

Wages and the Labour Market

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Abstract

In contrast to the traditions of social science, the argument made here is that wage structures are not to be explained by reference to an underlying economic or social rationale through which they contribute to the efficient or smooth functioning of an economy or society. Theories of wages have overstressed coherence and functionality and underplayed conflict and contradictions and the scope for discretionary, random or opportunistic decisions. Wage structures have been held partially in check in the past by institutional and social processes which linked wages across the labour market. Many of these processes, from industry-level pay bargaining to concepts of fair wages, 'going rates' or the family wage, have disintegrated in the 1980s and 1990s. More attention needs to be paid to the role of wages in the redistribution of resources and to the need to re-regulate the labour market.

1. Introduction

Wages, according to social scientists, perform a number of different functions within an economy. It is these multiple functions that generate much of the interest in wages and stimulate much of the debate over the scope for and desirability of policy intervention in the processes of wage determination. While disagreements prevail over the relative importance of the different functions, it is still generally presumed that wages do perform some form of 'legitimate' function, either at the economy level or within organizations. Wages are not simply the outcome of distributional conflict but instead serve variously to signal changes in supply and demand, to cement social coherence and the acceptance of the economic and social order, or to provide a motivating tool for management. Whatever the particular approach adopted, the search for a rational, legitimizing explanation of the structure of wages and the trends in wages has been central to social scientists' work in the field of wages.

The argument to be advanced here is that it is becoming increasingly futile to approach the question of wage determination with the presumption that wage structures, and in particular current changes in wage structures, are to

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be explained by reference to some underlying economic or social rationale through which they contribute to the efficient or smooth functioning of an economy or society. The predominant theories, from the neoclassical to the radical, have overstressed coherence and functionality and underplayed both the persistence of conflict and contradictions and the scope for discretionary, random or opportunistic decisions. However, wage determination decisions have been held partially in check in the past by a series of institutional and social processes which served to link wage determination across sectors and organizations and labour force groups. Many of these processes, from industry-level pay bargaining to concepts of fair wages, a going rate of wages or the family wage, have disintegrated in the 1980s and 1990s.

Trends towards wage flexibility have facilitated both a redistribution of income towards the higher paid and a widening of the range of productivity levels found within the economy, as the government in particular has sought to associate the notion of market wages with that of firms' ability to pay, instead of a standard rate for a given efficiency level of labour. This redefinition of the 'desirable' economic function of wages provides a basis for a redistribution of wages unchecked by notions of a similar wage for workers of similar productivity.

The paper is organized as follows. The first section outlines the three main rationales or functions of pay within social science literature; the second provides a brief resumé of current trends in wages before turning, in the third, to an assessment of these trends against the three rationales outlined in the first section. The paper concludes by suggesting that social science needs to adopt a less functional approach to pay and to increase the attention paid to its role in the redistribution of national income and resources.

2. Three rationales for wage structures

The Price Allocation Function

For economists within the mainstream tradition, the main function of wages is to allocate labour: that is, to use the price mechanism to direct labour to its most productive use. This function has a long-run as well as a short-run dimension:

People are now assumed to have the information and ability to optimise over a long-term planning horizon. (Polachek and Siebert 1993: xv)

For that long-term planning to be efficient,

In a competitive economy, wages should act as guideposts informing people which occupation to take, for example, or how long to stay in school, or when to change jobs ... In such a world ... influencing the wage system by taxes, or by trade unions or by government laws ... adversely affects labour allocation and thus national income. (Polachek and Siebert 1993: 1)

Severe problems emerge for mainstream economists if wages are unable to provide the signals necessary for optimization over the life-cycle. However, wage theorists also use the life-cycle approach together with the theory of net advantages to explain dispersion of wages for apparently similar measured qualities of labour. For example, women are said to choose to invest in non-deteriorating human capital, even though it yields lower rewards, because of a preference to combine work and family over the life-cycle. The notions of compensating differentials and heterogeneous human capital provide tremendous scope for imputing economic rationality into variations in wages not apparently compatible with a simple human capital approach (see Polachek and Siebert 1993: ch. 7). These approaches have allowed the notion of underlying coherence to be advanced even if the observed variables explain only part of the variations in earnings.

This search for rationality is perhaps seen most clearly within the discrimination literature, where the objective is to add more and more variables (for example sector, size of firm or even working-time contract) so that the residual, which is equated with the irrational element discrimination, is minimized (Humphries 1995). This implies that gender discrimination in pay can be disentangled from the system of gender segregation, that is that the characteristics of jobs or firms are gender-neutral, independent of the gender mix of the work-force (see Paci *et al.* 1995). Disequilibrium theorizing goes against the grain of mainstream methodology, and theorists, instead of recognizing that under conditions of high unemployment, and thus non-clearing labour markets, the relationship between earnings and productivity can become distorted, have chosen to demonstrate that high measured levels of unemployment cannot be equated with an effective labour reserve (Layard *et al.* 1991). The hysteresis argument—that most of the unemployed are rendered ‘unemployable’ by virtue of the degradation of their skills and aptitudes—allows wages still to reflect relative productivity, even if all wages are perhaps above the long-term market-clearing level.

This price allocation approach to labour markets depoliticizes any change in wage distribution, which is explained by change in underlying productivity, as valued by supply and demand, and not by changes in the balance of power within the labour market. Some economists are questioning the assumption that the market imposes strict controls on the payment of wages and have instead begun to focus on the discretion that firms enjoy over wage-fixing. Yet the search for rationality is still maintained in the argument that employers have monopsony power, which results in both low wages and low employment, and that this theoretical model allows for a higher imposed wage, for example through a minimum wage consistent with a rise in employment (Card and Kreuger 1995; Dolado *et al.* 1996).

The Social Stratification/Social Cohesion Function

Wages have long been recognized within a range of social science disciplines as performing social roles, both legitimizing systems of work organization

and social stratification and shaping standards of living and consumption patterns.

Labour is the only factor of production responsible for its own subsistence and reproduction, and thus cannot be treated as if it is indifferent to its price (Picchio 1981). Wages are the prime determinant of the standard of living: this function for Marx provided a floor to the level of wages, defined as socially necessary labour time. The centrality of wages to standards of living provides a basis for understanding wage differentials between social and demographic groups. In small homogeneous societies, one may find narrower wage differentials than in more heterogeneous societies, where other divisions, such as between ethnic groups, reduce pressure for converging standards of living. Standards of living are realized within households, and it is this communal dimension to living that may lead on the one hand to a convergence of wages around the notion of acceptable subsistence levels, but on the other hand to divergence based around the different roles within the household (Picchio 1981; Humphries 1977; Siltanen 1994). The pooling of wage earnings at the household level provides a basis for young people, married women and to some extent older workers to provide their labour at below full minimum adult subsistence (McLaughlin 1995). The concept of the family wage has been both an important historical force protecting minimum wage levels and at the same time a basis for differentiation within the wage labour force, facilitating the generation of labour supplies that could be employed below the minimum 'family wage'.

The social legitimizing role of wages within organizations and within the broader society has been recognized not only by sociologists and industrial relations specialists, but also by many economists, from Adam Smith to Marshall and Hicks, and including current-day mainstream economists such as Solow (1990). These approaches emphasize the role of custom and practice: Marshall stressed the efficiency of paying 'fair' wages and adopting 'fair' methods of dividing up the dividend from higher productivity or market prices. Moreover, fairness requires that the worker 'should not be worried by constant attempts to screw his pay down by indirect means' (quoted in Solow 1990: 17). However, Marshall followed by Hicks (1932) took the view that the apparently strong role for custom and practice in determining wages prevails only until the forces of demand and supply require a change in the customary structures. This perspective provides *ex post* rationalizations of both stability and change, explaining the stickiness of wages in the face of varying economic conditions, but rationalizing any actual changes in differentials by the development of unsustainable imbalances between demand and supply.

Industrial relations academics and sociologists have accorded a more dominant and long-term role to these influences, but thereby encounter greater difficulties in explaining periods of rapid change. Within this literature there are disagreements as to whether wage structures primarily reflect social stratification (Wootton 1955; Wood 1978) or internal hier-

archies (Doeringer and Piore 1971; Brown 1973; Routh 1980), but there is general agreement within this approach that wage structures are inherently sticky, reflecting as they do entrenched social values and/or notions of fairness (Akerlof 1982; Thurow 1975) which are essential for the smooth lubrication of the employment relationship.

For sociologists wage structures provide the social cement to a social order, whether the order is inequalitarian or egalitarian. Notions of fairness are seen to be bound up not with notions of absolute fairness or justice, but with customary expectations of relative or absolute living standards. Similarly, industrial relations specialists have regarded the defence of existing wage structures as the bedrock of collective bargaining behaviour (Clegg 1972); trade unions play a primarily defensive role within a society and thus have to organize first to protect against erosion of existing rights and benefits (Hyman and Brough 1975). This explains, in part, the essentially conservative role played by collective bargaining in maintaining existing wage structures rather than in bargaining for revolutionary change. Trade unions press for changes in wage structures within a context where at least the real value of existing wage levels is defended and changes are sought through a process of levelling up rather than levelling down. This approach provides an historical legitimacy to wage structures which is again reflected in social expectations, in contrast to the productivity-related legitimation provided by economic theory. The industrial relations approach tends to focus on the benefits of stability but at the same time has a dynamic perspective: by concentrating on the processes by which changes to wage differentials actually come about, industrial relations has identified the critical importance of institutions as the mechanisms through which change is actually effected. Custom and practice may be both a force for stability and a notion that is used in the bargaining process as an argument for change to actual pay levels (Hyman and Brough 1975; Marsden 1986; Brown and Nolan 1988).

The Management Tool Function

Recent debates within the economics literature have focused around a third function of wages, and that is its use as a management tool within organizations (e.g. Williamson 1975; Becker and Stigler 1974; Bowles and Gintis 1990; Lazear 1981). This function arises out of further peculiarities of labour as a factor of production: first, labour retains its own free will, such that the purchase of labour hours does not provide a guaranteed level of labour effort; and second, labour acquires organization-specific skills and has to be provided with incentives to ensure that it continues to deploy these skills productively within the organization in the interests of management. These 'peculiarities of labour' require the development of management tools to protect investments in firm-specific skills and to reduce the risk of 'shirking'. Wages provide one form of management

tool with potentially low transaction costs as workers may internalize management objectives where these objectives are rewarded through high or stable wages.

This interest in explaining wages by reference to management objectives within organizations arose in part out of the deficiencies of the main approaches to wage determination set out above. Both the price allocation and the social stratification approaches appeared to be better able to explain divisions between labour market groups than between organizations. The Marshall or Hicks approaches placed emphasis on custom and practice but without a developed rationale, acceptable to economists, as to why managers were willing to observe these constraints. There is now a wide literature relating pay to the management of the employment relationship, ranging from theories where the firm-specific or idiosyncratic knowledge of workers requires wage strategies to maximize loyalty and minimize opportunistic behaviour, to those where it is the propensity of workers to 'shirk' that leads to the use of wages to internalize discipline as a cheaper and more effective management tool than direct supervision. Underlying each of these approaches is a desire to explain stability in wages structures or the ways in which institutions reduce variability and unpredictability in individuals' earnings over time. The focus is on the explanation of wage stickiness and of hierarchical structures, and not on the implications of unbridled managerial discretion.

Similar concerns are also evident in the institutional versions of segmented labour market theory. For Doeringer and Piore (1971) and for Thurow (1975), wage hierarchies within organizations are stable to encourage the recruitment and retention of workers with firm-specific skills: for the transaction cost literature (Williamson 1975) these structures prevent opportunistic behaviour and engagement in costly spot-bargaining with workers who have idiosyncratic skills. For implicit contract theorists, wages remain stable over the business cycle in order to provide workers with insurance against income instability, and for efficiency wage theorists, wages are kept above market-clearing levels to discourage shirking. Much of the transaction cost literature has focused on why individualized pay is too costly a system for employers to implement, even though recent trends have been in exactly the opposite direction.

Summary

Whichever of the three approaches is considered, we can identify an emphasis on providing an underlying rationale for the structures of wages and thereby an implicit justification for wage differentials. For the mainstream economists the role has been that of the allocation of labour in the short and the long term, and unexplained deviations have been attributed by and large to unmeasurable factors, thereby allowing the assumption of underlying coherence to be maintained. Rejection of the price allocation approach has been regarded, in my view incorrectly, often as almost

synonymous with a belief in stable wage structures reflecting stable and known social norms on the one hand, and/or stable incentive structures to motivate labour on the other. The possibility that wages may neither offer appropriate economic signals nor reflect a coherent set of social norms and values has tended not to be seriously considered. Similarly, in the rush to 'explain' the existence of internal labour markets and wage hierarchies, there has been an overemphasis on the functionality of these systems, and an underemphasis both on the historical evolutionary nature of internal labour market structures and on the wide range of pay policies that may still be compatible with the objective of generating a stable labour supply.

Some of the deficiencies in our understanding of what has been happening to pay structures arise from this overfunctional approach to pay determination or from a misplaced emphasis on the coherence of social norms around pay. Nevertheless, recent changes in the labour market and in social structures have widened pay differentials further than we have been accustomed to in the past, while at the same time there has been an undermining and fragmentation of social norms, reducing the influence of forces for stability and social cohesion on pay structures. The task is thus to explore both empirically and theoretically the changes that have been taking place in pay, with a view to critiquing the predominant theoretical approaches to pay and to identifying some of the new developments which require new thinking on how labour markets are likely to operate under conditions where pay determination is increasingly unconstrained by social norms or by the notion of a going rate for labour.

3. Recent wage trends

The UK, along with the USA, has experienced a very rapid widening of inequality in the 1980s, which has continued into the 1990s and has resulted in a higher share of low paid workers, even when only full-time employees are considered, than in any other European country, exceeded only by the North American countries of the USA and Canada (see Table 1). The result has been an effective stagnation in the real wage level of the lowest decile of male manual pay since 1980 and at a level of real wages previously achieved in 1974 (Machin 1996: fig. 1).¹

Moreover, much of the low pay found in the UK is concentrated among part-time workers, such that if part-time earnings data were included alongside full-timers, the relative position of the UK would deteriorate further. (See Table 2 for deterioration in relative part-time pay.) Other countries with high shares of part-time workers, such as the Netherlands, Denmark, Sweden and Germany, do not have the large and widening discrepancies in hourly pay rates between full and part-time workers which characterize the UK labour market (Fagan *et al.* 1995; Asplund *et al.* 1996; Büchtemann and Quack 1989; Gregory and Sandoval 1994).

TABLE 1
Share of Low-paid Employment
among Full-time
Employees*

<i>Country</i>	<i>%</i>
United States	25.0
Canada	23.7
United Kingdom	19.6
New Zealand	16.9
Japan	15.7
Australia	13.8
France	13.3
Germany	13.3
Austria	13.2
Switzerland	13.0
Italy	12.5
Netherlands	11.9
Belgium	7.2
Finland	5.9
Sweden	5.2

*Data relate to 1993, 1994 or 1995.

Source: OECD (1996).

TABLE 2
Trends in the Distribution of Earnings in the UK, 1980,
1986 and 1996

<i>Full-timers' hourly earnings</i>	<i>1980</i>	<i>1986</i>	<i>1996</i>
D1/D9			
Men	2.51	2.96	3.63
Women	2.42	2.76	3.39
Ratio of medians			
Male manual : non-manual	0.71	0.66	0.61
Female manual : non-manual	0.82	0.74	0.63
All female : male	0.72	0.75	0.83
Manual female : male	0.70	0.69	0.71
Non-manual female : male	0.61	0.62	0.70
Ratio of averages			
Female part-time:			
Female full-time	0.81	0.77	0.72
Male full-time	0.58	0.57	0.58
<i>Full-timers' weekly earnings</i>	<i>1979</i>	<i>1985</i>	<i>1996</i>
Ratio of averages			
Men <18 : adults	0.41	0.37	0.33
Men 18-20 : adults	0.63	0.56	0.47
Women <18 : adults	0.58	0.52	0.44
Women 18-20 : adults	0.77	0.69	0.57

Source: New Earnings Surveys.

Inequality has risen within both male and female earnings distributions and indeed within manual and non-manual groups. At the same time, there have also been some significant changes in differentials by gender and

employment status: manual pay has declined relative to non-manual pay, while women's pay has risen relative to men's, at least for full-timers; female part-time pay has remained approximately constant relative to male full-time pay between 1986 and 1994 while falling relative to female full-time pay (see Table 2). This tendency for both between and within-group inequality to rise is found in Machin's analysis (1996) of differentials by education, age and occupation.

Rising inequality and changing gender differentials also characterize individual industrial sectors, and are not to be explained by changes in industrial composition. Comparing the highest decile with the lowest decile earnings ratios for the ten industrial sectors for four gender/occupational groups (male and female manual and non-manual workers), only 1 observation out of 34 (6 missing values) failed to reveal an increase in wage inequality between 1986 and 1994 (male manual workers in other services (see Table 3)). Moreover, the size of the increase in inequality was relatively substantial, exceeding 20% in 16 cases, 8 of which applied to female non-manual workers.² These trends towards increasing wage dispersion are also found at the two-digit industry level. Out of 117 observations across the four gender/occupational groups, 89 showed an increase in dispersion, 9 little change and 19 a decrease; 14 of the 19 showing a decrease applied to manual workers, 10 for male and 4 for female manual workers (see Table 3). Widening earnings inequalities thus appear to be spread throughout the economic system and are not primarily the result of rising wage levels for higher paid industries relative to lower paid.³

The trends revealed by national earnings data are consistent on the one hand with a systematic pattern of pay restructuring in 'between-group' differentials; however, there is also evidence of more random changes in pay attached to occupations and industries, resulting both in movements of pay up and down the pay structure not related to position in the pay hierarchy (and thus not explained by a general tendency towards wider differentials), and in an increase in the dispersion of pay within given industries, occupations and educational groups. This widening intra-industry and occupation dispersion suggests an increase in the importance of both the individual and the organization over industry and occupation in determining pay levels.

To understand fully the changes taking place in the earnings structure, we need more information relating to pay differentials between organizations and to the dispersion of earnings for a particular job category within organizations. Such information is not available and we can only speculate as to the impact of decentralization and trends towards individualization on pay structures. Where information is available on pay variations by organization, i.e. mainly in the WIRS survey, significant variations between establishments associated with factors such as the gender ratio and the unionization rate are revealed (Millward and Woodland 1995). More detailed information is now required at the organizational level in order to map the changes that are taking place within the increasingly opaque labour market.

TABLE 3

Dispersion by 1-digit and 2-digit Industries by Gender and Manual/Non-manual, 1986–1994

<i>D9/D1</i>	<i>Male manual</i>	<i>Male non-manual</i>	<i>Female manual</i>	<i>Female non-manual</i>
0—Agriculture				
1986	2.07	—	—	—
1994	2.10	—	2.10	2.81
1—Energy				
1986	2.03	2.82	—	1.92
1994	2.20	2.98	—	2.34
2—Metals etc.				
1986	2.14	2.82	1.92	2.19
1994	2.26	3.12	2.22	2.65
3—Engineering				
1986	2.09	2.65	1.92	2.16
1994	2.55	2.84	2.15	2.59
4—Other Manufacturing				
1986	2.49	2.98	2.11	2.48
1994	2.56	3.40	2.25	2.85
5—Construction				
1986	2.25	2.71	—	2.16
1994	2.32	2.85	—	2.51
6—Distribution				
1986	2.44	3.56	2.04	2.16
1994	2.55	3.74	2.06	2.62
7—Transport				
1986	2.16	2.63	2.31	2.23
1994	2.23	3.25	2.63	2.81
8—Finance				
1986	2.59	3.70	—	2.60
1994	2.68	4.15	3.22	2.89
9—Other Services				
1986	2.35	2.71	2.14	2.42
1994	2.31	2.80	2.33	2.60
<i>2-digit dispersion</i>				
No. of industries				
Increased	24	28	15	22
Stable	6	1	2	0
Decreased	10	4	4	1

Source: New Earnings Survey.

4. An assessment of trends against the 'functions' of pay

The implications of the various functional approaches to pay for the evolution of wages and wage structures could be considered as follows:

- (a) *Price allocation function* Wages should be flexible reflecting demand and supply in the local labour market (thereby attracting firms and job creation in low wage areas). At the same time, they should send signals

that are sufficiently stable and easy to interpret that those contemplating investments in education and training will be able to use them to influence their investment choice.

- (b) *Social stratification/social cohesion function* Wages should reflect social norms of fairness or status, within the broader society or within organizations. Conformity to custom and practice or social norms is expected to reduce social conflict over wages.
- (c) *Management tool function* Wages should be used to minimize costs associated with firm-specific skills and with the costs of monitoring, namely to encourage company loyalty, to offer deferred rewards to reduce turnover and to minimize transactions and supervisory costs.

Price Allocation Function

The dominance of the supply and demand paradigm within economics leads most economists, even those predisposed to an institutional analysis of recent labour market trends, to test the analysis of data first of all against a market-based explanation. For example, Gregg and Machin's (1994) analysis of recent trends towards inequality in the UK argued that these have resulted from an increase in the supply of skilled labour which was more than offset by an increase in demand for skilled labour, leading to higher pay for the skilled and lower pay for the less skilled. Machin's (1996) analysis places much more weight on institutional factors in explaining the rapidly widening differentials in the USA and the UK. Nevertheless, both articles attempt to identify the independent impact of supply and demand, and in particular the trade and technology bias against low-skilled workers, an approach that inevitably serves to legitimize or rationalize at least part of the increasing inequality. However, what needs explaining first is why the UK, with its already large skill differentials, required a further increase in inequality while other similar societies appear to function effectively with even narrower differentials than those found in the UK in the 1970s. Under these conditions, it may not be reasonable to argue that still further increases in differentials were necessary to accommodate changes in supply and demand, in the sense of providing sufficient incentives to train, or to enable employers to recruit and retain. In a period of high unemployment, it is highly likely that the balance of advantage in the labour market will shift further towards the more skilled, but the interesting question to investigate may be how different institutional structures provide different opportunities for the more skilled to increase their access to resources.⁴

Wage flexibility is advocated often from the perspective of helping the unemployed move into jobs. However, the recent work within mainstream traditions by Blanchflower and Oswald (1994) on the relationship between unemployment and wages suggests that unemployment persists despite wages being flexible downwards in high-unemployment areas. Moreover, the very low wages available to those entering work from unemployment in the UK could be argued to have reduced flexibility. There is now substantial

evidence that most new jobs are taken by those in families where there is already someone in work (Gregg and Wadsworth 1995), for they offer too low pay for anyone needing to provide for their own and others' subsistence. These very low levels of wages may reflect an expectation that the jobs will be filled by second-income-earners such as women or young people or by those in receipt of state subsidies, or they may be the result of high and persistent unemployment which has caused wages to fall below any notion of a sustainable minimum wage level.

This form of wage flexibility might be exactly the type that economists such as Marshall warned against. In the absence of either regulation of wages or the provision of alternative income sources, there is no wage floor, as workers have to sell their labour to survive. Thus, under conditions of high unemployment workers need to be protected against exploitation. However, these wage trends are taken by some to be a true reflection of the relative productivity level of these workers, requiring actions to be taken to improve their productivity and employability and requiring further wage flexibility or subsidies to allow these workers to price themselves into work. Such a conclusion implies either an indictment of current standards of education or retraining opportunities which have given rise to such a wastage of human talent, or an exceptionally elitist perception of society, composed of highly productive workers on the one hand and extremely unproductive workers on the other.

Perhaps a more acceptable variant of the neoclassical argument is that imperfections have led to those in work, the insiders, being paid too much, thereby causing misery for the excluded outsiders. Under this approach, current wage differentials may exaggerate differences in potential productivity between insiders and outsiders even though employers find it cheaper to pay those with experience more than risk taking on outsiders. This perspective changes the focus from the outsiders pricing themselves into work to the need for measures to restrict the monopoly power of insiders and has the merit of not trying to justify all trends within apparently deregulated labour markets as moving towards market-clearing levels.

Another argument that current 'market' outcomes are not necessarily socially efficient has been made in recent work on the impact of high pay differentials in certain professions (for example finance, consultancy, law) on the allocation of resources. The high potential returns from these professions is leading, according to a recent report from the Employment Policy Institute (Frank and Cook 1997), to overinvestment in training and education in these areas, and to wasted investment among those who fail to be selected for these high-income professions. Thus, very wide pay differentials may cause a social misallocation of resources.

There is thus little evidence in favour of the perspective that flexible wages are leading to a smooth transition towards market-clearing labour markets or even that the signals, if received, would lead to an optimum allocation of resources. However, there is a further problem with the move to flexible or variable wages, and that is of information. This flexibility, and in particular

the relatively rapid changes in differentials between and within different groups, may be sending not only conflicting but also essentially uninterpretable signals to those trying to decide upon investments in education and training. These problems apply to the choice of appropriate level and type of higher education or vocational training, and indeed to the choice of career paths at the point of leaving education and training. Complicating factors accompanying the problem of changing and highly variable pay levels for particular occupations and careers include the increased risk (or at least the perceived increased risk) of job loss in many areas that were previously regarded as offering stable employment opportunities over a lifetime (if not a job for life). Economic theory would suggest that greater instability in job prospects should lead to a higher wage premium, but job instability can also lead to surplus labour which depresses wage levels in the short term. Efficient signals are unlikely to be given in turbulent labour markets even if information is readily available on expected returns on investment.

These problems are exacerbated by the rapid changes in the nature of work within many occupational areas, which reduce information related to the status and other rewards likely to attach to a particular career choice. In addition, organizations previously seen as offering stable careers and good prospects have engaged in mass redundancies, thereby increasing the risk attached to firm-specific training. Both firms and workers are increasingly regarded as having distinctive market positions and productivities, such that it may no longer be possible to talk about either an industry or an occupational group. These apparent trends towards idiosyncratic firms and idiosyncratic workers would deny the possibility of comparison both between and within organizations, thereby restricting possibilities of assessment of the relative pay for relative levels of effort or skill. Whether the degree of individualization is exaggerated may be less important than the legitimacy it provides for apparently irrational and inconsistent outcomes in terms of rewards and pay structures.

All these changes reduce the probability that the labour market could act as an efficient allocator of labour over the medium to long term; and, because it no longer seems appropriate to predict the future from the past, there is an urgent need to at least substitute in part for market signals to ensure the reproduction of the skill base appropriate to likely future needs. These problems are in addition to the sheer and overwhelming problem of how information on 'returns to investment' can be obtained; not even specialists in labour markets or pay structures can give good accounts of either the shape or the determinants of pay differentials for persons making a particular investment in education or training.

Social Stratification/Social Cohesion Function

The argument that wage structures reflect social norms relating to expected standards of living on the one hand, or to notions of social status on the other, have also lost empirical credibility for a range of reasons. These

arguments have usually been invoked to explain wage stickiness, and the rapid disintegration of sticky wages over recent years, resulting in major changes in the size of differentials and in the ranking of occupations or industries, seriously complicates the argument. The 1980s and 1990s could be said to constitute one of those historical periods when customary wage structures had to give way to the overwhelming forces of supply and demand, an argument supported by, for example, Wood's (1994) thesis that the change in differentials between high and low-skilled workers is related to the change in North-South trade. This argument was developed primarily to explain changing differentials between skilled and less skilled men, but counter-arguments have been made that the share of the labour market for whom this argument holds is too small to explain the general trends in wage differentials, particularly trends in the service sector wages or in women's wages in those manufacturing sectors most affected by world trade (Freeman 1997).

A further problem with the argument that recent changes reflect underlying market conditions is that this conflates the pressures that may lead to a breakdown in customary wages differentials (and these could include changes in supply and demand) with the actual changes in wages that occur. The process of change provides for the possibility of unintended or unanticipated outcomes, unleashing conflicts, tensions and contradictions that may have been held in check by the prevailing norms and customs. The institutional processes through which changes in wage structures are activated have an important shaping role on the outcome, and the supposed dichotomy between institutions and markets needs to be dissolved, enabling us to recognize that wages are set by institutions (Marsden 1986), in particular by firms. These processes are at least as important as the pressures that initiated a period of change in the first place. As will be argued below, the greater discretion that management has enjoyed over pay determination following the move to decentralized pay determination and performance-related pay schemes places in doubt the proposition that all changes have been made in order to meet market or efficiency needs. For example, the interests of managers themselves in reshaping pay structures in their own interests must also be taken as one influence on actual outcomes.

There have been two other major changes taking place in the economy which have served to fragment the links between pay and stable social structures. First, as argued above, there have been changes in job structures, away from jobs that are organized according to principles of strong occupational identity, and towards jobs where both firm-specific requirements and individual 'competences' play a more important role. This breaks the strong link between occupational identity and class and social identity, if only because the social statuses of these more idiosyncratic jobs are more difficult to disentangle. Further confusions between status and occupational identity arise because of the changing nature of educational qualifications, so that the possession of a degree no longer provides access automatically to professional or managerial-type jobs.

There are disagreements over whether the assumed symbiosis between occupational structure and class structure held in the past, particularly when complicating factors such as gender are taken into account. The wide-ranging debate over the contradictory class locations of non-manual workers in the 1970s (Wright 1978) suggests that there is nothing new about the changing nature of jobs leading to a restructuring of social stratification patterns. What is 'new' about the 1980s and 1990s is perhaps an acceleration of these trends, with the final collapse of the traditional apprenticeship system as the route to skilled manual work, the de-professionalization of occupations such as bank manager, teacher and civil servant, the layering of hierarchical structures, the integration of manual and non-manual work through information technology and the move towards competences instead of job descriptions as the basis for pay and grading. All these changes can of course be subject to exaggeration, and the current labour market still reflects the historical development of both occupational and organizational and industrial cultures. Nevertheless, the notion of flexible careers, flexible across organizations and occupations, is one that has taken root, and there is little evidence, despite the launching of the new apprenticeship schemes and the NVQ system, of any rebirth of strong occupational identities and cultures.

The second major change that has contributed to fragmenting the link between the social order and labour market structure is the change in gender relations and in household patterns. The single-male-breadwinner family provided a strong material link between the wage structure and realized standards of living. While the notion of a single-male-breadwinner family and the associated concept of a family wage may have been in part a myth which obscured the role of women within the formal and informal economy (Barrett and Macintosh 1980), trade unions and workers could and did resort to the notion of a living wage or a family wage in bargaining over wages. It is this direct relationship between wages and standards of living that has legitimized the linking of wages to the retail price index instead of the product price.

The growth of multi-earner households has made it more difficult to invoke these arguments in pay bargaining; and the important principle that pay should be related to living standards via the retail price index, established by unions in the postwar period, could be placed in jeopardy by the trends towards multi-earner households, part-time jobs and indeed more complex household arrangements. (See Boyer 1979 for a description of the regulation approach, a key feature of which is the institutional arrangements protecting the real value of wages.)

The notion of a living or family wage for a particular group of workers is difficult to define if the composition of the group includes members of single-person, single-earner and multi-earner households and even some who have responsibility for more than one family through divorce.⁵ While not all employees in a group in the past would have been in the same social position, the norm of a single male provider working full-time and requiring

a family wage could at least be invoked as the dominant norm within 'primary sector' jobs.

The counterpart to the family wage was the creation of jobs that were explicitly designed around the notion of a second income-earner, e.g. for married women or young people, where wages even on a full-time basis were below adult subsistence (Siltanen 1994). Table 4 updates the estimates

TABLE 4
Share of Full-timers by Gender Earning Family Wages, Adult Subsistence Wages and Component Wages, 1979, 1987 and 1996 (%)

	<i>Family wage (2 adults, 2 children)</i>	<i>Adult subsistence (1 adult)</i>	<i>Component wage</i>	<i>Totals</i>
<i>Men: full-timers</i>				
1979 All	42	50	8	100
Non-manual	54	40	6	100
Manual	34	57	10	100
1987 All	40	45	15	100
Non-manual	57	34	9	100
Manual	25	56	20	100
1996 (RPI*) All	51	38	11	100
Non-manual	66	27	7	100
Manual	33	52	15	100
1996 (EI*) All	40	42	18	100
Non-manual	55	33	12	100
Manual	21	53	26	100
<i>Women: full-timers</i>				
1979 All	7	40	53	100
Non-manual	9	43	48	100
Manual	1	32	67	100
1987 All	12	41	47	100
Non-manual	14	45	41	100
Manual	2	26	72	100
1996 (RPI*) All	29	45	27	100
Non-manual	34	47	20	100
Manual	6	37	57	100
1996 (EI*) All	20	41	39	100
Non-manual	24	44	32	100
Manual	3	26	71	100

Source: Siltanen (1994: table 4.9) for 1979 and 1987 data based on New Earnings Survey data; 1996 data: own calculations based on New Earnings Survey data; 1979 definitions of a family wage and an adult subsistence wage were £106.41 and £58.37 (see Siltanen 1994 for methodology), but the cut-off points from the New Earnings Survey data were £110 and £60 respectively. For 1987 the definition of a family wage and an adult subsistence wage were £219.18 and £127.12 respectively and the cut-off points were £220 and £130. For 1996 the 1987 thresholds have first of all been updated by the retail price index (RPI), that is by 49.9% between 1987 and 1996 (April to April), giving definitions of the family wage of £328.55 and of adult subsistence wage of £190.5, and cut-offs of £329 and £191 were used (special tabulations by the ONS). The thresholds were then uprated by the increase in median earnings for all full-timers (EI), that is by 73%, giving estimates of £379.18 and £219.9 respectively. Cut-offs of £380 and £220 were used (published data).

made by Siltanen of the share of jobs held by men and women and by full- and part-timers which could be considered to be family wage jobs (sufficient for two adults and two children), an adult subsistence wage job (sufficient for one adult) or a component wage job (providing for less than one adult's subsistence). Siltanen estimated separately the minimum income levels compatible with these definitions (taking into account the percentage of income derived from wage income) for 1979 and 1987. Table 4 uses 1996 thresholds for distinguishing between these different job categories as calculated using 1987 definitions updated by two different criteria: the first estimate for 1996 is based on threshold earnings levels increased in line with the retail price index between 1987 and 1996; the second estimate is based on thresholds increased by the rise in median earnings for all full-timers (men and women combined) between 1987 and 1996. This latter procedure gives a higher estimate of minimum earnings than the updating by the retail price index, but this estimate does have the advantage of taking into account rising average earnings over the period.

The main conclusions of the comparison from 1979 to 1987 were, first, that there was a very large share of women in full-time work who earned only component wages—just under half at 47%, compared with only 15% of men. Second, over the period 1979–87 more men, particularly manual men, came to be earning only component wages (a rise from 10% to 20%), an increase that is accounted for largely by a similar fall in the share of manual men earning family wages (from 34% to 25%). Third, although only a minority of women earned family wages, even by 1987 this share had risen from 7% to 12%, a rise accounted for almost entirely by women in non-manual jobs.

The trends from 1987 to 1996 confirm this general pattern of change, although the share of men earning component wages increases only if we update the thresholds by the rise in median earnings, and falls if the thresholds are updated only by the retail price index. Similarly, the share of men earning family wages rises only if the retail price index update is used, and indeed remains constant if the median earnings update is applied (but largely because of the declining share of manual men among all men in employment). For women, the trends are clearer and independent of which method of updating is applied. Under the retail price updating method, the share earning family wages more than doubles from 12% to 29%, while under the median earnings update the share still rises to 20%. The proportion of women earning only component wages falls from 47% to 39% under the median earnings update and to 27% if thresholds are updated by the retail price index. The women who now earn the equivalent of family wages are, as is to be expected, disproportionately concentrated in non-manual jobs, where between 24% and 34% now cross this threshold, compared with only 3%–6% of manual workers. Of course these figures distort the share of women in the labour force earning high wages as the data refer only to full-timers. If part-timers are considered, we find over 80% of male part-timers and 90% or more of female part-

timers earning only component wage (variations dependent on the threshold chosen).

What these earnings trends reveal is that it is now less possible to distinguish between family wage, adult subsistence wage and component wage jobs solely on grounds of gender, and that there is now more overlap in the earnings capacities of men and women, with more men earning component wages and more women earning family wages. This does not suggest a diminution of the significance of the concept of family wage, adult subsistence and component wage, for the growth of part-time jobs has increased the number of component wage jobs, and more types of workers, in particular the unemployed, may be under pressure to take jobs that do not provide minimum adult subsistence.

These changes in wage structures are reflected in some respects in changes in household formation and social organization over the life-cycle. Irwin (1995) has argued that it is not possible to look at the changing patterns of youth transitions to independence and family formation without looking at the complementary changes taking place in the labour market and vice versa.

Thus, the slower transition to adult independence and to family formation are intimately bound up with the declining youth male wage levels, the greater importance of the women's earnings to initial household formation, and the contribution of working mothers to the maintenance of young people for longer periods by the family. Irwin also makes the argument that we need to distinguish between changes in standard arrangements for household formation, under which she classifies recent trends towards more equal earnings by gender in the early years and situations under which people fall into poverty because the families and individuals concerned do not fit into standard arrangements, such as youth unemployment or single parenthood. Thus, part of the change in wage structure may be interpreted as related to the transformation of society into dual-income families.

However, Irwin's analysis, while stressing the continuing and essential link between wage structures and social reproduction, perhaps overstates the smooth transition between new life-cycle and social reproduction patterns and wage structures, without spelling out the causation mechanisms that bring about such a transition in arrangements. The move away from single-breadwinner households to more complex arrangements requires the establishment of new social norms to protect workers from falling into poverty, perhaps around the notion of minimum independent adult subsistence. (And this could be one interpretation of increased interest in a minimum wage.) However, there is little evidence of the development of a new normative approach to pay in the UK. (See, in contrast, Høgenes's (1989) discussion of the role of social norms in Norway.) Instead, unemployed men are being pressurized to take jobs clearly 'designed' around second-income-earners, because of part-time hours or low hourly pay, by threats of the withdrawal of benefits or through subsidies in the form

of inwork benefits to make second-income jobs acceptable to those needing a wage to meet their full subsistence needs.

Management Tool Function

Most theories of pay as an element in personnel practice have predicted the use of wages in ways that differ from the direction of present trends. Thus, Williamson and indeed Thurow predicted the use of stable wage hierarchies to encourage the stability of labour with firm-specific skills, to prevent opportunistic bargaining behaviour and to minimize the transaction costs of individualized pay. Other theorists have written about deferred reward systems to encourage stability (Lazear 1981) or efficiency wages which embody notions of fairness as well as market values (Akerlof 1982). In contrast, recent trends in personnel management, both in the prescriptive literature and in practice, have been towards individualized and performance-related pay, layering of hierarchies, and rapid increases in pay for high-fliers compared with bureaucratic deferred reward structures. Pay is legitimized by market value rather than by internal job descriptions, and redistribution towards higher earners has undermined notions of internal fairness.

The actual extent of these changes and their actual impact on pay is open to dispute but the direction of change is not. The management tool now depends more on the carrot of individual pay related to individual performance and less on the establishment of a 'felt fair' structure to maintain morale and performance over the long term. There has been little direct exploration, particularly by economists, of the reasons for this apparent *volte face*, although economic concepts are sufficiently flexible to explain any structure as being in the interests of efficiency. For example, performance-related pay is now sometimes argued within the management literature to increase perceptions of fairness as reward is now related to effort and performance, while in the past notions of fairness were invoked to explain the predilection for job-related pay structures which could be seen to be fair and did not rely on managerial assessment of performance.

Explanations of pay structures that focus on personnel objectives may fail to take into account broader trends within the society and the fact that it is these conditions that have changed, rather than personnel priorities. Managers may no longer be able to achieve loyalty through the provision of deferred pay and long career ladders in a context in which there is increasing uncertainty over the survival of jobs and institutions. Employers have to respond to changes in perceived risk attached to traditional internal labour market structures, even though these responses involve them in costs. Labour turnover may well still be a problem with employees if they reach their maximum pay at an early stage but employers may still not have the option of reverting to a deferred reward system. Thus, recent changes in pay structures within organizations may be responses to changing market conditions, including employees' preferences between reward packages

offering deferred or immediate benefits, even though these changes are not apparently compatible with the company's personnel needs (Grimshaw and Rubery forthcoming).

Second, it must be recognized that the objectives of the new pay structures, whatever their labels, are not necessarily to improve performance, nor do they necessarily result in this outcome. There is indeed a large gap between rhetoric around pay structures and outcomes (Kessler and Purcell 1992; Lewis 1992; Rubery 1995). Although performance-related pay may be propounded as a means of increasing feelings of fairness, its results may be quite the opposite, as studies pointing to the demotivating effects of performance assessment have shown (Lewis 1992; Richardson and Marsden 1991; Kessler and Purcell 1992). Indeed, the whole focus on motivation as the justification for these pay schemes sits uneasily with the well established finding that pay is more likely to be a demotivator than a motivator (Brown and Nolan 1988). Moreover, the transaction costs of these new schemes are recognized to be very great and tangible, while the outcomes are at best vague and unmeasurable. This in itself must raise question-marks over the real motivation for their introduction, as in other areas, for example equal opportunities policies, organizations tend to stress the tangible costs and dismiss the intangible longer-term benefits (Humphries and Rubery 1995). Motives other than the simple personnel rationales of the motivation of the work-force must be considered. Several have been suggested within the management literature, ranging from objectives to change culture and reduce the power of unions, to those of enhancing managerial discretion over internal rewards and over pay at the point of recruitment. Perhaps most important of all, these new pay practices have allowed the redistribution of income to particular groups, mainly managers and the higher paid, legitimized as a reward for performance or for changing market values (Kessler and Purcell 1992).

Williamson's (1975) proposition that employers would choose pay hierarchies in order to minimize costs was perhaps an insufficiently dynamic concept, as it failed to address employer strategy in the face of changing balance of power within organizations and within the external labour market. Although a passing reference is made to the use of subcontracting if groups had different reference wages, there is insufficient consideration of how the structuring of the labour supply affects employer policy. The use of individualized pay may be another means of changing the distribution of income under conditions of changing external and internal market power, with these benefits of flexibility perhaps offsetting the transactions and other costs of moving away from bureaucratic structures. These benefits are likely to be that much greater the more the managers themselves benefit from the new pay policies and practices (Grimshaw and Rubery forthcoming).

Thus, the motivation for changing pay practices may not be a result of changing organizational requirement or needs, but rather the change in opportunities resulting from a changing external environment, one that both stimulates organizations into action and offers opportunities to employers

and managers to take advantage of changing power relations among worker groups and between capital and workers more generally. These opportunities are provided not only by objective changes in employer-employee power such as high unemployment, but also by the breakdown of institutional regulatory conditions at the industry and national level and by the weakening of social norms relating to pay and pay increases.

Within organizations we are not necessarily witnessing a move from a set of customary wage differentials that were considered 'fair' by all participant groups. Instead, the set of customary wage differentials may have been held in place by acceptance of other social norms, such as the benefits of a transparent job-related pay hierarchy, or the benefits of pay determined by collective bargaining. Early critiques of segmentation theories pointed to an overemphasis on the harmony of interests between workers and employers, and suggested an alternative interpretation of the internal labour market system, as negotiated outcomes of conflict between worker and employer interest (see Rubery 1978; Kahn 1975; Friedman 1977). Once the institutions of internal labour markets are dismantled, the opportunity to challenge customary wage differentials becomes much greater, and the new payment practices allow this to happen in ways that are not necessarily explicit and do not require legitimation around a new set of job-related pay differentials.

Redistribution Function

Perhaps the function of wage that has come to the fore over recent years is that of redistribution of resources. This redistribution has come about through rapidly changing wage differentials, through the development of multi-earner households on the one hand and no-earner households on the other, through the restructuring of tax and redefinition of the social wage, and through redistribution between wage and profits.

This last process is found most explicitly in the practice of privatization within the public sector, which requires a profit element to be inserted at each layer of service provision. Wage costs, through reductions in wage levels or increases in work intensity, have tended to bear a high share of the burden of providing the profit layer, particularly in the competitive contracting sector (Cutler and Waine 1994). Corporate profitability in general has risen with the rate of return on capital in the business sector, increasing from 8.4% to 11.9% between 1980 and 1994 (Machin 1996).

The rising wage inequality must be considered in the context of the sharp decreases in the tax burden on the very highest paid and the reduction in the value of the social wage, particularly that related to basic state benefits including pensions. Thus, wage inequality measured in gross terms greatly understates the widening inequality in lifetime access to resources. It is perhaps one of the peculiarities of wage theory that there is relatively little attention paid to how wage structures in gross terms respond to changes in the net level and value of wages.

Redistribution has indeed generally favoured the already advantaged, but it has not had an even impact. For example, wide variations in fortunes have been experienced within the managerial classes, related in part to company-level variations in the actual size of productivity or merit-related bonuses, but also to the increasing risk of job loss resulting from downsizing and delayering. This increasing risk has helped to legitimate the spread of high rewards, and at the same time has encouraged an oversupply of workers into certain key professions and groups where the benefits of deregulation, flexibility and the performance-related culture have been concentrated.

5. Conclusions

The debate over wage structures has tended to revolve around three 'functions' of pay: as an allocator of labour, as a basis for social stratification and for social order, and as a management or personnel tool. There has been a tendency to exaggerate the extent to which pay has performed any or all of these roles in the past; in part because of the multiple roles pay is expected to play in a society and in part because of the continuing distributional conflict, pay structures have normally failed to provide efficient price signals or to meet requirements of social or internal justice and fairness. This over-emphasis arises from a misplaced obsession with wage stickiness and its causes, juxtaposed on a counter-factual world of economic theory of constantly changing prices. This approach has resulted in a focus on stability and its causes instead of on contradictions, tensions and possible distortions within the wage structure.

Recent changes in wage structures have brought these methodological problems to light. At the same time, there have been major changes taking place in institutions that have tended to fragment the process of wage determination, leaving wider scope for variation by organization and by individual employee. This fragmentation of institutions has not led to the establishment of so-called market forces as the determinant of wages. The high levels of organizational specificity of markets and of workers' skills mean that it is not possible to talk of integrated markets in which firms are wage-takers rather than wage-makers. The impact of deregulation has been to increase the power in the market of particular institutions, namely firms. These organizations have discretion in wage determination and are exercising it. However, it would be wrong to suggest that the process of deregulation leaves wages solely up to the discretion or whim of managers and employers. Labour markets remain social markets in which employers cannot fully ignore social expectations and reconstitute wages simply because of the removal of an institutional regulation or legal requirement. Yet over time, as the memory of wages council minima or industry-level norms fades and diminishes, we may yet see further scope for discretionary action around pay, facilitated by the continuing diminution of knowledge

about actual pay levels and thus about what constitutes a fair reward for labour.

While trends should not necessarily be interpreted in functional terms, as rational responses to demand and supply signals or to changes in household and individual needs, it is also necessary not to regard firms as operating in a vacuum. Firms' pay decisions will be influenced and informed both by trends in their product markets and by their knowledge or perceptions of the labour market. These influences may lead to relatively systematic trends in wages for particular groups: in particular, the lower paid and more disadvantaged workers may expect to see continuing declines in their relative pay as competition based on low wage costs increases and employers find little reason to exercise discretion in favour of less advantaged workers. It is in the middle and higher salary ranges that there is greater likelihood of significant variation in wage levels, perhaps still around a basic upward trend in pay for higher-grade and more advantaged workers. This group, it could be argued, has become even more determined to make certain it obtains high rewards from its labour, if only to offset the rising insecurity of employment. Some will seek to rationalize these changes as a response to market forces, but a more relevant approach is to ask how the market for labour in the UK has been reconstituted in ways that provide the more advantaged with scope to extract ever higher shares of the available resources. Other systems of organizing and regulating labour markets are possible, and other advanced countries can persuade their labour forces to train and undertake productive work without these high rewards. It is thus time to renew the debate about reducing wage inequality and re-regulating the labour market.

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Notes

1. This finding is based on Family Expenditure data, while the New Earnings Survey, according to Machin (1996), shows a slight real wage growth, but the undersampling of low-paid workers in the NES may suggest that the FES data are more reliable.
2. This widening may reflect a changing occupational distribution for women within occupations. It should also be noted that male earnings started widening earlier than female earnings, perhaps explaining the greater increase in equality for women in this time period.

3. There is no systematic tendency for industries that were relatively low-paying in 1986 to fall relative to the average or for those that were relatively high-paying to rise.
4. There is another problem with this supply and demand analysis, and that is that it concentrates solely on male earnings. It thus perhaps overstates the decline in pay for lower-skilled labour (both in demand and pay levels) as it does not look directly at the substitution processes between male and female labour.
5. The widening distribution of working hours further complicates the link between wage bargaining and standards of living, but in practice the range of working hours within a particular bargaining group may still be narrower than when considered at a national level.

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