

**Critically discuss any two of the following theories: the flexible specialisation thesis (Piore and Sabel), regulation theory or a variant of New Institutionalism.**

Economists and political scientists now generally agree that capitalism is the only economic system that is viable in the long term. However, there is much debate as to what form this capitalism takes, and about what form it should take. Two theories that attempt to answer these questions are flexible specialisation theory and the regulation theory. I will argue that of the two, flexible specialisation theory is the more convincing.

The theory of flexible specialisation is based on the assumption that the global economy is moving to a post-Fordist era. In his book *Work and Politics*, Charles Sabel describes Fordism as the 'organisational and technological principles characteristic of the modern large-scale factory'. In the past century there has been a large increase in the number of workers employed in such factories, and the manufacturing sectors of industrialised nations have been based mainly on such a system of mass production. Through the division of labour, the manufacture of an item is reduced to many less complex processes. Tasks for workers become more routine, and as such can be increasingly imitated and aided by highly specialised machinery. Efficiency is increased through economies of scale and through reductions in the skill level required of workers. Traditionally the largest firms would be seen as technologically advanced, and the smallest as technologically backward. It was assumed, by Marx and others, that the largest firms would begin to dominate the economy more and more as time passed, as they would benefit from this technology and be able to produce goods more quickly and more cheaply than their competitors. However this has not occurred. The concentration of large firms in industrialised economies has remained remarkably stable over the past fifty years, and the flexible specialisation theory has been developed in order to attempt to explain why.

Mass production in the Fordist sense relies on a large and stable market for its output. Without such a market, there is no reason for the firm to expand – it would simply be left with a large number of unsold, unwanted goods. Piore deconstructs demand for a product into two elements – stable and unstable demand. Stable demand is that part of demand which still exists at the bottom of the business cycle. Unstable

demand is the difference between actual demand and stable demand at any given time. This is represented on the diagram below.

Piore postulates that it is the stable component of demand which affects how much a Fordist firm decides to produce. This is because during a slump in the business cycle, the machinery employed cannot be put to alternative use – it is constrained by its own specialisation. A high stable component of demand, compared to the unstable component, will therefore lead to a greater concentration of Fordist firms, while a relatively high unstable component will allow smaller, more flexible firms to flourish. An example of this can be seen in the market for bread. Cheap white bread for mass consumption tends to be produced with mass production by a few large firms, while luxury varieties such as granary and wholemeal are generally produced by a greater number of smaller firms. It is important to note that changes in production are not a reaction to boom and bust *per se*, but can be seen instead as a reaction to a more general uncertainty.

The theory therefore states that every country will be a mixture of Fordist mass production and firms operating under 'flexible specialisation', a system whereby machinery and workers are easily adapted to new production techniques during a slump. The effects on the labour market are particularly interesting. Adam Smith predicted that the mass production techniques he proposed in *The Wealth of Nations* would lead to the massive use of unskilled labour performing increasingly routine tasks. While this held true until the beginning of this century, recent developments have not supported Smith's case. This is partly because of an increase in the relative importance of the service sector, and partly because progress in the division of labour creates a demand for a mixture of new skills epitomised by the blue-collar workers employed in installing, repairing and supervising factory machinery.

One of the predictions of Sabel is that mass production will eventually become dominated by flexible specialisation. As Fordism takes hold in developing countries, it will compete with the large producers of modern industrial nations. This competition is through imitation of methods and machinery, and goods can usually be produced with cheaper labour and cheaper raw materials. Firms in industrialised countries will have to adapt all the time and produce higher quality goods to resist the challenge of producers from less developed countries. Eventually the less developed countries will grow tired of simply imitating and will want to innovate instead, but so long as their factory machinery is simply copying the routines of those in industrialised nations, this is impossible. Therefore it may be the case that even these countries will find a need to be flexible in their production. Other reasons for this change to the small scale concern consumer choice. Some goods will become less and less appealing

as more are sold (take the example of the Ford Escort, for example). Finally, as industrialisation has caused an explosion in real income, consumers have a greater opportunity to experiment with their tastes, and prefer a variety of goods to those that are cheap but standardised.

Flexible specialisation theory has been criticised on a number of grounds, however. Firstly, Piore's initial theory relied too much on the concept of 'industrial districts' – areas where similar firms would agglomerate and cooperate. This was seen as necessary for the efficiency gains of mass production to survive. In practice this simply has not happened, and the idea that it would suggests an almost naive concept of the priorities and behaviour of managers. These areas could occur but this would need coordination from government, which has generally not been forthcoming because cooperation between firms tends to stifle competition. A second criticism is that there are a lack of criteria to decide whether flexible specialisation or mass production dominates. Allied to this criticism is the suggestion that there are actually other systems aside from these two, such as Diversified Quality Production (suggested for Germany) and Diversified Quality Mass Production (for example Japan). Perhaps the most convincing criticism is that the theory focuses so much on production techniques that political and institutional factors are ignored. For example, in a country with strong trade unions, managers might subcontract and decentralise not in order to be more flexible but in order to assert more effective control over workers and minimise the risk associated with industrial action in one particular factory. If the labour movement was even stronger, as in Sweden, it might be able to prevent the emergence of small firms altogether by forcing wages so high that marginal workers become unemployable. The same might be true of a very socialist country where small firms are seen as more difficult for the state to control, both economically and politically.

Regulation theory is more complicated. It is in some interpretations a more flexible and open form of Marxism, in others a kind of neo-Fordism, and in others still is seen as a development of the institutionalist approach. Class conflict is dismissed as the sole guiding force of history, but in other ways the theory has a lot in common with Marxism. Capitalism is seen as crisis-ridden and must be 'solved' by regulation, which can take the form of anything from direct intervention by the state to informal acceptable patterns of behaviour. The theory states that regimes of accumulation (patterns of productive organisation, income distribution and consumption) must be separated theoretically from modes of regulation (institutional norms and regulating

networks). Crises in capitalism are supposed to be caused by a lack of coordination between production and consumption, and these modes of regulation are seen as the solution to this problem, by securing adjustment to the regime of accumulation. Jessop defines accumulation as the 'macroeconomic regime stabilising production and consumption'. This can consist of local, regional, national and even international groups, and these need to be carefully coordinated. An example of a mode of regulation is the education system, which is meant to prepare youths for a life of work, either in Fordist-style factories, where little education is needed, or in small-scale flexible enterprises where education is essential to demonstrate skill and provide adaptability.

There are three major criticisms of regulation theory. The first is that global modes of regulation (not imposed by one particular government or institution) will eventually overshadow national modes, and therefore it is slightly futile for national governments to develop their own. With no effective international body who can make decisions on how to regulate capitalism, the argument seems to end in a political black hole: there is no point in coming up with a theory if its propositions cannot be put into practice. The regulation theorists fail to provide any suggestions of a mechanism to help us understand the transition from national to global modes of regulation, nor any criteria to assess which modes of regulation are transitional and which are fundamental. The second major criticism is that it shares the logic of binary contrast inherent in Piore and Sabel's theory, attempting to divide the political and economic system into a convenient pair – regimes of accumulation and modes of regulation. A final criticism is that there is no part of the theory which describes the political system which would best suit a regulation-based economy – it could be either one with a strong centralised state, one with a variety of strong independent institutions, or even a very open society with mechanisms to encourage trust and communication.

Many useful comparisons can be made between regulation theory and the thesis of flexible specialisation. Regulation theory appears to be inherently more pessimistic, focusing on perceived modern failures which may no longer be valid, rather than on the modern successes of post-Fordism. Flexible specialisation ties in more closely with the currently fashionable right wing of politics, which also emphasises the need for flexibility in the supply side, compared to regulation theory which, despite being far less concerned with class than Marxism, still has its roots in the left wing. This can be seen in the nuances of a respect for large government inherent in regulation theory –

those who wish to regulate often see the state as the most effective mechanism for doing so.

The historical viewpoint of the two theories differs considerably as well. Regulation theory as described by Jessop sees a process of 'historical co-evolution' between modes of regulation and regimes of accumulation, and where the two systems have come closer together it has been through a series of 'happy accidents'. Regulation theorists also mention the 'struggle' between labour and capital proposed by Marx, but do not share his strictly path-dependent view of history. Flexible specialisation on the other hand is much more stagist, describing a 'branching tree' model of history in which we go from Fordism to either international Keynesianism (viewed as politically suspect and impossible to achieve) or towards flexible specialisation. The historical component of regulation theory suggests that institutional change should be very slow. I would argue that the massive changes in the world economy recently fit in much more closely with flexible specialisation theory, which is largely based on the observed changes themselves.