposition of constraints on the latter, since institutions often fulfil the crucial function of providing firms with resources, advantages and opportunities, so that they structure, as it were, the economy in which the firms operate.

Thus the very meaning of ‘de-regulation’ of the economy - and of labour markets specifically - is multi-dimensional and basically ambiguous. More importantly, any process of intended de-regulation - or any change in the regulatory regime, for that matter - may have uncertain or unintended effects.

At one extreme, de-regulation is conceived by its proponents as an attempt to minimize all rules on individual behaviour and all the functions performed by state and associational institutions, in order to pursue the ideal of a ‘pure market’. «The essence of the deregulatory approach is to increase the autonomy of individual firms and workers to respond to shifting markets. Within labour markets, this has usually been taken to mean that the institutional structures regulating them, be they of state or collective-bargaining origin, should be dismantled» (Marsden 1995:83). In this case, however, the usual counter-argument of market failures involving information, sunk costs, and the likely under-provision of public goods, fully applies. This is probably the main reason why attempts to dismantle associational and public regulation have been far more limited than the change in power relations that occurred in the 1980s, and the weakness of political opposition to such change, would have allowed.

Alternatively, the proponents of de-regulation may pursue the less ambitious objective of removing only those rules and institutions which, from a comparative point of view, may be shown to impose ‘excessive rigidities’ on economic activity. However, as discussed above, the same institutions that set constraints may on the other hand provide resources and competitive advantages, so that the cumulative effect of even limited de-regulation is not easy to determine, or it may be largely unintended. A well-known example in the labour market area is the role of trade unions, collective bargaining, works councils and other industrial relations institutions. All such mechanisms for collective representation and collective voice usually act as a constraint on managerial authority and prevent some forms of flexibility, especially (downward) wage flexibility. On the other hand, in several countries they have greatly enhanced temporal and functional (and in some cases even numerical) flexibility, not to mention their crucial role for firms in providing workforce cooperation.

Finally, at the other extreme, de-regulation is often used as a term which denotes far less dramatic changes. This is the case of processes which scale down the role of some instruments of economic regulation (e.g. the law, or tripartite concertation) to the advantage of others (e.g. decentralized collective bargaining, or informal agreements). The concept of change in the regulatory regime rather than de-regulation is, in such instances, all the more appropriate. In fact, what is involved here is not an attempt to ‘restore the free market’, unfettered by rules and constraints, but rather to create a new, possibly more flexible regulatory system which allows for greater diversification and faster adjustment to change. As far as labour markets are specifically concerned, the objective in this case is not so much, in Streeck’s (1987:64) words, «downward adjustment in the terms of employment», as «the decentralization of regulatory mechanisms with a subsequent variety of results». To be sure, the workplace-specific regulation of employment relations may be instrumental in lowering the overall level of constraints on labour market behaviour. But the main effect of the decentralization of negotiations and decisions is to permit «a custom-made organization of work that fits the specific needs of firms rather than the requirements of general regulations» (ibid.:

65), namely that road to competitiveness which allows firms to create jobs without relying too heavily on numerical and wage flexibility.

4. Changes in regulatory regimes and labour market policies

What general conclusions can be drawn from the foregoing examination of the validity and potential of the concepts and analytical tools used in the debate on labour markets?

Let us first summarize briefly. The regulatory regime of any advanced economy is a highly complex system, since it involves different institutions, levels and mechanisms, and it has multiple, and often contradictory, economic effects. Hence, outright de-regulation of labour markets may be neither feasible nor beneficial in terms of greater flexibility. For one thing, attempts to dismantle some institutions or rules may simply lead to their replacement by other regulatory modes and mechanisms, or they may generate hidden rigidities. Secondly, since the institutions themselves that set constraints may also provide resources and competitive advantages, the cumulative effect of such de-regulation may be negative.

On the other hand, the term 'de-regulation' is often used simply to denote a change in the regulatory mechanisms, especially their decentralization in order to achieve a greater variety of results, or the introduction of 'controlled exceptions' to the general rules. These have been the forms most frequently adopted in recent European reforms. Greater flexibility has thus been injected into European labour markets. However, as said, labour flexibility may concern different areas of the employment relationship: labour market entry and exit, the assignment of tasks and internal mobility, the level and structure of compensation, and working time. Each country has focused on some of these areas more than on others, depending on their viability in terms of consensus but also on the country's production structure, which requires different forms of labour flexibility. None of them has managed - or even attempted, for that matter - to achieve a great deal of flexibility in all these areas at the same time, mainly because of the contradiction discussed above.

Even at this preliminary, analytical level, then, it seems that flexibility and de-regulation are far from being simple recipes with univocal (whether positive or negative) effects on labour market performance. Not only do flexibility and de-regulation have numerous meanings, more importantly they may have a range of consequences which should be carefully considered before radical action is taken. While the flexibilization trends of the last ten years in Europe have had little positive impact on unemployment, the foregoing discussion suggests that further or more drastic moves to labour market de-regulation may hinder, rather than foster, national competitiveness, thereby exacerbating the problem of unemployment in the long run.

Basically, two alternative roads to competitiveness - with several variants in between - have been followed in Europe, and they largely correspond to the ‘varieties of capitalism’ studied by a growing body of literature (Albert 1991, Berger and Dore 1996, Crouch and Streeck 1997). At one extreme we find a change in the regulatory regime aimed at decentralization, the exercise of unilateral authority, and de-regulation in the stronger sense set out above; at the other we find a change based on wage coordination, investment in training and consensual re-regulation (Soskice 1989).

The national studies in this volume discuss the extent to which individual countries have followed one of these two roads, and how they have dealt with the ensuing trade-off between greater flexibility and the adequate provision of collective goods such as social cohesion, wage coordination, trust and cooperation, availability of human capital (Regini 1995). The actual solutions to this trade-off comprise variations and mixed processes. But neither the ‘low road’ to competitiveness based on a low-wage, low-skill, low-involvement, low-quality equilibrium, nor the ‘high road’ entailing high wages, high skill, high cooperation and high product quality, have proved fully able to overcome problems related to them. This applies to national competitiveness as an outcome of regulatory change, and also to the ability to solve the joint problem of unemployment and inequality.

Hence, what types of labour market policies does the above discussion suggest as possible alternatives - or even as benchmarks against which to assess recent developments in Europe, and their impact on the structure of employment and unemployment described in the chapters that follow? More generally, what types of change in the regulatory regimes of labour markets are envisaged as enabling a labour market performance which combines high employment levels, greater equity and preservation of social cohesion, and company competitiveness? Detailed discussion of the various options, of the trade-offs in terms of costs and benefits, as well as of their actual or likely outcomes, is conducted in the chapters that follow, which draw systematically on the evidence presented in the country studies.

The two extreme approaches to labor market reform can be summarized by two opposing slogans. The first is: ‘the more flexibility of all types you achieve the better, and you need labour market de-regulation to achieve it’. The second runs: ‘flexibilization of the labour market is irrelevant or even dangerous, since the main solution to the problem of unemployment is macro-economic stimulation, fiscal policies, expansion of services, etc.’. The chapters that follow show that both these polar positions are either wrong or only partially true, and the aim of this introductory chapter has been to provide the analytical tools to understand why. Between these two poles, in fact, lie a series of less dramatic alternatives constituting the menu from which European policy-makers have, more or less hesitantly, drawn. This menu can, and probably will, be enriched and made more sophisticated. But before calling for radically new dishes it is necessary to understand better what the various ingredients are, whether they go together well, and what side effects eating them is likely to have.

Bibliography

Accornero, A. (1992), “Are we going towards a society of ‘activity’ or ‘work’?”, *Labour*, 6 (3): 89-107

Adam, P. and P. Canziani (1998), *Partial de-regulation: fixed-term contracts in Italy and Spain*, Centre for Economic Performance, Discussion paper No. 386, March

Albert, M. (1991), *Capitalisme contre capitalisme*, Paris: Ed. du Seuil

Atkinson, J. (1987), “Flexibility or fragmentation? The United Kingdom labour market in the eighties”, *Labour and Society*, 12: 87-105

Berger, S. and R. Dore (1996) (eds), *National Diversity and Global Capitalism*, Ithaca: Cornell University Press

Boyer, R. (1986) (ed), *La flexibilité du travail en Europe*, Paris: La Dècouverte

Boyer, R. (1987), “Labour flexibilities: many forms, uncertain effects”, *Labour and Society*, 12: 107-29

Crouch, C. (1993), *Industrial Relations and European State Traditions*, Oxford: Clarendon Press

Crouch, C. and W. Streeck (1997) (eds), *Political Economy and Modern Capitalism: Mapping Convergence and Diversity*, London: Sage

Dahrendorf, R. (1995), *Economic opportunity, civil society and political liberty*, paper presented at the UNRISD conference on “Rethinking social development”, Copenhagen, 11-12 March

Deakin, S. and F. Wilkinson (1996), “Contracts, Co-operation and Trust: The Role of the Institutional Framework”, in D. Campbell and P. Vincent-Jones (eds), *Contract and Economic Organisation*, Dartmouth: Aldershot.

EIRR (1985), “European Industrial Relations Conference”, *European Industrial Relations Review*,138, July: 24-27

Esping-Andersen, G. (1985), *Politics against Markets*, Princeton University Press

Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*, Princeton University Press

Granovetter, M. (1985), “Economic action and social structure. The problem of embeddedness”, *American Journal of Sociology*, 91 (3): 481-510

Gutchess, J. F. (1985), *Employment Security in Action: Strategies that Work*, New York: Pergamon Press

Kalleberg, A. (1990), *Commitment and flexibility: changing employment relations in industrial societies*, paper presented at workshop on “The nature of consensus at the place of production”, Siena, 14-15 June

Lange, P. and M. Regini (1989) (eds), *State, Market and Social Regulation*, Cambridge University Press

Lindblom, C. (1977), *Politics and Markets*, New York: Basic Books

Marsden, D. (1995), “Deregulation or Co-operation? The Future of Europe’s Labour Markets”, *Labour* special issue: S67-91.

Marshall, T.H. (1964), *Class, Citizenship, and Social Development*, Garden City (N.Y.): Doubleday

O’Connor, J. (1973), *The Fiscal Crisis of the State*, New York: St. Martin’s Press

Olson, M. (1982), *The Rise and Decline of Nations. Economic Growth, Stagflation and Social Rigidities*, Yale University Press

Piore, M. (1986), “Perspectives on labor market flexibility”, *Industrial Relations*, 25: 146-66

Piore, M. and C. Sabel (1984), *The Second Industrial Divide*, New York: Basic Books

Pizzorno, A. (1978), “Political Exchange and Collective Identity in Industrial Conflict” in C. Crouch and A. Pizzorno (eds), *The Resurgence of Class Conflict in Western Europe Since 1968*, 2 volumes, London: Macmillan, pp. 277-298

Polanyi, K. (1944), *The Great Transformation*, New York: Holt, Rinehart & Winston

Regini, M. (1995), *Uncertain Boundaries. The Social and Political Construction of European Economies*, Cambridge University Press

Regini, M. (1997), “Social Institutions and Production Structure. The Italian Variety of Capitalism in the 1980s”, in: C. Crouch and W. Streeck (eds.), *Political Economy and Modern Capitalism: Mapping Convergence and Diversity*, London: Sage, pp. 102-116

Scharpf, F. (1984), “Economic and Institutional Constraints of Full-Employment Strategies: Sweden, Austria and W.Germany 1973-1982” in J. Goldthorpe (ed), *Order and Conflict in Contemporary Capitalism*, Oxford: Clarendon Press, pp. 257-290

Sengenberger, W. and D. Campbell (1994) (eds), *Creating Economic Opportunities: The Role of Labour Standards in Industrial Restructuring*, Geneva: International Institute for Labour Studies

Solow, R. (1990), *The Labor Market as a Social Institution*, Cambridge (Mass.): Blackwell

Soskice, D. (1989), “Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-Coordinated Market Economies” in R. Brunetta and C. Dell'Aringa (eds), *Markets, Institutions and Corporations: Labour Relations and Economic Performance*, London: Macmillan, pp. 170-211

Soskice, D. (1990), “Wage determination: the changing role of institutions in advanced industrialized countries”, *Oxford Review of Economic Policy*, 6 (4): 36-61

Stigler, G.J. (1939), “Production and distribution in the short run”, *The Journal of Political Economy*, 7

Streeck, W. (1987), “The uncertainties of management in the management of uncertainty”, *International Journal of Political Economy*, 17 (3): 57-87

Streeck, W. (1991), "On the institutional conditions of diversified quality production" in E. Matzner and W. Streeck (eds.), *Beyond Keynesianism*, Aldershot: Edward Elgar, pp. 21-61

Streeck, W. and P. Schmitter (1985), "Community, Market, State - and Associations? The Prospective Contribution of Interest Governance to Social Order", *European Sociological Review*, 1 (2): 119-38

Williamson, O. (1975), *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press