RISK, RECOMMODIFICATION AND STRATIFICATION

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Abstract In this paper I use three concepts – the hedging of risk, the transfer of risk and recommodification – to examine recent changes in the distribution of market risk. Mechanisms that formerly hedged risk – such as the welfare state and the nuclear family – have declined in effectiveness and popularity and the result has been the recommodification of individuals and their life chances. These themes are illustrated by an examination of change in the nature of employment relationships and its likely impact on the service class. The future of the service class remains linked to the informational asymmetry problem that underlies the service relationship, and this limits the degree to which employers can claim an option over the labour supply of service class workers. The paper ends by discussing some more general issues in the relationship between risk, stratification and recommodification.

Key words: employment, labour supply, risk, recommodification, service class, stratification.

In this paper I introduce and employ three concepts in analysing the distribution of risk and its links to broader questions of social stratification. These three concepts are the hedging of risk; the transferring of risk; and recommodification. Until relatively recently the welfare state, the nuclear family and firms acted as hedges against market risk. That is to say, the risk that bore on individuals could be offset, at least in part, by placing it in a context of ‘generalised (or quasi-generalised) reciprocity’ which existed within families, firms and the institutions of the welfare state. But in all three areas these hedges have become less effective and the result has been a shifting of risk so that it is now more directly borne by individuals. Just as welfare regimes acted to decommodify individuals by seeking to make their life chances to some extent independent of market forces (Esping-Andersen 1990), the decline of arrangements that hedged against market-based risks is bringing about the opposite – namely ‘recommodification’. But the way in which risk is distributed and redistributed depends upon pre-existing relationships of power between different social actors. And here a very important question concerns the extent to which such actors are compensated for bearing increased risk. For some, an increase in risk may bring with it the prospect of greater expected returns, while others may have to bear greater risk by virtue of their lack of resources with which to resist its imposition.

The paper proceeds as follows. I begin by introducing the ideas of hedging and transferring risk through an explanation of how these occur in financial
markets where there exist well-developed markets for risk. I then turn to a brief discussion of changes in the welfare state and family forms to illustrate the decline of hedging arrangements and the associated process of recom-modification. An illustration of a number of issues concerning the transferring of risk is provided by a discussion of changes in the nature of employment relations and the possible fate of the ‘service relationship’ and of the service class. The paper concludes by returning to the question of risk distribution and its links to general issues in the study of stratification and inequality.

Risk and Markets

While Beck (1992), Giddens (1990) and others have discussed forms of global risk and life threatening risk against which little or no protection is available, many other forms of significant risk are believed to be susceptible to mechanisms of control. Such mechanisms are particularly well developed in financial markets where one method of limiting risk is via hedging. It is common to distinguish, in financial economics, between risk that is ‘diversifi-

able’ and that which is not. In theory, whereas those investors who take on non-diversifiable risk are rewarded for doing so (through higher expected returns), they are not rewarded for taking diversifiable risk, which can be hedged (or diversified) away through appropriate choice of portfolio. For example, a simple hedging strategy is to invest in two assets whose returns are expected to be perfectly negatively correlated. But there also exist markets that allow risk itself to be transferred. One way in which this is achieved is through the use of financial instruments known as options (Brealey and Myers 1988:ch 20,21; Hull 1989). These give their purchaser the right, but not the obligation, to buy (or sell, depending on which kind of option contract it is) at some future date a commodity (which may be material, such as a quantity of copper, or financial, such as a share or a loan at a given rate of interest) at an agreed and fixed price.1 The owner of the option then chooses whether or not to exercise this right depending on whether the fixed price is higher or lower than the current market price at the times at which the right to buy (or sell) is operative.2 The relationship between option buyer and seller is asymmetric: the option seller is under an obligation to buy (or sell) if the option holder decides to exercise her option. This asymmetry is established only at a cost – namely the price of the option. But what is being traded here is risk in the price of the underlying commodity (option traders call this ‘selling volatility’). For example, suppose I buy an option that gives me the right to buy a commodity at a fixed price, \( X \), at some future time. If, at this time, the actual price, \( S \), of the commodity, is greater than \( X \), the loss \( (S-X) \) must be borne by the option seller.3 In other words, the risk of price fluctuations above the value \( X \) falls on the seller of the option and the greater the price volatility of the commodity the greater the risk and the more costly the option.
There is thus an important distinction between hedging risk and transferring risk using options. Whereas a completely hedged position (say, ownership of a commodity and of a position in the futures markets that perfectly hedges the price risk of the commodity) eliminates both the risk of loss ('downside risk') and of gain ('upside risk'), the advantage of options is that they hedge against downside risk but preserve the possibility of profiting from upside risk. Hedges are therefore symmetrical, in contrast to the asymmetry of options. In this paper I want to suggest that the hedging and transferring of risk are concepts whose importance extends beyond financial markets: they are valuable tools in helping to analyse the nature of risk in contemporary societies. The perceived increase in uncertainty in social life can be characterised, at any rate in part, by a decline in the prevalence of hedging strategies and growth in a particular kind of inequality, namely that which arises through attempts, by those in positions of greater social power, to establish option-like relationships with others who are thereby forced to bear the risk that is transferred to them.

The Welfare State and the Nuclear Family

Parallels outside the financial markets to the transfer of risk (through options) and the hedging of risk are plentiful. Non-market institutional arrangements by which risk is diversified away have in common a basis in what Sahlins (1974) calls 'generalised reciprocity'. Here the return that an individual party to a relationship receives from that relationship is not calculated with reference to his or her contribution and there is no detailed account kept of the balance of each individual’s exchanges with other members. The family is the example of generalised reciprocity par excellence, hedging risks among its members. This is seen perhaps most clearly in traditional familial arrangements in which parents support their children when the children are young and children support their parents when the parents are old. Another example is public provision of unemployment compensation. In theory, individuals receive benefits when they are not working and contribute to the fund when they are. At any given time some proportion of the fund members will be drawing on it, others will be contributing, and, similarly, any individual will be contributing at some periods in his or her life and drawing on the fund at others. This arrangement diversifies away the individual risk of unemployment since it provides compensation for such a contingency: the risk is shared by the members of the scheme. In fact, state schemes may provide a kind of double return in as much as they not only yield unemployment compensation but also ensure that unemployment does not threaten continued membership of the scheme.

Institutions that are based in generalised reciprocity require that long-term commitment be given even in face of the realisation on the part of some
members that, in the long run, they may be net contributors and/or may have a very small probability of ever being a recipient of the institution's benefits. In other words, calculations of the difference between the costs and the expected benefits should play no part in determining individuals’ participation. The extent to which this is in fact the case will then depend, *inter alia*, on the nature of the relationships between individuals. In the family, economic rationality is frequently, though not always, subordinated to interpersonal relationships having a basis in love, affection, duty and so forth. But in the case of schemes of unemployment compensation or health care interpersonal relationships are of little or no importance. Individuals may have moral, religious or political beliefs that explain their commitment to such provisions, but calculations of personal or familial self-interest are likely to lie much closer to the surface in these cases of generalised reciprocity than they do in the family. In Britain the commitment of successive governments in the period up to 1979 to the broad principles of the welfare state, and the shortage of mechanisms whereby individuals could opt out of schemes such as the National Health Service, public pension provisions, public education and so on, served to lock in many of those individuals who might have considered that their best interests were not being served by participating. But these welfare state institutions have declined as the factors binding individuals to them have been weakened, so threatening the generalised reciprocity on which they are based. An important reason for this has been growth in uncertainty concerning the quality of the service provided, whether this be health, education or pension provisions. But in moving to private, insurance-based schemes, and so seeking to avoid the perceived quality risks of the public scheme, those individuals and families who opt out of welfare state provisions become subject to a new market risk, since eligibility to benefit from such schemes is dependent on the payment of regular premiums, which in turn requires a high level of income. In this way individuals are recommodified by the move to private education, health and pension schemes: that is, their treatment once again comes to depend upon their fate in the market.

Decommodification is, in the language of this paper, secured through the provision of means whereby individuals can hedge market risk, and recommodification might be said to occur whenever hedging institutions, mechanisms or arrangements are weakened. The family has traditionally played a central role in decommodification. But contemporary changes in family structure arising from the increasing rate of divorce and the growth in the number of single parent families undermine its ability to continue to do so. Where other hedging mechanisms (such as the welfare state) are not available – as in the United States – the result is high rates of poverty for women in single parent families or following marital breakdown. But, just as the purchasers of private health care are trading off a perceived quality risk for renewed market risk, so, to a considerable extent, the risks for women from the decline in the popularity and longevity of the nuclear family are trade offs.
against greater individual freedom from the constraints of traditional familial arrangements. Of particular note, of course, is the growth in women's employment opportunities that is associated with the decline of the traditional nuclear family. To the extent that women's increased freedom is based on their improved position in the labour market, such freedom is acquired at the expense of women's recommodification.

Transferring Risk

Any long-term commitment entails uncertainty. Indeed, while globalisation – which is, in Robertson's (1992:396) words, a set of processes acting to turn the world into 'a single place' – has reduced spatial uncertainty (that is, uncertainty associated with geographical distance) there has been a growth in temporal uncertainty. In part this reflects a genuine increase in volatility in labour, capital, product and financial markets, in part a loss of faith in predictive technologies. Temporal uncertainty reduces the attractiveness of long-term commitment and increases that of 'contingent asymmetric commitment', all else being equal. Contingent asymmetric commitment is exemplified by the option relationship: one party to the agreement retains the option to withdraw from the relationship should circumstances so require, while the other party can only comply with whatever the first party chooses to do. In the labour market this strategy has been increasingly pursued by employers who have sought flexibility in their employment of labour through, inter alia, the greater use of part-time and casual staff and short-term contracts of employment. This has meant that, in effect, employers have acquired an option over the supply of labour, retaining employees when they are needed (thus profiting from upside risk), getting rid of them when they are not (and so avoiding downside risk). This option has shifted risk onto employees and would-be employees and, because of high unemployment, the weakening of trade unions and employers' greater willingness to exploit the provisions of employment law – all of which have worsened the position of labour relative to that of employers – it has been acquired without any compensating exchange. The shifting of risk from employer to employee represents an involuntary loss of welfare from the latter and a transfer of that welfare to the former. Indeed, it is common to find that, because of a pre-existing inequality of power between actors, risk can be shifted from one to another within any compensating exchange, monetary or otherwise.

This contrasts with the situation in which firms act as a hedge against market risk for individuals employed by them, or, at any rate, for those employees who enjoy, or can expect, some form of long-term employment. This category of employees has, at its core, the service class, but, certainly during the so-called 'Golden Age of Capitalism' (Maddison 1982) and for some time after that, this extended to many non-service class employees who, by virtue
of economic growth, skill shortages, strong trade unions and welfare state provisions, could reasonably expect continuous stable employment. Under these circumstances firms and employees shared market risk. Rather than laying off workers immediately when profitability declined, firms absorbed losses, offsetting them, in effect, either against profitable parts of the business or against the expectation that the business cycle would lead to a sufficient level of profit at some later date. The scope for such hedging (albeit partial) of employees’ risks was greater, ceteris paribus, the larger and more diverse the firm’s operations and the greater the extent to which it operated in sheltered environments.

The decline in the role of the firm as a hedging institution and the growth of option-like relationships between firms and employees can be linked to the growth in uncertainty in employers’ expectation of the future. When employers are confident about the future they are more likely to commit themselves to retaining labour on a long-term basis, not least because, in circumstances of economic growth, labour turnover will be costly, both as a result of disruptions in production and because of transactions costs, and there will be difficulties in hiring workers in a buoyant labour market. However, when confidence declines, employers attach more weight to the consequences of less benign economic circumstances in which cost-cutting becomes necessary. Under these circumstances, flexibility, in the sense of being able to adjust the size of the workforce as required, becomes more highly valued. Thus, depending on which view of the future prevails, commitment or flexibility will seem more valuable. As uncertainty increases and employers pay more attention to the benefits of flexibility, so the degree of commitment can be expected to decline, and this will be reflected in the kinds of employment relationship that employers are willing to offer prospective and actual employees. However, the extent to which such a shift occurs does not depend only on uncertainty about the future. It also depends on employers’ perceptions of the balance of advantage to them as between long-term commitment to their employees in good times and flexibility in bad times. For example, even if an employer is relatively gloomy about the future, she may still prefer long-term commitment to an employee if the benefits of that strategy (relative to a strategy of flexibility) in the event of the economy being buoyant are much greater than the benefits of flexibility (relative to commitment) in the event of the economy being in poor shape. Put more simply, even in times of high uncertainty, there are some jobs for which flexibility offers no advantage: indeed, in which flexibility may be a disadvantage. Conversely, even in periods when the future looks bright there are some employers and there are some jobs for which a long-term commitment on the employer’s part offers him or her no advantage. This heterogeneity among firms and jobs means that the transferring of risk will not be uniform across all employees, and so the question arises of which sorts of worker will be most, and which least, susceptible to this.
Employment Relationships

One very important circumstance in which firms enter into a long-term commitment to their employees is where it is difficult or impossible for them to monitor exactly what the worker is doing. This issue has been extensively discussed in the context of employment relationships (notably by Akerlof 1982 and Edwards 1979) and plays a central role in the definition of the service relationship, which, in turn, provides the means of identifying the service class in the Goldthorpe class schema. The service class, in Goldthorpe's discussion (1982), approximates the middle class made up of higher white-collar workers: it does not include the self-employed or employers (Goldthorpe 1995:314). The basic distinction that Goldthorpe draws between employees is between employment regulated by a service relationship and that based on a labour contract. In the latter the exchange of wages for effort is very specific and the worker is closely supervised; in contrast, the service relationship is more long term and involves a more diffuse exchange. It is found in cases where, by virtue of the employee's specialised knowledge or exercise of delegated authority, direct supervision is not feasible or is undesirable (Breen and Rottman 1995a:70). 'A service relationship can thus be understood as the means through which an employing organization seeks to create and sustain . . . commitment' (Erikson and Goldthorpe 1992:42). These means include a salary and fringe benefits and, Erikson and Goldthorpe stress, 'important prospective elements – for example, salary increases on an established scale, assurance of security . . . pension rights . . . and . . . well defined career opportunities', a large number of which features are premised upon the commitment, by the employer, to a long-term relationship with the employee. The relationship between employer and employee might best be characterised as one of 'quasi-generalised' reciprocity: both sides expect to derive benefit from the relationship but accept that the balancing of costs and returns may only be achieved over a long period of time.

Part of the strategy of the service relationship is to provide certain workers with a high level of returns (the so-called 'efficiency wage'; see Akerlof 1984) as a means of eliciting their co-operation and commitment to the goals of the employer. But employees' notions of what they should receive depend upon several factors, such as comparabilities based on what their fellow-workers and workers similarly employed elsewhere are receiving; the perceived level of demand for workers of this type; and terms and conditions negotiated by unions. Through these and other mechanisms the employees' acceptable minimum can rise or fall over time. For example, while the service relationship (or the efficiency wage) may have originated as a response to problems of worker supervision its presence in any particular case may owe as much to factors such as the form of the welfare state or the strength of trade unions (Breen and Rottman 1995b:460; Granovetter 1988/92:247). Likewise,
employers themselves will seek to manipulate the expectations of employees. For example, an employer may prefer to allow an employee, who has received a lucrative job offer, to leave, if increasing his salary so as to keep him will disrupt comparabilities and so lead to a widespread increase in the minimum that other workers consider acceptable.

The Future of the Service Class

Clearly some workers are more susceptible than others to the transfer of risk to them. The most susceptible are those who lack skills or who are readily replaceable – in other words those workers to whom employers have no necessary long-term commitment. Not surprisingly, the first sectors of the labour market to suffer this transfer of risk were those where employment was regulated by a pure labour contract, and, in particular, which were exposed to high levels of market risk (such as manufacturing). In the Goldthorpe class schema these would typically be members of classes VI and VII (manual workers) and class IIIb (lower routine non-manual workers). Recently, stimulated by the perceived extension of instability of employment to the middle classes (see, for example, Brown 1995:34–5) the future of the service class has come under scrutiny. The argument of this paper is that, in fact, the nature of the service relationship is such as to ensure that, to a considerable extent, the service class is unlikely to fall victim to this trend. Put simply this is because they are an example of workers for which the advantages to the employer of flexibility in their employment relationship in times of economic difficulty are substantially less than the advantages of long-term commitment in times of economic prosperity. The reason for this is to be found in the robustness of the fundamental informational asymmetry between employer and employee on which the service relationship is based.

Recent years have seen the use of various employer strategies which implicitly or explicitly threaten the position of the service class. On the one hand, there are organisational changes that devolve budgets and responsibility for profits to ever smaller units, so, in effect, reducing the size of the unit within which a quasi-generalised reciprocity can operate. On the other hand, there are new forms of remuneration such as performance-related pay linked to the achievement of individual or group ‘performance targets’ (see Halford and Savage 1995:128–132 for an illustration). All of these are attempts, standing as alternatives to the service relationship, to overcome this informational asymmetry. But the problem with new methods of monitoring output, such as performance targets, is no different to that which has always lain at the root of the service relationship. That is to say, by virtue of the job they are required to do, it is not possible to write a contract for service class employees that specifies these things precisely, nor, therefore, is it possible to define performance related targets in such a way that compliance can be reckoned in
a straightforward or mechanical fashion. Trust, discretion and judgement must continue to play a substantial role, so preserving central elements of the service relationship.⁸

Those groups most at risk from developments such as these are, in fact, those ‘intermediate’ classes comprising ‘positions with associated employment relationships that would appear characteristically to take on a very mixed form’ (Erikson and Goldthorpe 1992:42). In the Goldthorpe schema these are classes III (routine non-manual employees) and IV (lower grade technicians and supervisors of manual workers). In many cases one could argue that those elements of the service relationship that members of these classes enjoy have been acquired as a result of terms and conditions of employment being extended to them, from the service class, at a time when the power of labour vis-à-vis firms was much greater than it is now. These positions are now particularly at risk not simply because the power of labour is much reduced but also because the kinds of functions they perform are more susceptible to technical change and new methods of more detailed monitoring than are positions in the service class proper (classes I and II).⁹

A further challenge to the service relationship comes from the growth of external purchasing, by firms, of functions that were previously provided in-house. This extends across a very wide range, from typing and clerical services to public relations, research and training, and includes ‘service contracts’ under which individual workers are treated as self-employed rather than as employees (Allen and Henry 1996; Harrison and Kelley 1993; Rees and Fielder 1992). But again, the extent to which this threatens the service class does appear to be limited by a number of factors. Perhaps most obviously questions of the degree of integration of the particular function within the firm’s activities and the degree to which a firm may want the sole access to a particular supplier of the function will be immediately relevant. But of perhaps more sociological interest is the growing requirement for internal flexibility in employment. At the same time that employers are resorting to greater flexibility in hiring and firing there is also a trend towards ‘a requirement for greater personal skills: teamworking, initiative, flexibility and adaptability’ and towards greater individual responsibility (Joseph Rowntree Foundation 1996). These are characteristics that can best be developed within the boundaries of a single firm. To the extent that these and other skills have been acquired at the firm’s expense (or, to put it prospectively, the degree to which a firm needs to train its employees in such skills), this will further militate against using externally contracted workers who would be equally available to competitor firms.

Williamson’s work (1975) provides a ‘transactions costs’ approach to explaining why firms prefer to have functions performed by employees rather than contracting for these with external suppliers. His explanation focuses on the type of exchange involved. Those in which there is uncertainty (in the sense of specifying exactly how the function is to be performed, for instance)
or where each transaction involves a high level of cost (in time or money) are more likely to be undertaken internally, while transactions that are one-off and straightforward are more likely to be undertaken between firms. The difficulty with this idea, from our point of view, is that the distinction between the two kinds of circumstance seems to correspond quite closely to a service relationship (the kinds of function Williamson suggests will be provided in-house) and a labour contract (externally supplied functions). It does not, therefore, shed much light on the probability that specified functions previously or elsewhere provided internally under a service relationship will come to be provided by a separate firm. However, Granovetter’s (1985/92) critique of Williamson offers some more fruitful suggestions. He argues that all relationships between the supplier and customer for a particular function are mediated through both market relationships and social relationships, and that the latter are present in relationships between firms as well as within them. Although his discussion is couched in general terms, his conclusion has particular relevance for the service relationship. He argues that there will be a tendency for within-firm relationships for the provision of a particular function ‘where transacting firms lack a network of personal relations that connects them or where such a network eventuates in conflict, disorder, opportunism and malfeasance. On the other hand, where a stable network of relations mediates complex transactions and generates standards of behavior between firms, such pressures should be absent’ (1985/92:72).

This formulation stands the problem on its head: the question is not ‘why do firms shift from internal to external contracting?’ but, rather, ‘why should firms ever seek to provide in-house what they can purchase externally?’ and it suggests three conclusions. First, given that the service relationship within the firm can be viewed as a means whereby employers try to minimise the likelihood of opportunism, disorder, malfeasance and so forth, it follows that if this same result can be achieved by utilising inter-firm relations, employers will, subject to the other conditions listed above, tend to seek to shift towards external sourcing of particular functions. Second, predicting exactly where this will occur does not simply require consideration of the particular function in question (although this will clearly be important): it also requires some knowledge of whether the kinds of inter-firm relationships that ‘generate standards of behavior’ exist, or can be developed. And finally, it points to a false dichotomy. If relationships between firms can only be sustained in a mutually satisfactory way given the existence of personal relationships that act to prevent opportunism, free-riding and so on, then the contrast between the in-firm service relationship, with its efficiency wage set above market levels, and the between-firm relationship, subject to strict market discipline, is a caricature. Rather, we might suppose that between-firm relationships could also be of different types, paralleling the within-firm service/labour contract distinction. If this is indeed the case then the shift of functions previously provided within firms in the context of a service relationship may only result
in the establishing of a quasi-service relationship between firms. Here some (though not all) of the characteristics of the service relationship may be maintained and the contrast with between-firm relationships more akin to a labour contract may also be evident.\textsuperscript{10}

\textit{Conclusions}

In this paper I have used three concepts – the transferring and hedging of risk and recommodification – to analyse shifts in the distribution of risk associated with changes in the welfare state, the family and employment relationships. In all three cases the effectiveness of a mechanism by which risk could be hedged has declined, leading to individuals and families bearing increased risk which originates in the uncertainty of the market. In the case of employment relations risk has been shifted away from firms and on to employees and would-be employees. Because of the asymmetry of power between the parties involved employees have, for the most part, been obliged to accept this increased risk without any compensating exchange.\textsuperscript{11}

I also discussed the possible consequences of the shifting of risk in employment relationships for the future of the service relationship and the service class. The essence of the service relationship is the informational asymmetry between employer and employee. I argued that this will prove very resistant to solution by new methods of monitoring and target setting, while any consideration of the extent to which within-firm service relationships might be replaced by external contracting of functions has to take account of technical, market and institutional features. Where the informational asymmetry problem cannot be otherwise overcome some form of service relationship will persist because of limits that this asymmetry places on the degree to which employers can claim an option over the labour supply of service class workers. In many cases this will involve a continuation of the service relationship within the firm, while in those cases where these functions are moved outside the firm we should expect to see some similar relationship (involving long-term commitment, trust and so on) established between the firm and its external supplier. But, to the extent that the circumstances that could give rise to those kinds of inter-firm relationships are rare or difficult to engender, the internal service relationship proper will continue to be by far the more likely of these two possibilities. The general point that I want to make is that forms of employee/employer relationship depend upon the balance of resources possessed, and constraints faced, by each party. We might therefore adopt a game theoretic approach and see employment relationships as the outcomes of such games. This suggests that distinctions such as that between core and peripheral workers, or between ‘standardized’ and ‘destandardized’ employment (Beck 1992:ch. 6) are too crude: rather, the various elements of the employment relationship – pay, fringe benefits, hours of work, security of
tenure, promotion prospects and so on - may themselves come to be combined in ways that depend upon the resources and constraints possessed by the parties involved. In this non-cooperative game the balance of power will always tend to favour employers, with employees having variable levels of resources with which to challenge employers’ ability to claim an option over their supply of labour. Viewed in this way the service relationship can be seen as one ‘solution’ to this game which, although it arose under an earlier set of labour market conditions, seems likely to prove robust to changes in such circumstances.

A central issue in studying the distribution of risk is the extent to which individuals take on greater risk through choice or constraint. On the one hand, individuals (more generally actors) may choose to accept risk because they believe that in so doing they are offsetting a greater risk (as in the exchange of quality risk for market risk) or because they believe that accepting risk brings with it the possibility of greater rewards (as in the case of investors in high risk/high return securities such as junk bonds or in the exchange of the hedging provided by the nuclear family for the greater freedom and opportunities provided by other domestic arrangements). Similarly, in the labour market some individuals (who set up their own business or employees who believe that the more direct monitoring of work will lead to their receiving greater rewards) may welcome increased risk and recommodification because they believe that it brings with it greater opportunities and the chance of higher returns. On the other hand, risks that are perceived as undesirable will be shifted between parties according to the balance of power between them, as the case of employment relations illustrates. And here there are substantial numbers of workers who are forced to accept increased risk with little or no compensation in the form of new opportunities or higher expected rewards.

This raises a final question. If, as I have argued, the channels by which risk is shifted depend upon pre-existing inequalities of power and resources, to what degree does the distribution of risk follow long-established distinctions in the distribution of social power, and particularly, social class? Or, alternatively, does the changing level and distribution of risk threaten to replace class with a new individualisation of inequality, as Beck (1992) and others have argued? A difficulty in counterposing these two arguments arises because of differences in the notion of social class. Beck’s (1992:131) claim that ‘From knowing one’s “class” position one can no longer determine one’s personal outlook, relations, family position, social and political ideas or identity’ demonstrates his conception of class as a subjective phenomenon, a source of identity, values and beliefs. In contrast, in modern class analysis in sociology, class is more usually treated as the basis of differences in resources for, and constraints on, action. Viewed in this way the relevant question concerns the degree to which knowing a person’s class position tells us what possibilities are open for exploiting, or being exploited by, processes associated with the changing distribution of risk. This is clearly an empirical question. But, given
that these processes entail recommodification, differences in the resources that individuals bring to markets can be expected to take on increased importance as a determinant of life changes. And, in so far as variation in such resources continues to be linked to class position (as the evidence of persisting class differentials in educational attainment demonstrates: see Shavit and Blossfeld 1993), then we can anticipate that the opportunities to take advantage of new circumstances will be far from independent of social class. Furthermore, to the extent that the shifting of labour market risk is associated with the securing of options by which the more powerful can retain for themselves the upside risk while transferring downside risk to those in a less powerful position, we might reasonably expect to see inequalities of class become more, rather than less, marked.

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Notes

1. An option that gives the right to buy at a fixed price is called a 'call' option, one that gives the right to sell, a 'put'.

2. In deciding whether or not to exercise the option its holder must also form a judgement as to whether the eventual profit from holding the option and exercising it later outweighs the profit from exercising it immediately. For some discussion of the complex 'optimal stopping problem' that results, see Dixit and Pindyck 1994:ch. 4.

3. If $X > S$ then the option to buy would be left unexercised. If the option confers the right to sell, rather than buy, the holder will exercise the option only if $X > S$.

4. Though, since unemployment compensation is in practice usually less than an individual could earn when in employment, the risk of unemployment is not wholly hedged away.

5. While the latter is sometimes seen as part of a wider loss of faith in scientific rationality, it is also the result of the application of that rationality. For example, the belief that the prices of stocks and shares cannot be forecast (that is, their price evolves randomly through time) is one of the cornerstones of modern finance, where it is known as the 'efficient markets hypothesis' (Copeland and Weston 1988:ch. 10). Similarly, one of the effects of the 'rational expectations revolution' in economics has been to cast doubt on the ability of governments to control the future path of the economy through conventional (or, indeed, any) policy tools (the so-called 'Lucas critique': Lucas 1976).

6. Though this is not to say that such external factors explain employers' behaviour in all cases. Changing circumstances may give rise to new forms of behaviour which are then adopted even by those who are not themselves subject to such changes.

7. To understand why this is so, we present the argument in a simplified form. Suppose that an employer, when hiring a worker, must decide whether or not to offer long-term commitment. In Figure 1 this is the choice between nodes $C$ (commitment) and $F$ (for flexibility). What is outside the employer's control is the future state of the economy, which may be either good ($G$) or bad ($B$). The
employer does not know which of these two possible states will materialise but she has a belief about them. This is captured by the parameter \( p \), which is the probability she assigns to a good economic state in the future (and thus she assigns \( 1-p \) to a bad future). There are then four possible outcomes, depending on whether she chooses \( C \) or \( F \) and whether \( B \) or \( G \) comes to pass. These are represented by the terminal nodes in the tree shown in Figure 1. We assume that of the four possible expected outcomes, \( CG \) is preferred to \( FG \) which is preferred to \( FB \) which is preferred to \( CB \). That is, outcomes in the good state are better than those in the bad state, but, if the good state were to come about, \( C \) would be better than \( F \), while if the bad state were to be realised, \( F \) would be better than \( C \). In other words, it is preferable to be committed to your workers when times are good and better to have a flexible workforce when times are bad. Under this setup the employer chooses \( C \) rather than \( F \) if

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P( V(CG) - V(FG) ) > (1-p)( V(FB) - V(CB) )
\]

where \( V( . . ) \) means the expected value to the employer of a particular outcome. Her choice depends on her beliefs about the future state of the economy captured by \( p \), but it also depends on the difference in the value attached to commitment versus flexibility in each state of the economy. Thus, whereas \( p \) is common to all decisions about workers that an employer might make, these value differences can vary as between different types of worker and different jobs. As noted in the text, it is therefore possible that if the expected advantages of commitment over flexibility when times are good \( ( V(CG) - V(FG) \) were very much larger than the advantages of flexibility over commitment when times are bad \( ( V(FB) - V(CB) ) \) an employer might still choose commitment, even though she was pessimistic about the future of the economy. The converse is also true: an employer might choose flexibility even if she were reasonably certain that the economy would be in good shape in the future.

8. Although service class workers may have written contracts of employment, their employment relationship is governed at least as much by implicit provisions — 'a set of shared, informal understandings about how firms and workers will respond

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**Figure 1**

*The Employer's Choice*

```
       Outcomes
        /
       /  
CG /    
   p  / 
   /   
  /    
G /

p 1-p

/    /
/    /
B  C  B

/    /
/    /
C  1-p

FG

/    /
/    /
G /

p 1-p

/    /
/    /
F 1-p

/    /
/    /
F  C  B

/    /
/    /
B /
```

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to contingencies' (Ehrenberg and Smith, 1991:409). For a discussion of the notion of implicit contracts see Rosen (1985). They are implicit precisely because the need for flexibility is inimical to detailed specification. The same might then be said of performance targets and the like.

9. A more radical threat to the service class – and one which lies outside the control of any individual employer – might seem to come from the general increase in economic volatility and the associated instability of employment tenure. As Goldthorpe has suggested (1995:325) this development would seem to have implications for the continuity of employment rather than for its character. That is to say, individual service careers may come to be pursued through several successive employments rather than in very long spells with one or two employers. Aware that this is likely to be so, employers may try to maintain employee commitment by seeking to provide them with the means to secure continuity of employability and career progression – through such things as training and on-the-job experience – rather than a promise of continuous employment. Whether this is in fact the case remains to be seen: certainly it would seem to impose upon employers the risk that the returns to the training of their staff will be captured by other firms.

10. An example of such inter-firm relationships is provided by Nishiguchi’s (1994:211) description of the relationship between Japanese firms and their subcontractors. The evolution of this relationship involved ‘a transformation in the underlying logic of contractual relations. The basis for these relationships shifted from the notion of classical exploitation to a new view of collaborative manufacturing, in the sense that both purchasers and subcontractors came to benefit ... from the synergistic effects of bilateral problem solving’.

11. The concepts presented in this paper can be applied to the recently reported phenomenon of workers accepting reduced wage increases in exchange for assurances of job security from their employer (for example, ‘Blue Circle Workers Put Security Before Pay’, The Times 7 January 1997). In cases like these the employees are buying back (through moderating their wage demands) from the employer the option over their services that he or she has acquired. Part of the agreement between Blue Circle and the GMB and TGWU, for example, was management’s promise not to review their option of contracting out haulage business during the duration of the agreement.

References


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