Editorial Introduction

Labor Markets, Institutions, and the Political Economy of Power: Towards a Reconceptualization of the Policy Framework

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The drive for labor market flexibility has become something of an intellectual and political crusade in the past several decades. As part of the conventional ‘best practice’ view of economic policy, labor market flexibility can be considered to be at the heart of what Thomas Friedman calls the Golden Straitjacket into which all countries need to fit themselves in order to be successful. In the same vein as Margaret Thatcher’s ‘There Is No Alternative’ (or TINA), Friedman argues that there is no alternative to neoliberalism:

Unfortunately, this Golden Straitjacket is pretty much ‘one-size-fits-all’ ... It is not always pretty or gentle or comfortable. But it’s here and it’s the only model on the rack this historical season. (Friedman 2000, p. 105, cited from Chang 2008, p. 21)

Not surprisingly, the political crusade for labor market flexibility has its intellectual basis in the neoclassical labor market model. As taught to generations of students, this model has as its core the axiomatic notion of a perfect market. In their textbook, *Microeconomics: Principles & Applications*, Hall and Lieberman (2013, 2010) list features of such a perfectly competitive model which, in their own words, belongs to an ‘imaginary’ or ‘*unreal* world’ (ibid., p. 366, italics in the original). While, as in other similar textbooks, the features of this imaginary/unreal model are explored in painstaking detail, quite bizarrely the claim is made that the model is ‘powerful’ (ibid., p. 247). Without providing any citations or evidence from the business literature or business history, along equally bizarre lines it is further claimed that this chimerical model ‘leads to important predictions’ (ibid., p. 247). The neoclassical model predicts that in the context of competitive labor markets, the economic outcomes will be ‘efficient’ (involuntary unemployment will be eliminated) and just (the wage rate will equal the marginal product of labor). Real-world phenomena such as persistent involuntary unemployment, wage differentials among workers with similar skills, or labor market discrimination of one sort or another are seen as *deviations* from the chimera allegedly caused either by regulatory interventions in the market or, at best, by human nature to shirk work. The analytical coherence of such a framework, which is based both on an unreal concept and a deviation from it, does not appear to trouble the neoclassical theorist content with her/his deductive approach to theorizing. Ideology comes to masquerade as science.

And yet this deductive theoretical framework persists in playing a dominant role at the highest policy-making circles. Consider the World Bank’s *Doing Business* project. While

the support for labor market flexibility in this project is repeatedly buttressed by the claim that the World Bank's position is consistent with that of the ILO, what is of significance is the paper by Botero et al. (2004) which underpins this project. Botero et al. deploy three indices of labor protection (employment laws index, collective relations index, and social security laws index) to gauge the extent to which a wide range of indicators of economic performance are affected by labor market regulatory laws and institutions in a cross-section of 85 countries. Of significance are two of their findings. First, while they find a statistically significant correlation between the employment laws and collective relations indices and two of three variables that represent the relative difficulty of starting a business ('number of steps to start a business' and 'number of days to start a business'), neither of these two measures of worker protection is statistically significantly related to 'cost to start a business/GDP per capita.' More interestingly, all three measures of business investment difficulty are highly significantly and *negatively* correlated with the social security laws index.

Second, while only *some* of their worker protection measures are statistically significant and have, from the neoclassical standpoint, the predictable impacts on their various measures of unemployment, the R^2 values of these regressions vary from a high of 0.21 to a low of 0.06. Given these dismal values, one of their central conclusions – which underpins the *Doing Business* project's position that '[h]eavier regulation of labor is associated with ... higher unemployment' (ibid., p. 1) – gives us little cause to be confident.

And yet the push for labor market flexibility by capitalists in the global economy is real and an urgent challenge for labor and human rights activists around the world. Both within the developed and developing worlds, we see continuous pressures by business groups to roll back attempts made by labor movements to attenuate workplace struggles between owners and employees as well as the vagaries of the market. For example, in the global economy, in the wake of the Rana Plaza disaster in Bangladesh a year ago, which left more than 1100 workers dead, clothing companies continue to push for faster, cheaper, and more intensive labor process arrangements in order to churn out lower-cost clothing (Yardley 2013). While the scale of the workplace struggles may not necessarily involve life-and-death issues in the OECD, primarily because of entrenched labor protection policies, the push back against social democratic labor policies by employers is no less an issue as several authors have discussed with regard to Germany (Streeck 2009; Paster 2012) and other countries (Phillips-Fein 2009; Moudud and Martinez-Hernandez 2014). Such policies of *flexibilization* have contributed to growing social exclusion as well as poverty and inequality, leading to what Guy Standing has called the *precariat* (Standing 2011).

The question is: if the goal of labor market flexibility is pushed for by power business groups and their allies, and this goal is provided with an ideological defense by neoclassical theory, what is to be done? In his classic book, *The Great Transformation*, Karl Polanyi (1944) wrote of the *double movement* in which the growth of capitalist power would generate both social instability and pressures for deregulation while in turn creating counter-pressures for re-regulation by the society. However the re-regulatory move itself could be potentially hazardous given the structural and instrumental power of capitalists (Hacker and Pierson 2002) who could reduce investment and/or move their investments to some other geographic location if such progressive labor policies reduce business confidence. As Polanyi (1944, p. 234) observed with regard to a central challenge faced by social democracy:

... the reform of capitalist economy by socialist parties is difficult even when they are determined not to interfere with the property system. For the mere possibility that they might

decide to do so undermines that type of confidence which in liberal economy is vital, namely, absolute confidence in the continuity of the titles to property.

If the revitalization of social democracy is to be able to counter the forceful imposition of labor market flexibility and the outright attacks against labor via neoliberal policies (Moudud and Martinez-Hernandez 2014), then there is an urgent need for a theoretical reconceptualization of labor markets and a deeper understanding of the political forces that shape the policies. In contrast, while contemporary neoclassical economists are not unaware of conflict between employers and employees, they absorb this core issue within the corpus of their framework by assuming the alleged proclivities of workers to ‘shirk’ work (Spencer 2009).

Once power becomes a central theoretical issue, then an analysis of struggles between capitalists and workers as well as a discussion of policy alternatives cannot be divorced from the political context. As Peter Gourevitch in his excellent book, *Politics in Hard Times*, reminds us:

Policy requires politics. Ideas for solving economic problems are plentiful, but if an idea is to prevail as the actual policy of a particular government, it must obtain support from those who have political power. Economic theory can tell us a lot about policy alternatives, but *unless our economics contains an understanding of power*, it will not tell us enough to understand the choices actually made.

In prosperous times it is easy to forget the importance of power in the making of policy ... In difficult times this comfortable illusion disintegrates. (Gourevitch 1986, p. 17, emphasis added)

All the papers in this special issue deal with the ways in which power and politics shape industrial relations and labor market outcomes. In their article, ‘Workplace relations, unemployment and finance-dominated capitalism,’ Gary Slater and David Spencer discuss the relationship between unemployment and the organization of work, and the political and economic factors (presumably involving some type of corporatist arrangements) that could produce full employment. Yet they also expose the ways in which finance-dominated capitalism and what they call ‘short-termism’ (for example, shareholder value maximization) has increasingly narrowed down the policy space for reform of the policy agenda towards the simultaneous goals of high worker productivity and full employment.

In “‘Dark as a dungeon’: technological change and government policy in the deunionization of the American coal industry,’ Kimberly Christensen provides a historically-informed analysis of the steep decline of unionization in coal. She discusses the contributions of technological/geographical shifts, government policies, and the mutating legal/political context in which unions operate. Finally, she discusses conflicts within the UMW itself, particularly with regard to the major 1978 coal strike and points to the role of human agency and political institutional context in determining the success or failure of organized struggle.

In his article, ‘Workers without employers: shadow corporations and the rise of the gig economy,’ Gerald Friedman describes the growth of temporary contract work in the US. Debunking the conventional view that the growth of this type of work is entirely choice-driven by workers in the ‘modern’ post-industrial economy, Friedman argues that it is in fact the consequence of business cost-cutting practice which has become more acute because of the pressures of global competition and crisis. Friedman discusses the implications of this labor market phenomenon for social policies such as social security and welfare as well as labor productivity.

Fadhel Kaboub and Michael Kelsay, in 'Do prevailing wage laws increase total construction costs?', use econometric analyses to challenge the claim that prevailing wage laws raise production costs in the construction industry. Through a detailed comparison of construction costs in states with prevailing wage laws with those in states that have repealed them, they invalidate the results of previous empirical studies which conclude that regulated labor markets constitute a source of higher costs. On the contrary, Kaboub and Kelsay's results imply that higher wages can be more than compensated by the higher productivity that they may promote. Their results present a challenge to neoliberal perspectives on minimum wage laws and unions.

Lucio Baccaro, in 'Similar structures, different outcomes: corporatism's resilience and transformation (1974–2005),' challenges the claim that globalization and European integration have reduced corporatism. On the basis of both a quantitative analysis of OECD countries between 1974 and 2005, and a case study analysis of Italy and Ireland, Baccaro shows that corporatism continues its strong presence in the OECD, but as a substantially transformed institution. What Baccaro calls 'the new corporatism' has become more internally democratic and participatory and yet, ironically, also less egalitarian in that it accommodates increasingly neoliberal policy measures.

Finally, Duane Swank, in 'The political sources of labor market dualism in post-industrial democracies, 1975–2011,' deals with the political context that shapes wage inequality. While he does not deny the roles that global competition from low-wage countries, deindustrialization, and technological change play in raising inequality, Swank puts forth a convincing argument (on the basis of annual data from 1975 to 2011 for OECD countries) that in the presence of strong labor and employer organizations, social-democratic-oriented governments may be successful in implementing more egalitarian policies.

This collection of papers makes a unique contribution towards a theoretical conceptualization of labor markets and their complex interactions with macroeconomic phenomena (unemployment and productivity), institutions (workplace organization, regulatory frameworks, labor or employer organizations) and the political economy of power. By bringing these papers together, the special issue aims to provide the elements of a theoretical reconceptualization supported by empirical analyses and firmly rooted in the real world; far more convincing than the dominating neoclassical model rooted in a chimerical idealized model of competition. Hence the collection also suggests the possibility of an alternative social democratic policy framework, where the goal of increasing prosperity is compatible with decent work and equality.

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