

## Social Dialogue Sheet 3

### Social Regulation



Social regulation is a term used to cover industrial relations, employment and social policies across Europe. Union labour law has a direct impact on social regulation. Individual and collective labour law systems of the Member States form the Union law which is the legal expression of social regulation. Collective agreements are part of national labour law. Social regulation as meant in this document goes beyond the legal and economic meaning to be extended to the way in which societal actors interact towards a common objective, that is development. It goes beyond traditional economic thinking providing rules for the regulation of markets, even if two economic terms, namely asymmetric information and interest groups, are taken as key concepts in the design of social regulation.

Asymmetric information is a situation where there is imperfect knowledge among interacting people. In particular, it occurs where one party has different information to another. A good example is when selling a car, the owner is likely to have full knowledge about its service history and its likelihood to break-down. The potential buyer, by contrast, will be in the dark and he may not be able to trust the car salesman.

In turn, an interest group is any association of individuals or organizations, usually formally organized, that, on the basis of one or more shared concerns, attempts to influence public policy in its favour<sup>1</sup>. All interest groups share a desire to affect government policy to benefit themselves or their causes. Their goal could be a policy that exclusively benefits group members or one segment of society (e.g. government subsidies for farmers) or a policy that advances a broader public purpose (e.g. improving air quality). They attempt to achieve their goals by lobbying, that is, by attempting to bring pressure to bear on policy makers to gain policy outcomes in their favour.

Information asymmetry and interest groups lead to inequality and social injustice. Social regulation is the opposite of liberalism as the political doctrine that takes protecting and enhancing the freedom of the individual to be the central problem of

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<sup>1</sup> C. S. Thomas, Interest Group and Political science, Britannica, 2020.

politics. Here, government seems necessary to protect individuals from being harmed by others, but it is recognised that government itself can pose a threat to liberty. Laws, judges and police are needed to secure the individual's life and liberty, but their coercive power may also be turned against him. The problem, then, is to devise a system that gives government the power necessary to protect individual liberty but also prevents those who govern from abusing that power<sup>2</sup>.

Liberalism is different from neoliberalism as the ideology and policy model that emphasizes the value of free market competition. Neoliberalism seeks to transfer control of economic factors to the private sector from the public sector. The free-market capitalism contrasts government spending, regulation, and public ownership. Neoliberalism is often characterized in terms of its belief in sustained economic growth as the means to achieve human progress, its confidence in free markets as the most efficient allocation of resources and its commitment to the freedom of trade and capital. Often identified in the 1980s with the conservative governments of Margaret Thatcher and Ronald Reagan, neoliberalism has more recently been associated with the so-called Third Way politics, which seeks a middle ground between the ideologies of the left and right<sup>3</sup>.

Contrary to the aforementioned conceptual frameworks, this document aims to position social dialogue and social partnership within a general regulation theory as the source of multilateral relations among social actors, with a particular focus on labour market regulation.

### **Social Regulation Theory**

Social dialogue as the relationship between employers and workers organisations should be understood in the context of regulation theory with particular reference to the problematic of uneven industrial development. In times of economic growth and full employment the relation between social partners shows a distributional pattern. On the contrary, during uneven industrial development made up by cyclical scenario and during economic crises, where redundancy problem arises, social dialogue faces difficulties due to radicalisation of interests protected by social partners.

Regulation theory has been influential in recent years, since it provides a response to the present global crisis inefficiently tackled by the neoliberal approach. According to Tickell, following the post-Fordism era, social regulation had accompanied the rise of a potential successor regime of flexible accumulation leading to regulation theoretic approaches legitimating a new role of social partners<sup>4</sup>. Certainly, the terminology of regulation theory has passed easily into mainstream academic discourse.

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<sup>2</sup> R. Dagger, et al., Liberalism, Britannica, 2020

<sup>3</sup> W. Kenton, Neoliberalism, Investopedia, 2020

<sup>4</sup> A. Tickell, J. Peck, The social regulation of uneven development, Environmental and Planning, Vol 27, 1995

Regulation theory aims to construct a rigorous interdependence between capitalist accumulation and social distribution and has been developed as a means of understanding the medium-run stability of capitalist macroeconomic structures.

The two elements of the regulatory regime, the accumulation system and the mechanism of social regulation (MSR), are accorded equal theoretical weight, although in practice it is possible to identify a subordination of the MSR to the accumulation system<sup>5</sup>.

Social regulation theory takes the accumulation concept as leading macro and micro economic processes and related societal configuration.

With the words of Tickell, an accumulation system is a macroeconomic structure which sustains reproduction through a virtuous relationship between production, consumption, and distribution. It is a way of dividing and systematically reallocating the social product.

Boyer identifies five components of the accumulation system: the organisation of production, the valorisation and capital circulation, the distribution of value, the composition of demand in which workers are involved as consumers and the role of State service such as health or education<sup>6</sup>.

Regulation theorists insist that there is not one paradigmatically successful accumulation system, but rather that the specific shape of capitalist accumulation can vary considerably over both time and space.

For some regulation theorists, changes in labour relations were initially welcomed as having the potential to emancipate workers from the Taylorist labour process<sup>7</sup>.

Regimes of accumulation are able to foster the conditions necessary for the maintenance of steady growth in the medium term, but these periods of comparative stability are subsequently disrupted by profound interstitial crises, phases of economic and political dislocation which undercut the uneasy harmony of the established regime. Within the aforementioned cyclical phases, the Mechanism of Social Regulation has shaped its evolution.

In solving these crises, regulation theory recognises a significant role to the nation-state. Regulation theory can consequently be seen to build from foundations in national social formations. However, conjunctural and structural crises points to a more substantial problem in regulation theory consisting in the concentration on the nation-state as the arena of crisis formation and resolution<sup>8</sup>.

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<sup>5</sup> B. Jessop, Regulation theories in retrospect and prospect, *Economy and Society* 19, 1990

<sup>6</sup> R. Boyer, Y. Saillard, *Regulation Theory. The State of the Art*, Routledge, London & New-York, 2002

<sup>7</sup> A. Lipietz, *The Enchanted World*, Verso, London, 1985

<sup>8</sup> A. Tickell, *ct*, see the role of Time and Space in regulation theory.

## Social regulation of multiple networks

Work organisation and labour markets are highly influenced by the regulatory mechanism and by the specific nature of labour market institutions. Regulatory mechanism is forced to change by technological variables: as technological innovations change over the course of their adoption, so the social innovations too alter the regulatory regimes forcing further changes within it.



Therefore, it is assumed that as the organisation of interest groups and prevalent rules of the game governing workplace relations vary significantly between societal contexts, the standardisation of work systems is adjusted around a multiple model of efficient production.

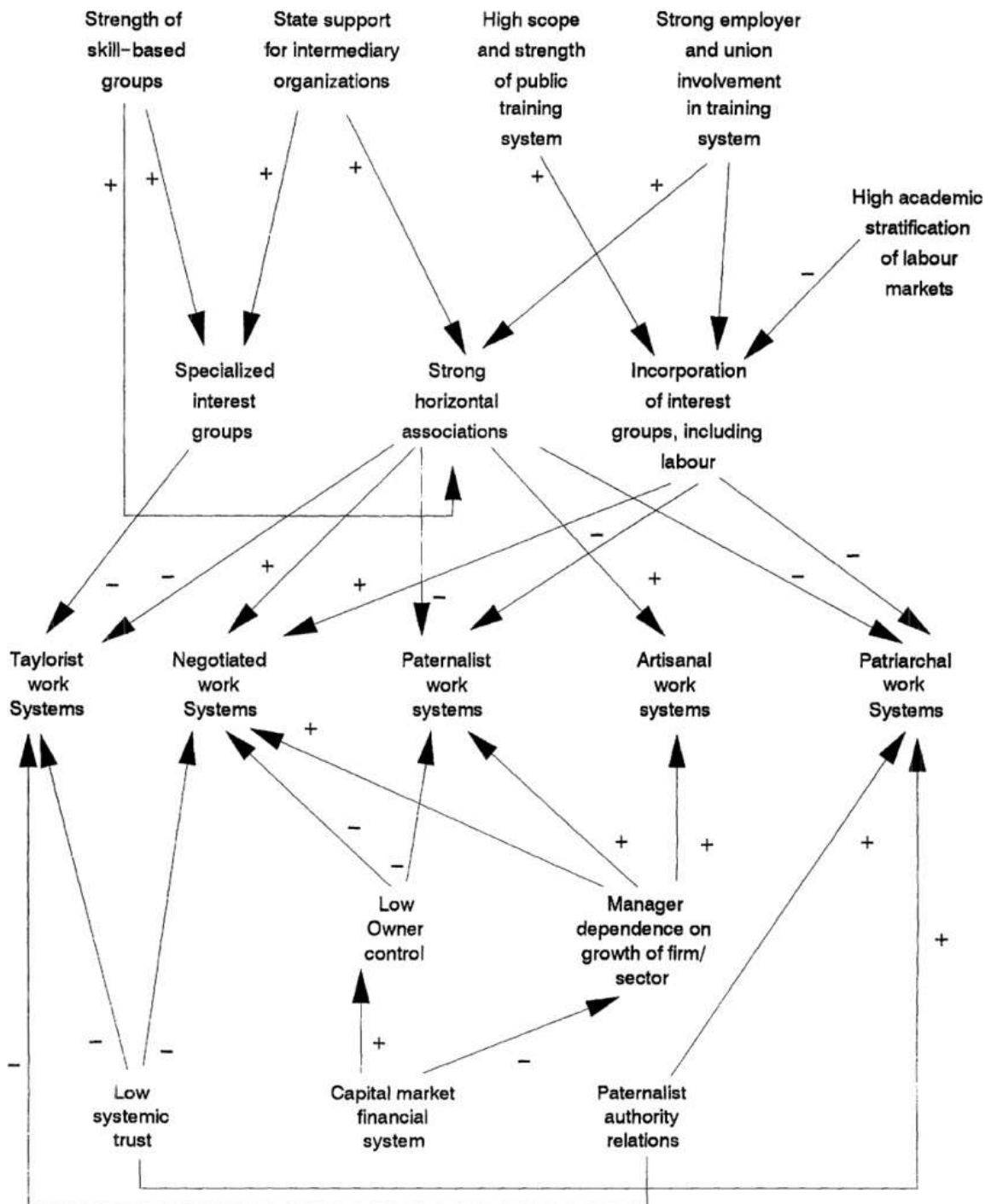
This contextual interdependence of work organisation and control patterns has a number of implications for the analysis of work system modifications and represents a key paradigm of the social regulation theory.

The current crisis, lasting from 2008, highlighted that the neoliberal deregulation faces many analytical problems. Contrary to the theoretical world, labour markets are not like a commodity markets: prices do not coordinate supply and demand, participants do not enter the market as equals, and commodities do not pass from seller to buyer. Considering the labour market as a commodity market with demand, supply and equilibrium price means to deny the social nature of human labour. Labour is not a

commodity represents the assumption forged by the ILO social dialogue in 1919 and relate regulatory mechanism inspired by the reformist socialism.



Figure 1 Connection between institutional features, interest groups and work system (from R. Whitley and P. H. Kristensen, *Governance at work: the social regulation of Economic Relations*, Oxford University press 1997)





Relationships between institutional regimes, social partners representing core societal interest groups and work organisations, as represented in figure 1, forge the nature and effectiveness of social dialogue at bilateral and trilateral levels. At the same time, the production paradigm, defined as the interaction between technological and social transformation process, influences the regulatory mechanism and related industrial relation pattern. Resulting governance structure is developed incrementally, through adaptive learning process. This learning process mirrors to social partners' interaction when the labour context is close to a world without work, paraphrasing the impact of digital economy on "platform work".

### **Social regulation in a changed labour market**

According to the ILO<sup>9</sup>, if labour-market interactions were perfectly competitive and could rely on complete information, then laissez-faire allocations would be efficient. However, labour markets are neither perfect nor complete. In particular, labour market interactions are more complex than markets for standardized commodities. This is an important reason why taxes, subsidies and regulatory constraints are pervasive in all countries' labour markets: if markets are prone to failure when left to their own devices, it is certainly not surprising to see policy-makers try and improve them<sup>10</sup>. Workers and employers' behaviour is far from the opportunistic behaviour described in classic economics. Wage and employment patterns often deviate from the marginal productivity conditions that would be dictated by profit maximization in simpler markets depicted in economics handbooks. This is why collective policies improve the standard of living of individuals who are not in a position to access markets on the basis of solidarity criteria similar to those that prevail within families.

Practical social and political evaluation guide market functioning rather than theoretical approaches. Labour regulations and employment-based contributory schemes, such as those introduced in Bismarck's 19th-century Germany and still prevalent in most continental European countries, were meant to control not only market forces, but also revolutionary pressure<sup>11</sup>. Thus, social and legal conventions tend to limit the extent to which market forces are allowed to shape individual labour income as the union activities show. In this labour market regulation modalities, labour market institutions are the building blocks of social consensus aimed to reap larger shares of aggregate output, benefiting all social partners.

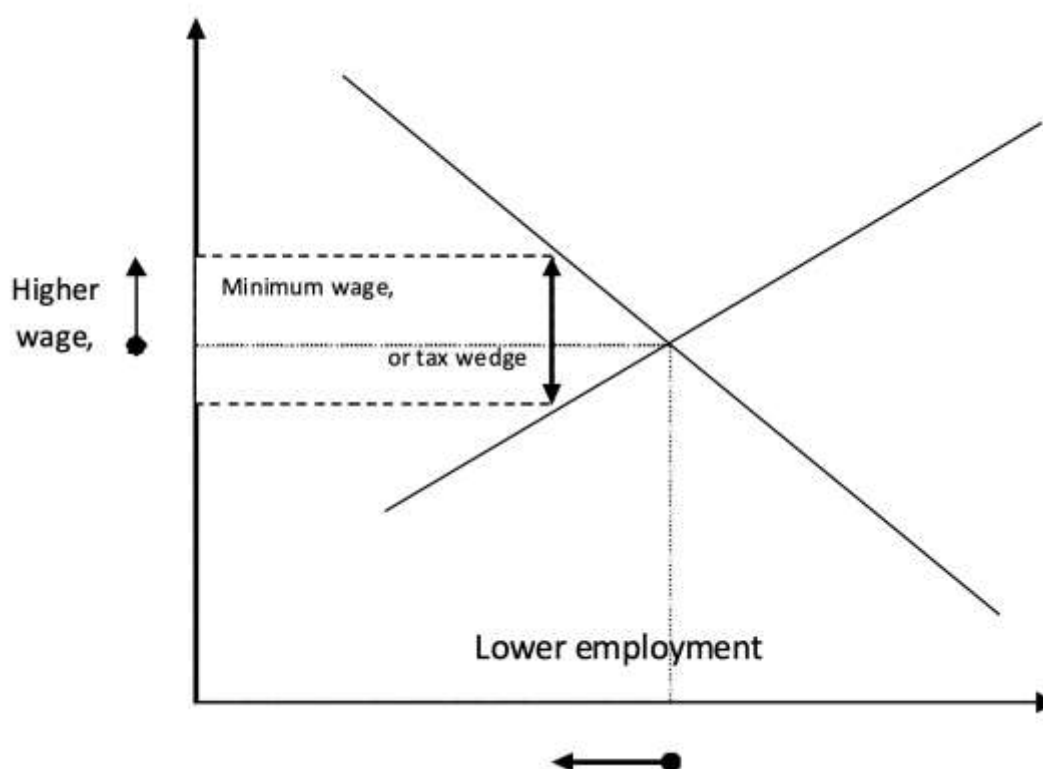
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<sup>9</sup> G. Bertola, Labour Markets regulation, ILO 2009.

<sup>10</sup> Bertola, cit., p. 5

<sup>11</sup> M. Emerson, Regulation or deregulation of the labor market, in European Economic Review, Vol. 32, 1998.

Figure 2 Traditional labour market demand-supply regulation scheme (from Bertola, cit.)



Far from theoretical rigidity, social regulation of labour market is based on the inequalities pervading society therefore rejecting the hypothesis of a fully competitive labour market. In effect markets give people what they deserve. This is why Becker formulated the human capital theory where success in the labour market is secured through investments in education and training while failure follow from the individual inadequacies of workers<sup>12</sup>. Hicks claimed in 1932 that low paid labour is often badly paid not because it gets less than it is worth, but because it is worth so appallingly little<sup>13</sup>.

The burden of labour market risks, such as vulnerabilities or unemployment, continue to be borne by ethnic minorities, gender and disabilities, the old and the young. Since these groups suffer discrimination before entering the labour market (education system), social regulation theory contrasts these discriminations often by recalling the human capital theory. The patterns of inequality are not simply inherited but are

<sup>12</sup> G. Becker, Human capital, Chicago University, 1994

<sup>13</sup> J.R. Hicks, The theory of wages, Macmillan, London 1932 p. 82





magnified in the labour market. Thus, the mechanism of social regulation aims to provide human capital on the one hand and reduce inequalities on the other.

A further misconception of neoliberalism refers to the idea that labour markets are governed by all-pervasive rationality of the markets. On the contrary, what seems logical for an individual employer may be illogical for the labour market as a whole. Yet, what seems logical for one group of workers, such as participating in labour union in order to bargain collectively over wages and working condition, may be illogical for other groups of excluded workers.

Giddens highlights that the conflicting motivations, goals and strategic practices of different groups in the labour markets, dividing not only capital and labour but also social fractions within these aggregates (see employers' or unions' representatives) call for a conception of the labour market as a socially constructed and politically mediated structure of conflict and accommodation among contending forces<sup>14</sup>.

As a result, the assumption of social regulation theory is that labour markets are systematically structured by institutional forces and constructed by power relations. The higher the skill and status of the workers, the more organised and protected their position (see professional associations and trade unions). On the other hand, those segments of labour market where workers are continually thrown into competition have been those typified by low pay and most degrading working conditions.

For more than ten decades, social dialogue has drawn attention to the institutional bases of labour market process, so that patterns of segmentation and stratification are overcome by social regulation. This rich body of work have produced persuasive analyses of historical transformation stemming from social dialogue paradigm.

Social regulation structuring the relationship between actors has been the subject of special attention in the French tradition. According to this tradition which brought to the European Social Model, the Union is no longer an external body pursuing rights protection, but rather an actor involved in the production of endogenous standards. The structured set of human relationship is no longer shaped passively by the burden of conditioning, but thanks to social regulation results from clashes between different rationalities, as pointed out by Philippe Scieur<sup>15</sup>.

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<sup>14</sup> A. Giddens, *Sociology*, Oxford University Press, 2012

<sup>15</sup> P. Scieur, *Sociology of Organisations*, 2012

Social regulation approach raises the issue of rules and social procedures shaping the collective action. It is acknowledged that the coercion exercised by a rule on an individual is closely linked with the belonging to a community that provides it. Social regulation reciprocally founds and forms the collective actors. In the industrial relations, three main sources of rules are connected: control, autonomous and joint regulation.

Control regulations operate as arbitrators in disputes and determine responsibilities and sanctions. The strategic orientation of control regulations aims to influence the regulation of a particular social group from outside.

In turn, autonomous regulations guide the behaviours of individuals at work, in functional, decisional and relational terms. This kind of regulation instil social norms within informal structures of working contexts. Autonomous regulation is a set of assumption and rules from inside of each group member.

Finally, the joint regulations exert from outside an influence on the actors under negotiation by creating a set of rules to be observed. In general, joint regulations are accepted to carry out negotiations leading to a final agreement and consist of ad hoc normative framework.

In conclusion, the social regulation could be seen as an axis with two extremes representing the autonomy and the control regulation approach. The opposition between the two reflects the opposition between two collective strategies, defined by particular interests and specific rationalities of each party. Every regulation type aims to achieve legitimacy linked to the organisation cultures. While autonomous regulation stems from the self-regulation pattern, the control regulation is always avoided in theory since the controller and the controlled experience a very asymmetrical role and position<sup>16</sup>.

### **Social Regulation within a New Sustainability Science**

The aforementioned review of social regulation is based on the opposition between capitalist and socialist worlds. However, social regulation should be positioned into a new epistemological perspective which goes beyond this opposition toward an observation of reality using the holistic view.

Jan Smuts, who coined the term “holism” in his 1926 book, “Holism and Evolution”<sup>17</sup>, defined it as the “tendency in nature to form wholes that are greater than the sum of the parts”. For example, in the case of a company, the whole industrial context is more

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<sup>16</sup> J.D. Reynaud, *Les Règles du jeu. L'action collective et la régulation social*, Armand Colin, Paris, 1993

<sup>17</sup> Jan Smuts, *Holism and Evolution*, Macmillan Company, 1926

than a collection of building, workers, equipment, machinery, technology, commodities. Focusing too closely on each of these parts, the theory argues, the wholeness is lost.

Viewed through this perspective, the capitalist tendency to isolate an economic process from its antecedents and effects is fundamentally flawed.

This traditional economic view might observe automobile manufacturing separately from the mineral mining, petroleum production and workers health on which it relies. Moreover, this view might also not acknowledge the impact that automobile manufacturing has on the environment, politics and economics of a geographical area. Holism, on the other hand, would view the entire chain of cause and effect that leads to automobile manufacturing.

Holism includes the study of inequalities caused by capitalism as part of the equation. According to a report released in 2015 by Capital Institute<sup>18</sup>, a new system-based mindset built around the idea of a regenerative economy is needed. This new mindset recognizes that the proper functioning of complex wholes, like an economy, cannot be understood without the ongoing, dynamic relationships among parts that give rise to greater wholes<sup>19</sup>. This entails a close analysis of supply chains, investigations of the effects of water use, circular economy initiatives, community economic development work or a host of other sustainability efforts.

While decision-makers usually focus on finding a single “right” answer, holism focuses on finding balanced responses that address seemingly contradictory goals like efficiency and resilience, collaboration and competition, diversity and coherence.

According to the mentioned report, a holistic perspective emphasizes that we are all connected to one another and to the planet, recognising that damaging any part of that network could end up harming every other part.

The aforementioned holistic perspective is aligned with the sustainability science developed by United Nations University, where a new knowledge-action relationship is proposed. Sustainability science revisited the concept of sustainable development coined by Gro Harlem Brundland in the 1987 United Nations' report “Our Common Future” in these terms: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Following criticism of the mentioned definition that underestimates the ethical perspective of future generations, sustainability science overcomes the conflict between the environmental sustainability and human development goals.

Attaining higher human development may require the use of more resources, whereas

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<sup>18</sup> Capital Institute, The Future of finance, Report, 2015

<sup>19</sup> J. Confino, Beyond capitalism and socialism, The Guardian, April 2015.

ensuring sustainability may require constraining the use of resources and making some “defensive expenditures” therefore limiting social expenditure<sup>20</sup>. A balanced approach is, therefore, needed to optimize human development with sustainable use of natural resources and the environment. To this end, several scholars (Jolly 1991, Cohen 1997, Austin 2007) added integrated methodology with a view to merging multifaceted dimensions of development.

Movements in the Human Development Indicators clarified that the purpose of development is to enlarge people's choices, facilitate greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives<sup>21</sup>.

These various reports, papers and studies led to the new sustainability science changing the epistemological perspective of sustainable development goals.

From multidisciplinary meant as agglomeration of monodisciplinary disciplines (such as agricultural research, forestry or energy research, scientific community) sustainability science moves to interdisciplinary research and transdisciplinary expertise (nano technology = physics, chemistry, biology).

A new hypothesis on knowledge production was presented by sustainability science, depending on modelling through artificial intelligence (neural network) rather than statistics and deterministic approach. Share understanding of the commons now goes hand in hand with ethics and ontology as shown in figure 2.

Backcasting (future desired conditions are envisioned and steps are then defined to attain those conditions) is integrated with forecasting (predicting the future based on current trend analysis).

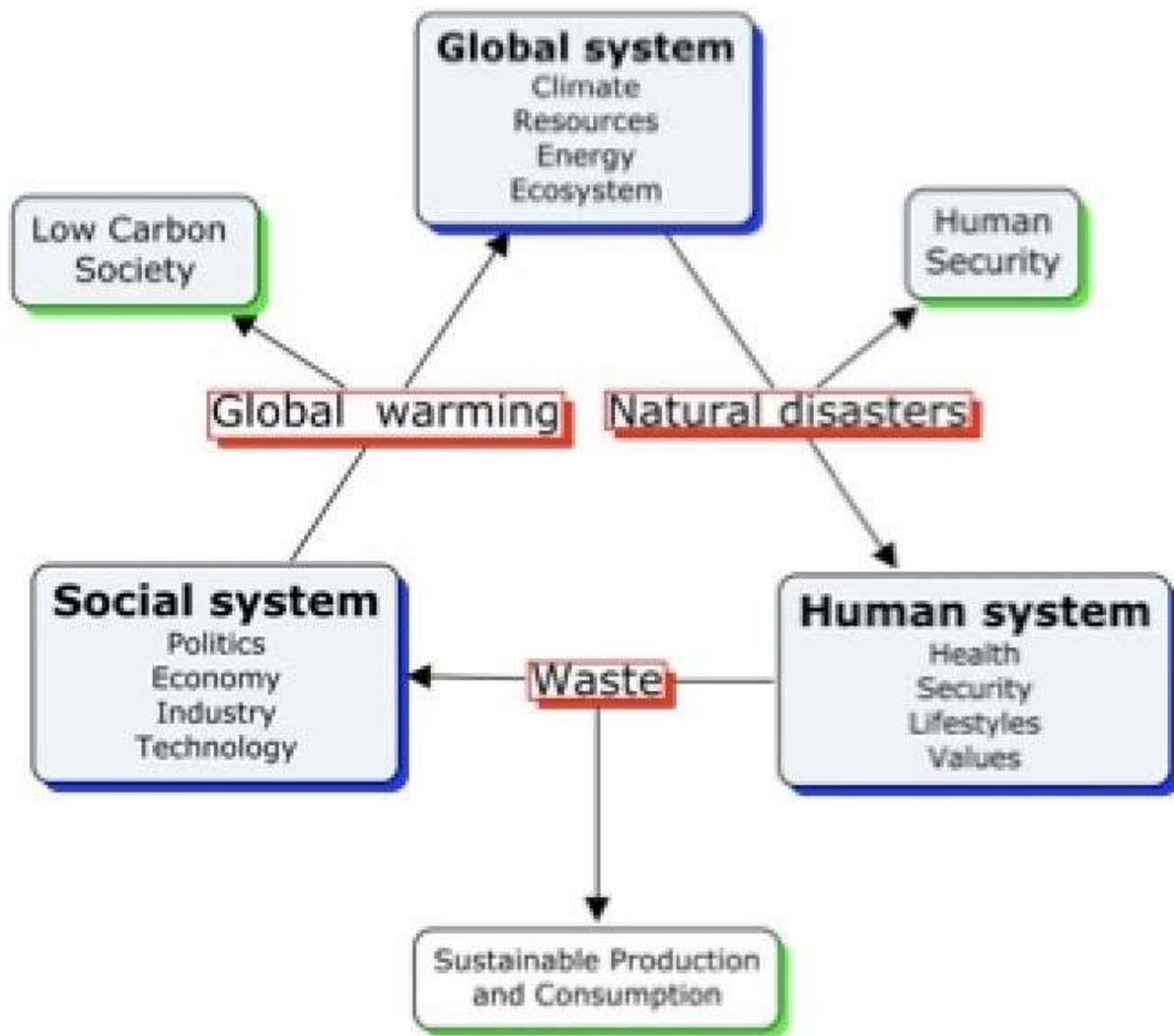
Since knowledge without action cannot change a situation and action without knowledge leads to uncertain results, social regulation extends its relevance to sustainability science which should be the common purpose of all societal actors, therefore overcoming the traditional view of social partners and social dialogue.

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<sup>20</sup> Daly and Cobb, For the Common Good: Redirecting the Economy towards the Community, the Environment and a Sustainable Future. Beacon Press, 1989

<sup>21</sup> F. Haq, Human development Report, 2006

Figure 3 Sustainability science and new social regulation



Continuous decomposition and integration of unit actions into collective action is the new assumption based not only on the holistic integration among variables of human system, social and global system but on an analytical analysis rooted on common values unifying the social institutions, the human well-being and the planetary system. This sustainability perspective leads to collaborative undertakings designed and implemented by shared problems and agreed future perspectives.



Within this changed economy and society, the new social regulation becomes part of governance within a multilateral and sustainability perspective where social partners are pillars of a larger community actors, public and private interacting within a holistic mind.

*Images taken from ILO Non-Standard Employment around the world, 2016*

*Next SDS will be on Social Partnership*