ECONOMIC FLEXIBILITY: A STRUCTURAL ANALYSIS

William A. Jackson

Department of Economics and Related Studies,
University of York, York YO10 5DD, UK

Email: william.jackson@york.ac.uk

Abstract

Economic flexibility is much discussed in the academic literature but has no agreed definition. In neoclassical economics, a flexible economy can be secured only by removing structural rigidities that block relative price movements and hamper the operation of markets – social structures are seen as a threat to flexibility. The current chapter criticises this neoclassical view and proposes a structural approach that acknowledges the importance of social structures for adjustments in all economic arrangements, including markets. If structures take varied forms that may enhance as well as restrict human agency, then they are readily compatible with flexibility.

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INTRODUCTION

The idea of flexibility has become commonplace in economic discussion. Price flexibility has always been a focus of attention, but flexibility is now interpreted more widely and applied to areas such as employment and production. Interest in the topic has been aroused by the supposed global trend towards flexible economies.

Yet economic flexibility, despite its prominence in the academic literature, lacks a single definition and is construed in different ways by different authors. Neoclassical economists often view flexibility as the absence of social structures impeding free markets: flexibility is then a prerequisite for Pareto efficiency, and inflexible structures or institutions should, if possible, be removed. In the neoclassical ideal, a perfectly competitive economy would function as a complete, smoothly operating natural system where immediate price adjustments accommodate any changes in external circumstances.

From a non-neoclassical angle, this approach to flexibility is inadequate, since markets are unavoidably structural, based on role playing, and can never be structure-free. Flexibility does not require that economies somehow escape social structures and deliver an efficient natural order. The portrayal of economic flexibility should allow for the social structures and institutions that in neoclassical parlance would be described as imperfections or rigidities. Paradoxically, economic flexibility will revolve around what the neoclassicists regard as inflexibility.

Recent work in sociology is relevant here, as it provides more fluid versions of social structure. One strand of this work is the interdependence of social structure and human agency, so that structure may enable as well as constrain action. Another strand is the recognition of various types of social structure, for instance, institutional structures founded on roles and figurational structures founded on personal relations. The interplay between structure and agency and among different types of social structure creates a broader analytical framework that can envisage many sources of flexibility.

This chapter adopts an interdisciplinary approach and draws from recent sociological theories. It argues that, contrary to the neoclassical view, flexibility is a structural property best understood through an augmented treatment of social structure.

THE MEANING OF FLEXIBILITY

The term 'flexibility' is more subtle than it appears at first sight and has several connotations passed over in much economic discussion. Before considering economic flexibility, it is worth looking at what 'flexibility' means.

To describe an object or institution as flexible suggests that it can bend or adapt to external pressures without breaking or losing its shape. Flexibility refers not just to a capacity to change, but to a capacity to change within a larger system or structure which itself remains unchanged. The outcome mixes adaptation and stability: some limited adaptation does occur, but the containing system or object stays intact. An example of this is the notion of the 'flexible firm', where various modes of adaptation are available but they are all confined within a given, unchanging firm (Atkinson and Meager, 1986; Pollert, 1988b). Aligning flexibility too closely with economic change may well be misleading. Although flexibility seems to imply dynamism and fluidity, it may entail the persistence of economic arrangements in the face of external challenges. Flexibility could be vital in reproducing and maintaining economic institutions.

A related point is that flexibility generally refers to short-term adaptations, as against long-term changes of economic institutions or technology. If economic changes went beyond minor adaptations and transformed the whole economic system, then they would no longer be classified under the heading of flexibility. Rather, they would be part of a more radical process of economic evolution or growth. Flexible institutions might seem conducive to economic progress, but this is not inevitably the case; short-term adaptations within a flexible system might stifle or delay fundamental reforms. Consequently, short-term flexibility should be distinguished from long-term evolution and growth.

Economic flexibility is anything but unidimensional, there being many dimensions in which adaptations take place. Flexible employment, for instance, can be subdivided among numerical flexibility (changing number of workers), functional flexibility (redeployment of workers to different tasks), financial flexibility (changes in wages and other payments), working-time flexibility (changes in working hours), and labour-market flexibility (movements between different industrial and regional labour markets) (Rubery, 1989; Boje, 1991; Dex and McCulloch, 1997, Chapter 1). Production flexibility too appears in numerous guises and is not uniquely determined by technology (Morroni, 1991). Systemic adjustments can be made through any of the key economic variables in the formal economy, such as prices, employment and output. Because the formal economic accounts will record these variables, the adjustments will be visible and measurable. Other sources of flexibility are less obvious. Adjustments can be made informally, through changes in work intensity, variable working patterns, networking, and so forth. Flexibility may be achieved by changes in several formal variables, alongside informal changes located beyond the formal economy or in the gaps left by formal arrangements. Some adjustments will be interrelated, and it would be short-sighted to consider only one dimension of flexibility in isolation from the others.

Sceptics of economic flexibility feel that the many types of adaptation have little in common and do not cohere into a recognisable trend towards increasing flexibility (Pollert, 1988a, 1991; Sayer, 1989; Clarke, 1992). From this viewpoint, the apparent shift from inflexible Fordism to flexible post-Fordism has no real substance, and it would be better to discard blanket concepts such as economic flexibility. If the term 'flexibility' is used carefully, however, it need not imply universal trends or common patterns and is compatible with diverse forms of economic adjustment. Doubts over the post-Fordist and neoclassical analyses of recent economic experience can coexist with concepts of economic flexibility, as long as one accepts that flexibility exists in multiple, perhaps unrelated varieties and does not have to follow any single path. It may, indeed, be wise to retain the idea of flexibility and aim for a more elaborate, heterodox interpretation, rather than abandon it to the restrictive neoclassical usage.

The characteristics of economic flexibility - its systemic nature, its short-run time scale, and its diversity - all contribute to its being a complex and amorphous topic. Such topics are hard to deal with theoretically, and any attempt to do so will be prone to oversimplification. Flexibility is, nevertheless, an important issue that should be addressed in economic theory. The following discussion first considers neoclassical accounts of flexibility and then moves on to alternative views.

NEOCLASSICAL ACCOUNTS OF FLEXIBILITY

Neoclassical economists have portrayed flexibility as the means by which an economy attains equilibrium outcomes with desirable efficiency properties. Flexibility, in neoclassical eyes, is characterised by the result of a rapid and optimal adjustment process. By contrast, non-neoclassical views of flexibility dwell on the means by which an imperfectly adjusted system can survive unforeseen external circumstances through partial adaptations with no efficiency properties and no continuously achieved equilibrium.

A major trait of neoclassical approaches is the dominance of price and wage flexibility over other modes of adjustment. If economic arrangements are to be flexible, from the neoclassical standpoint, they must permit prices and wages to move freely and equate supply and demand, thereby generating allocative efficiency. Other economic variables, such as output and employment, may also be changing, but they change in response to relative price movements and play no independent part in economic flexibility. The dominance of price and wage movements means that neoclassical flexibility is less diverse than one might anticipate from surface observation of economic variables. Other variables do change in neoclassical models, but they are subordinate to the prices and wages that guide economic behaviour. In neoclassical theory, economic flexibility is virtually synonymous with price and wage flexibility.

Neoclassical views of flexibility leave no room for slackness as a way of accommodating outside pressures and sustaining the economic system. On the contrary, they dismiss slackness as an allocative inefficiency caused by imperfections or rigidities. The faith in price adjustments assumes that the economy can function on a tight, allocatively efficient basis and that slackness and excess capacity must be harmful. When slackness does appear, neoclassical theorists interpret it only as a symptom of inflexibility, not as a source of flexibility permitting short-run adjustment. Their neglect of economic slackness prevents them from differentiating easily between the short run and the long run: all adjustments are accomplished through price variation, so flexibility cannot be set apart from longer term processes of economic growth and structural change.

As is standard with neoclassical methods, the account of flexibility says nothing about roles or social structure. Economic agents have fixed preferences, whose origin goes unexplained, and act rationally in accordance with these preferences at all times. There are no roles defined in relation to other people (forming a social structure) and distinct from people's actual behaviour. The simplified, mechanical picture of human behaviour removes the flexibility made possible, for example, by the space left within formal roles. Neoclassical theory tolerates only a single kind of economic flexibility: the one arising from the natural, asocial properties of perfectly equilibrating markets. This universal, individualistic, socially unspecific account denies that flexibility is an attribute of particular social and economic systems. Neoclassical flexibility comes from removing social imperfections and shifting to a universal market system on the lines of general equilibrium theory; a flexible economy should have little or no institutional baggage.

Flexibility in neoclassical theory normally refers to relations between individual agents. Far less attention is paid to flexibility within firms or other organisations, since neoclassical approaches generally treat firms as 'black boxes' responding consistently to external stimuli and adhering to profit maximisation. With all firms having fixed, well-defined preferences, there is little need to delve into how firms are constituted and how they function; they are assumed to have found the best internal arrangements, otherwise they would not be reaching a true optimum. Any adjustments are made through revised, optimal decisions in response to changed external circumstances.

The way to encourage economic flexibility, for neoclassical economists, is to bring the economy closer to the neoclassical template by removing institutional or informational obstacles that might hamper free markets. Under these conditions it is unclear why institutions such as firms exist, and the case for firms may require a breach of the ideal assumptions (Coase, 1937). If actual conditions ever matched the theoretical ideal, then firms would either be superfluous or have to reflect market principles, with the members of the firm transacting among themselves (as in internal market reforms). Neoclassical conceptions of flexibility, when applied to policy issues, will justify pro-market measures, stressing decentralisation, privatisation and curbs on trade union power. Advances in information technology might seem to chime with neoclassical flexibility, as transaction costs fall and improved communications offer smoother functioning of markets. Yet none of these developments can ever go as far as to make a real economy coincide with the stylised and artificial neoclassical benchmark.

Orthodox policy discussions of economic flexibility have had an implicit neoclassical core, revealed in the high profile given to wage flexibility and the assumption that increased flexibility must be desirable (OECD, 1986, 1987, 1994; IMF, 1994). Although orthodox studies have recognised other sources of flexibility, they have given a special status to wage flexibility and promoted it as the badge of a truly flexible economy. Any restrictions on wage movements have been characterised as rigidities that block the efficient functioning of markets and generate allocative inefficiencies, reduced investment and slower growth. Such reasoning is evident in the contrast frequently drawn between the dynamic, low-unemployment US economy and the more regulated, high-unemployment economies of the EU: the differences are routinely attributed to the greater flexibility of US labour markets, even though the importance of wage flexibility remains doubtful and the reasons for the US-EU contrast may lie elsewhere (Palley, 1998; Simonazzi and Villa, 1999). Implicit neoclassicism also underpins the assumption that flexibility is always beneficial, which allows policy analysts to recommend increased flexibility in all times and places. This stems from the use of perfect competition as the benchmark in studies that ostensibly take an institutionally specific form. The policy advice is governed by the theoretical presuppositions of the advisor, independently of the particular case being considered.

Neoclassical flexibility clashes with the characteristics of flexibility identified above: it neglects diversity and gives precedence to wage and price flexibility over other sources of variation; it does not treat flexibility as a short-run phenomenon and merges it with more fundamental, long-run change; and it refuses to see flexibility as contingent on particular social structures. The upshot is a narrow, distorted account of economic flexibility that obscures important issues; the rest of this chapter considers how structural approaches can give a fuller and richer account.

STRUCTURAL APPROACHES TO FLEXIBILITY

There is no official definition of social structure in sociology or elsewhere, but the commonest use of the term is based on a necessary or internal relationship among roles, where one role cannot exist without the other: cases from economics would be the roles of buyer and seller, creditor and debtor, and landlord and tenant. This usage derives largely from Talcott Parsons and has come to be regarded as the mainstream sociological view (Parsons, 1951). The role-centred approach ensures that social structure, made up of interrelated roles, is distinct from the people who occupy roles and would persist even if the entire cast of role occupants was changed.

The customary image of social structure is as something hard and solid, like a building, which would seem to conflict with flexibility. Structural approaches, taken to an extreme, could deny human agency and uphold the primacy of social context in guiding human behaviour. Where 'hard' social structures prevail, the result might be a hierarchical, static, rule-based society with little leeway for change and few outlets for human agency. Structural arguments have mostly appeared in sociology and are often contrasted with the agency-led individualism of neoclassical economics. It is easy to depict structural methods as being too rigid to represent flexible markets, for which the individualism of neoclassical theory might seem better suited. This is misguided, as all markets and other economic relations (flexible or

not) are structural and need a structural analysis. Markets do not arise naturally or spontaneously, as neoclassical theory implies, but are maintained and organised through formal institutions to yield a standardised, impersonal setting for economic exchange (Hodgson, 1988, Chapter 8; Fourie, 1991; Lazonick, 1991, Chapter 2). Since all markets have institutional content, one cannot legitimately equate economic flexibility with an absence of 'rigid' structures. Flexibility must occur within a broader social structure and can never stand alone.

Recent social theory has avoided a stark opposition of structure and agency and moved towards a closer interdependence, whereby social structure need not be at odds with human agency - prime examples are Giddens's structuration theory and Bhaskar's transformational model of social activity (Giddens, 1984; Bhaskar, 1979). Other authors have made similar arguments expressed in different conceptual language (Bourdieu, 1977; Goffman, 1983; Alexander, 1985, 1998; Munch and Smelser, 1987; Elias, 1991). The drift of social theory in the last few decades has been away from an unbending social structure that dominates human behaviour. Instead, structures are seen as enabling as well as constraining human action, with agents in part influenced by structure and structures reproduced through human agency (Jackson, 1999). Because social structure and human agency cannot be separated, it is no longer valid to regard social structure as an external, removable constraint on human behaviour. Structures are vital to all human activities, flexible as well as inflexible.

Another strand in the sociological literature has softened social structure in a different fashion, by recognising a new, more fluid type of social structure, termed a figuration or figurational structure (Elias, 1978, 1991). In a figurational method, social structure and human agency are replaced by figurations, which consist of relations among people, not roles or positions. For any given society, figurations will be highly diverse, ranging from direct personal contacts to indirect dealings with representatives of government or business. Nobody can be isolated from figurations, and so individual agency becomes a redundant concept - all human action occurs in a social setting. Likewise, there is no longer any need for a concept of role playing, and the usual agency-structure distinctions can be depicted through the distance and degree of formality in personal relations. Face-to-face personal contact will permit more informal relations ('human agency'), while indirect contacts will

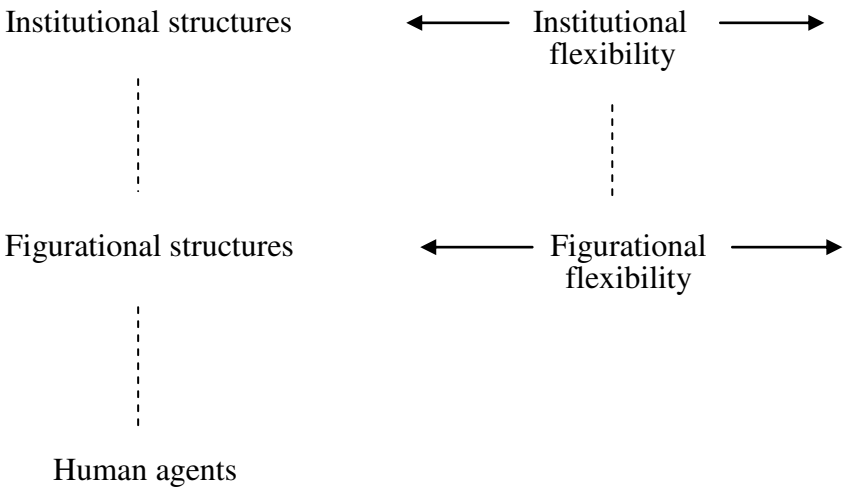
have to be formal and institutional ('role playing'). A figurational method hopes to transcend agency-structure dualism by replacing role-based social structures with people-based figurations that embody structure and agency.

Critics of figurational sociology have argued that figurations, on their own, cannot resolve the problems of agency-structure dualism and that the neglect of roles may blur important theoretical distinctions (Layder, 1994, Chapter 7; Mouzelis, 1995, Chapter 4). To opt exclusively for figurational methods could oversimplify matters and provoke a collapse into structural or individualistic reductionism, depending on how personal relations are interpreted - a stress on indirect relations would downgrade human agency and free will; a stress on direct relations would imply a loose, unstructured aggregation of individual agents. Figurational methods, the critics claim, will undermine a genuinely structural approach.

Instead of replacing social structure, figurations could be viewed as augmenting the role-centred account of structure. One can, for example, distinguish institutional structures (based on roles) from figurational structures (based on personal relations) and allow for both in social theory (Mouzelis, 1995). Any social structure will have an institutional and figurational side, as it relies on role playing and on social interaction among the people involved. No social role can cover every facet of the role occupant's behaviour, and even the most role-based human activities will have a residual, figurational component. Recognising figurations will make social structure more pliable, diverse and responsive to external changes, so that it can no longer be just a barrier to human action.

The new approaches to social structure have significant implications for flexibility because they counteract the belief that social structures are fixed and an obstacle to change. With looser and plural social structures it becomes straightforward to accommodate a degree of flexibility. One possible approach is shown in Figure 1.

Figure 1: Institutional and figurational flexibility



Diversity of social structure creates three interdependent layers (institutions, figurations and agents), none of which can exist without the others. Flexibility can arise in Figure 1 in two ways, either through institutions or through figurations. The first case - institutional flexibility - assumes that existing roles in production, employment and public policy can cope with external changes. Examples are where rises and falls in demand can be met with variations in formal employment or where employment contracts sanction variable working practices. The second case - figurational flexibility - meets external changes through personal relations extending beyond economic roles and contracts. Even if institutions cannot in themselves cope with external changes, flexibility can still be attained through adjustments in figurational structures, particularly in the day-to-day working relationships among people well known to each other. Any such adjustments are likely to be specific to a single workplace and probably temporary - if they persist and become permanent, they may be converted into new roles. Generally speaking, more predictable changes will be met by institutional flexibility and less predictable changes by figurational flexibility.

A structural account of flexibility raises the issue of who gains and who loses. Neoclassical economics avoids this issue, as flexibility occurs through spontaneous price changes and the distribution of gains and losses depends on resource entitlements, assumed fixed from the outset. Distributive matters can then be hived off from flexibility and considered under a separate heading. With a structural account, flexibility does not emerge from an invisible hand process and can be obtained in various ways, which have their own distributive consequences. Some adjustments would place the cost primarily on workers, whereas others would penalise employers. A more socially specific approach can bring out the equity implications of flexibility often neglected in orthodox discussion.

MICRO- AND MACRO-FLEXIBILITY

Economic flexibility pertains to both the micro level of small-scale activities and the macro level of the whole economy. For a firm or other economic organisation, flexibility is crucial, since the inability to meet unforeseen events could threaten the organisation's survival. For a whole economy, flexibility aids the stability of the economic system - short-term variations, which might be perceived as instability, will protect the system from more severe upheavals. Both micro and macro flexibility can take an institutional or figurational form.

At the micro level, a firm or other organisation must respond to changes in economic conditions. One option is to rely on institutional flexibility, expressible through impersonal roles, positions and contractual relations. In labour markets a firm can respond to a change in the demand for its output by recruiting or laying off workers or by adjusting the working hours of current employees. Recruitment/lay offs will have a far more unequal impact on the employees, causing hardship for those who lose their employment roles, but both approaches are institutional in form. Other economic events might call for employees to be redeployed to different tasks and thus switched between employment roles. Beyond labour markets, the adaptations made inside an organisation will frequently be channelled through institutional structures. The idea of flexible specialisation links increased adaptability to a shift towards

greater decentralisation and vertically disintegrated production (Piore and Sabel, 1984). Small, loosely connected production units would, it is claimed, be better placed to revise their own practices and their relations with other production units in the face of fragmentary and rapidly changing patterns of demand. Flexibility is here being fostered by new, more supple institutional structures.

Another option is for a firm to exploit figurational flexibility, which goes beyond recognised economic roles and positions. In labour markets, employers could change the intensity of work within existing labour contracts or encourage their work force to adopt new working methods compatible with current employment roles. The figurational dimension of production has long been discussed by heterodox economists, who have argued that labour contracts are incomplete and leave loopholes for flexible working practices. Firms do not have a single optimum production method in the neoclassical manner, but allow some slack that permits variable productivity (Hodgson, 1982). Much the same will apply in other contractual relations outside labour markets. The impossibility of pure contract, as a general principle, ensures that contractual and institutional relations will not cover every possible adaptation and that some flexibility will occur by non-contractual and non-institutional means.

At the macro level, changes in economic activity can also be accommodated in several ways. Output and employment variations are backed by public welfare measures, notably unemployment benefits and social assistance, which alleviate the poverty associated with unemployment and act as automatic stabilisers maintaining aggregate demand and reducing economic instability. Output and employment variation has become institutionalised as the main avenue for economic adjustment in modern capitalist economies. Within the present framework, the government can be seen as performing the economic role of supporting the unemployed. The receipt of welfare benefits offers a role or social position for jobless people - they have lost their employment roles but are granted secondary roles as benefit recipients, so as to prevent their exclusion from institutional structures. Welfare policies, often portrayed as rigidities in neoclassical theory, will ease economic adjustment by offsetting the harsher consequences of unemployment and reducing the volatility of aggregate demand.

Other institutional structures at the macro level are bound up with macroeconomic policies. An activist macroeconomic policy on Keynesian lines entails a willingness to bolster and stabilise aggregate demand through fiscal and monetary measures. The government takes on a role as an economic manager and establishes the necessary institutional structures, which will usually have a formal, visible character. An inactive, laissez-faire policy stance might seem to rule out an economic role for government, yet it results from a deliberate decision to withdraw from economic management and constitutes a (passive) role being consciously played by government. Hence laissez faire is not an unstructured state but the outcome of institutional structures precluding an active government policy. Both activist macroeconomic policy and laissez faire are the expression of institutional structures that guide and influence policy making.

Along with its institutional aspect, macroeconomic flexibility will also have a figurational aspect. Most people have negligible macroeconomic influence, as their economic behaviour is on too small a scale relative to the whole economy; they are micro agents who belong to macroeconomic aggregates but play no significant part in macroeconomic affairs. But a few people, by virtue of their privileged status in the social structure, do have enough influence for their decisions to make a difference at the macro level: these macro agents include government policy makers, senior business leaders and major participants in financial markets. The figurational aspect of macroeconomic flexibility will derive from the personal interactions among macro agents. Sometimes the interactions may be direct and visible, as when politicians discuss coordinated economic policies or negotiate with the heads of multinational businesses about the location and extent of their investment plans; at other times the interactions may be less direct, as when investors in financial markets seek to anticipate the behaviour of government policy makers. Personal interactions among business leaders could generate explicit agreements or much looser networks or tacit understandings with little formal expression. The resulting figurational structures will stand beside institutional ones and may in some cases evolve into an institutional form - close cooperation between businesses can, for instance, culminate in a merger that replaces figurational with institutional structures.

SOURCES AND LEVELS OF ECONOMIC FLEXIBILITY

Institutional and figurational structures will normally coexist, but their relative importance will vary. If institutions are deeply entrenched and people follow clearly defined roles, then social structure is apt to be dominated by institutions, even though social interaction will also have a figurational element and role players may forge relations with other role players and perform their roles in a personalised fashion. If, on the other hand, institutions are ill defined and give only weak behavioural guidelines, then figurations will assume a greater relative importance, as people will have to develop their own styles of working and interacting with others.

The same can be said of institutional and figurational flexibility: they will coexist but in some cases one will outweigh the other. There is little prior reason to suppose that institutional and figurational flexibility are always correlated, to yield a 'flexible' economy (with high levels of both) or an 'inflexible' one (with low levels of both). A more general view would let them vary independently and open up the prospect of institutional/figurational mismatches, where flexibility may have an asymmetrical quality. Economies might be more flexible in the figurational domain than in the institutional domain, or vice versa, which makes it harder to talk in simple, dualistic terms about flexible versus inflexible economies. Adding figurations to the analysis helps to demonstrate the diverse sources and levels of flexibility.

If institutional and figurational flexibility can each take high or low levels, then there are four possible combinations, as shown in Figure 2. High levels of institutional and figurational flexibility (top left of Figure 2) implies an economy whose institutional and figurational structures display a strong capacity for adaptation. Under these conditions, the economy can accommodate short-term events and disturbances via regular adjustments of both institutions and figurations. In the long run the economic system as a whole ought to be durable, given that the regular adjustments should prevent systemic breakdowns and remove the need for wholesale changes of system. Short-run adjustments are coupled with long-run durability.

The opposite case is where institutional and figurational flexibility are at low levels (bottom right of Figure 2). Here the economy possesses fixed institutions and personal relations, which might be well matched with each other but show little capacity for adaptation. The low flexibility should yield limited economic change in the short run, but over a longer period the economy would be susceptible to systemic failures and crises that might bring a change of economic system. Short-run inertia is coupled with long-run instability.

The top-right case in Figure 2 involves institutions that cannot readily meet external changes, beside figurations that are malleable and fluid. Most variability will have to come from figurations and may create tensions between changing figurations and invariant institutions: people's actual behaviour and relationships may diverge from their roles and social positions. There will be pressures for the invariant institutions to change as well, especially if the figurational adjustments prove to be more than merely temporary and persist over long periods. An example is where new technologies encourage new ways of working, expressed as figurational changes, which may clash with older roles and institutions.

The bottom-left case in Figure 2 combines variable institutions with unchanging figurations, so that institutions become the chief source of variability. With the previous case reversed, the pressure is now for personal relations to conform to new and unfamiliar roles and positions. An example is where managers of a firm introduce administrative reforms, setting up new roles that require changes in people's behaviour and personal relations. Whenever institutions and figurations are mismatched, there will be frictions or resistance to change within the social and economic system. Long-run change will take place only if the variable element dominates and the initial resistance is overcome.

Figure 2: Sources and levels of economic flexibility

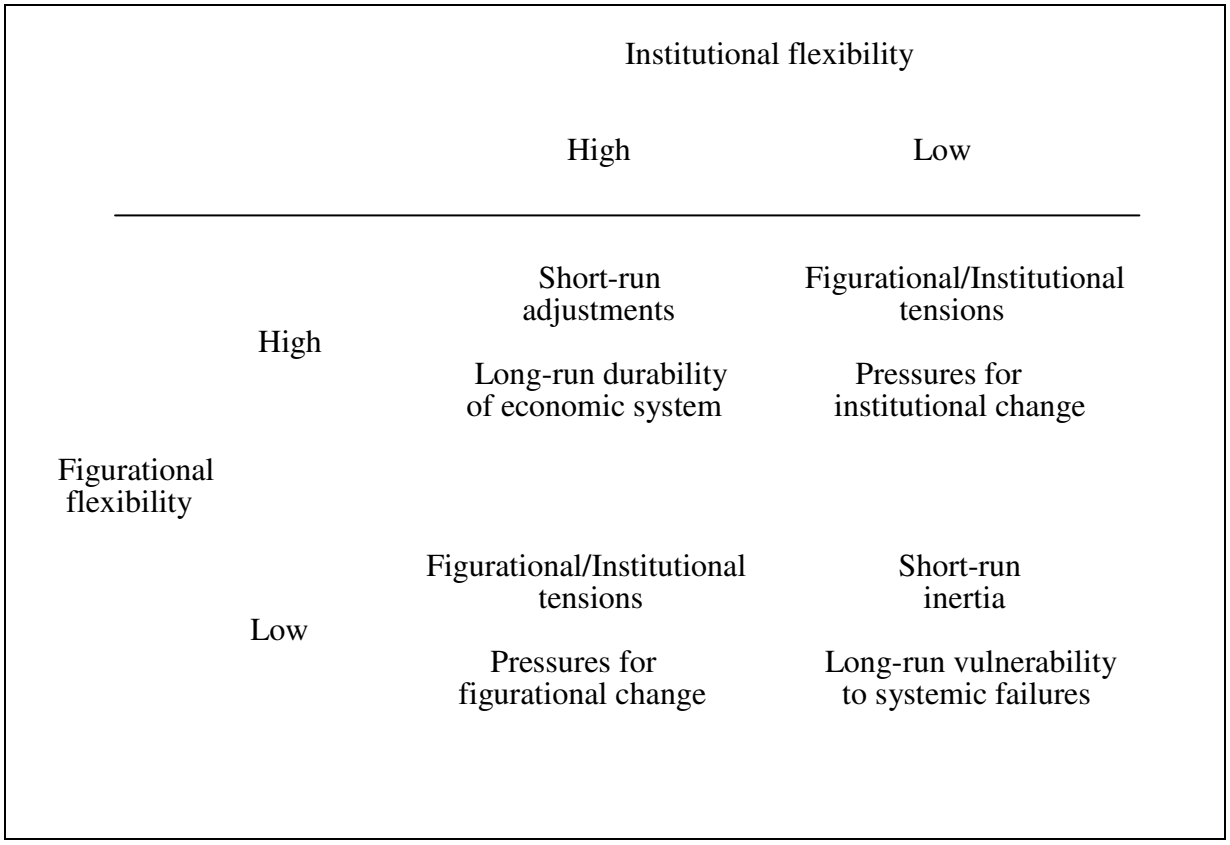


Figure 2 conveys no normative message. In particular, it should not be taken for granted that the top-left, high flexibility case is better than the others. Whether flexibility is desirable or not depends on the nature of the adjustments and how they are being implemented. Flexible institutional and figurational structures may impose the heaviest adjustment costs upon the poorest and weakest groups in society, while protecting the interests of more privileged groups; on its own, flexibility cannot guarantee ethically appealing outcomes. Conversely, the low flexibility case at the bottom right of Figure 2 could denote a static but egalitarian society which, because of its inertia, gives rise to few adjustment costs - by some ethical criteria, this might be thought superior to more flexible alternatives. Normative assessments cannot therefore rely on the degree of flexibility alone, but need to ask how

flexibility is accomplished and in whose interest it operates. Within the scheme of Figure 2, each case can still embrace a wide range of adjustment methods with various social and distributive consequences. One should beware the oft-encountered but oversimplified conclusion that high flexibility is inherently desirable.

Institutional and figurational flexibility are related to the concepts of system integration and social integration often invoked in the Marxian and sociological literature (Lockwood, 1964; Mouzelis, 1997). System integration refers to whether the parts of a social system hold together and function smoothly, where the parts are impersonal items such as institutions and roles. Social integration refers to whether the members of a social group or society interact harmoniously and identify with collective goals and interests. In the present framework, system integration is concerned with institutional structures, and social integration with figurational structures (Mouzelis, 1995). A stable, well-ordered society will have high levels of system and social integration, although at times one or the other might be lost. In capitalist economies, for example, mass unemployment apparently indicates system disintegration but does not as a rule prompt major social breakdowns or unrest, which suggests that social integration has remained intact. Using the twin concepts of system and social integration shows that a full treatment of economic change should acknowledge the personal and impersonal sides of how an economy functions, along with the connections between them.

In the scheme of Figure 2, institutional flexibility broadly corresponds to system integration and figurational flexibility to social integration. An economy with institutional flexibility can make adjustments within the economic system itself, so the system is well integrated. Less flexible systems will have fewer outlets for short-term adjustments and will be more prone to systemic difficulties. Likewise, an economy with figurational flexibility will have close, well-developed personal relationships that can accommodate social adjustments without undergoing a breakdown; this implies a high level of social integration. Inflexible figurations will involve more distant and less harmonious relations among members of society, together with an increased chance of frictions and resistance to change. Unlike neoclassical economists, who usually see inflexibility in a negative light, Marxian and other heterodox writers writers may be more willing to put a positive gloss on figurational inflexibility: it

might indicate class consciousness among workers resisting flexible arrangements biased in favour of employers and capital.

Economic flexibility, as defined here, will bring only limited changes that can be contained within a given economic system. Larger changes, over longer periods, will normally require a mismatch between institutional and figurational structures (top right or bottom left of Figure 2). If either institutions or figurations change independently, so as to create a mismatch, then there will be pressures for more fundamental social changes. Such arguments characterise the theories of long waves and technical change put forward by the Regulation School, neo-Schumpeterians and the social structures of accumulation approach (Boyer, 1988; Perez, 1983; Freeman and Perez, 1988; Tylecote, 1991; Gordon, 1980). Adopting a materialist stance, these theories root fundamental economic changes in a transformation of technology prior to later adjustments of institutions and social structures. Long-run changes will start with new methods of production and novel ways of working which clash with older institutions; as the new methods are diffused, they evoke increasing tensions and pressures for institutional change until eventually new institutions are created, more in tune with the new technologies and working procedures. A wave of expansion will then ensue. In Figure 2, the stimulus to long-term growth comes from the top-right case, where new ways of working appear first through figurational flexibility and institutional change lags behind. If institutions do undergo fundamental reform, then the economy will tend back towards a period of high institutional and figurational flexibility (top left of Figure 2). Long-run development will then go through phases of institutional inflexibility, until the resistance to change is broken down, institutions and figurations are rematched, and institutional flexibility is restored.

From this perspective, a changing economy cannot be lodged permanently in the 'ideal' top-left case of Figure 2 and must see periods of institutional/figurational mismatch when one source of change outstrips the other. It follows that flexibility should not be equated with growth, and inflexibility with stagnation. Economic growth takes place by a dialectical and historical process calling forth systemic tensions (inflexibilities) and, at certain times, crises and reformulations. Contrary to what one might think, a perfectly flexible world would experience only minor changes within a perennial, all-encompassing social and economic system.

CONCLUSION

Two features of economic flexibility have been emphasised in the present chapter. The first is that flexibility is a structural property, specific to particular social structures, and not something that emerges spontaneously from an unstructured environment. If social structures are interdependent with human agency and multiple in form, as recent social theory has argued, it becomes clear that they may assist rather than restrict economic flexibility. Their original image of hardness and solidity has been replaced by a softer image more consistent with variable economic arrangements. Far from being an obstacle to economic flexibility, social structures provide the means by which flexibility is accomplished.

The second feature is that flexibility arises from diverse and open economic relations, as against a perfect, complete economic system. No economy can make instantaneous and optimal adjustments to every external event. Actual economies accommodate outside disturbances by having diverse, plural arrangements that allow for varied responses. The diversity ensures that there is no unique, even-handed adjustment method; the outcomes of flexibility will be socially specific, giving rise to conflicting interests and an unequal distribution of gains and losses. One should not therefore assume that flexibility is always and everywhere desirable.

Both features are missing from neoclassical economics, whose mistrust of social structure and reliance on perfectly adjusted equilibria presents a false account of natural, unstructured and optimal flexibility. Neoclassical thought has overlooked important matters surrounding flexibility, including its structural basis, its short-run character, and its uneven social consequences. A good starting point for examining these matters would be to learn from recent sociology and seek a richer understanding of how social structures underlie economic behaviour.

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