



INSTITUTIONS AND LABOUR FLEXIBILITY: A PSYCHOLOGICAL APPROACH

It is a widespread view that labour flexibility increases labour productivity. The rationale for this argument lies in the fact that labour flexibility, in the form of high job insecurity, acts as a “discipline device” and as a result provides workers with an incentive to give firms their maximum effort in order to minimize the probability of being fired. By contrast, Institutional economists argue that job insecurity generates lower labour productivity, since it has a negative effect on worker morale. Following this line of thought, and on the basis of evidence, the following question will be addressed: why do workers react to the increase in job insecurity by reducing their intensity of work? The answer provided is based on a psychological framework, where individuals choose in a 3-dimension space. One dimension concerns the symbolic scenario defining the object and the parameter of value (*model of value*); one the level of identification with this scenario (*salience*), that is variable through time and space and persons; and the third concerns the value associated with the object (*relevance*).

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1 – Introduction

It is a widespread view that labour flexibility increases labour productivity. The rationale for this argument lies in the fact that labour flexibility, in the form of high job insecurity, acts as a “discipline device” and, as a result provides workers with an incentive to give firms their maximum effort in order to minimize the probability of being fired (see Shapiro and Stiglitz, 1991; Layard, Nickell and Jackman, 1994). By contrast, many ‘heterodox economists’ (moving along a line of research which starts with the works of Lujó Brentano and Francesco Saverio Nitti at the beginning of the 20th century, and converges in contemporary Institutional political economy) argue that job insecurity reduced labour productivity since it has a negative effect on worker morale¹.

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¹ Evidence seems to support the latter view. The European central bank reports that, in the EuroZone, from 1996 to 2007 the labour productivity growth rate fell from 1,26% to 0,5%. OECD reports that, in the period under consideration, policies of labour market deregulation were put forward in most industrialized countries, and that EPL (employment protection legislation) has declined dramatically during the last decades.



On the methodological plane, while in the first case the standard axiom of instrumental rationality is used, in the second case attention has been devoted to the *psychological* foundation of workers' behaviour. A "puzzle" then arises: why do workers react to the increase in job insecurity by reducing their intensity of work, despite the fact that this strategy is apparently counterproductive?

It is recognized here that labour productivity is affected by a number of variables, namely: technology (what a worker *can* do), human capital (what a worker *is able* to do), and workers' effort (what a worker *wants* to do). As regards the "puzzle" addressed in this paper, some economists suggest that labour productivity grows as the rate of unemployment increases. This is because, in the presence of high unemployment, the 'threat' of dismissal becomes credible, and even more credible as unemployment grows (cf. Shapiro and Stiglitz, 1991). Moreover, highly-skilled workers are difficult to replace and, as a result, even when unemployment is high, the "discipline" mechanism is likely to be irrelevant for them. Importantly, these arguments presuppose that workers have full information both on the dynamics of the labour market and on their bargaining power with their employers. However, recognizing this makes it even clearer that it is necessary to model the computational mechanisms through which the relevant elements are computed and transformed into a specific level of commitment to the task, having a certain level of productivity as output.

This means that the frame of analysis has to be enlarged. The issue needs to be addressed not only in terms of identifying the factors that play a role in the decision making but also in terms of how such factors are computed – i.e. if they are computed according to instrumental rationality or not. First, one has to conceptualize *how the economic factors are assumed by the worker and transformed into subjective decisional parameters*. Take a worker in an economic scenario qualified by the objective economic factors: x , z , w , respectively identifying the gradient of insecurity, the specificity of the task and the rate of unemployment. How does the worker consider such values: how does she transform them into the subjective parameters of her decision making? How does she make them comparable in order to combine them with each other in order to establish the level of her working productivity?

Classical economics' assumptions allow such basic questions to be avoided. In fact, if one assumes that: a) the worker is perfectly aware of market conditions; b) the objective values are directly assumed by the worker without any further subjective mediation; and c) that they are always computed in accordance to a criterion of maximisation, then decision-making can be analysed taking the objective values as parameters and modelling them in terms of the function defining the optimal instrumental relation among them. Yet, assumptions a, b, c are clearly an oversimplification of reality. Workers do not have an absolute knowledge of the objective values of the job market; above all, they decide on the grounds of such parameter, but not directly *through* such values; rather, the computational "stuff" on which the decision making works is the worker's *representation* of the objective value. In other words, the relation between the objective values and the decision making is mediated by the subjective assimilation/introjections of such values, i.e. their transformation into subjective parameters. And such transformation is not a mere mirroring of the objective value, but the output of a constructive process of sense-making (for a discussion of this issue, see Salvatore, Forges Davanzati, Potì & Ruggieri 2009).

In sum, what is needed is a model of how the worker transforms the objective value of the economic context into subjective parameters and which rules govern how she computes such parameters. Thanks to such a model the discussion of economic decision making may take a step ahead – from identifying the universal "right" model of decision making, to the analysis of the conditions and mechanisms through which, in a given circumstance, the worker adopts a certain model of decision-



making (i.e. she operates in accordance to instrumental rationality), while in another circumstances a different on (i.e. altruism, epistemic interest...)².

This paper intends to contribute to the development of this perspective. More specifically, it aims to provide a psychological interpretation of the factors determining workers' motivation to work. The basis of our interpretation is a model of the economic decision as a three-dimensional space (henceforth: phase space of decision). One dimension concerns the symbolic scenario defining the object and the parameter of value (*model of value*); one the level of identification with this scenario (*saliency*), that is variable through time, space and persons. And the third concerns the value associated with the object (*relevance*). It will be showed how this psychological model may provide a framework to explain the otherwise puzzling relationship between job insecurity and labour productivity .

The exposition is organized as follows. Section 2 proposes a psychological approach to the economic decision; in section 3 this theoretical framework is applied with reference to the specific focus – the links between job insecurity and the path of labour productivity. Section 4 concludes.

2 – A psychological approach to “institutions” and economic choices

Institutional economics is largely based on the idea that individuals do not behave according to the instrumental rationality axiom, and that their decisions are profoundly affected by their *personality* – biological, intellectual, affective – in an evolutionary pattern, where habits of thought and life, and the so-called instincts modify over time.

This theoretical framework rests on Veblen's work and, particularly, on his theory of “institutions” and “instincts”. Institutions are defined by Veblen as “prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community” (Veblen, 1975 [1899], p.190). They are selected in the process of social evolution, according to the principle of the “selective conservation of favourable variations” (i.e. natural selection), and, in turn, they affect the habits and customs of the community where they are accepted:

“Institutions are not only themselves the result of a selective and adaptive process which shapes the prevailing or dominant types of spiritual attitude and aptitudes; they are at the same time special method of life and of human relations, and are therefore in their turn efficient factors of selection” (ibid., p.188).

2. An example of such inter and intra-individual variability of models is provided by academic work – and the writing of this article as a paradigmatic case. A recent study (Leung, 2009) has shown that scholars' productivity decreases after they attain tenure – i.e. with the decrease in job insecurity. This is consistent with the assumption of rational choice. Now, both the authors of this paper have tenure and they do not foresee obtaining anything from the paper, in terms of development of career, security, or other material individual advantages. So it must be concluded that our motivation is the effect of an irrational model of decision-making. In alternative, rather than merely deciding whether our activity is consistent with the normative canon of rationality, one could ask: what are the mechanisms through which we have been motivated to act in such a way, considering this act a meaningful, ego-consistent, correct decision? This is the methodological choice of this paper.



This view can be expanded on the basis of the following remarks. Institutional theory embraces – more or less implicitly - an individualistic view of human psychology, as if it were something located within the skull of the person (consider constructs like feeling, emotion, morale), depending on the characteristics of the person (i.e. personality) and being affected by what happens outside her. As Veblen's theory of instincts shows, such an individualistic view tends to merge with the socio-deterministic assumption that the forms of subjectivity depend on the individual's place in society. Several contemporary psychological theories (e.g. Gergen, 1999; Harrè & Gilett, 1994; Rommetveit, 1992; Salvatore & Freda, 2011; Valsiner, 2007) have stepped back from such assumptions (individualism and socio-determinism), arguing for a contextual and dynamic approach to subjectivity. Accordingly, the human mind is embedded in intersubjective processes of sense-making, which are in turn oriented and constrained by cultural contextual conditions. Consequently, the subjectivity of the economic agent has to be seen as a function of the field, dynamic transitions among socio-cultural-institutional contexts, resources, communicational practices, and intrapsychological characteristics.

What follows is a model grounded on this framework and aimed at conceptualizing the psychological mechanisms entailed in the way agents in the market labour make their choice.

2.1. - A 3-dimensional model of choice

Veblen's theory of instincts highlights how people pursue a plurality of aims of maximization (e.g. knowledge, reputation, visibility), each of them entailing peculiar payoffs. This is quite close to the everyday experience – the same person adopts different logics and criteria of computation, so that in some cases she seems to work according to instrumental rationality, while in others as if other kinds of rules were at stake.

This leads to a major change of focus. The issue is not whether the decision is rational or not, but to understand the conditions in which the choice is performed in rational way (and which other conditions apply, when other forms of decision prevail).

Our psychological model of economic decision intends to address this issue. It considers the decision to be a process working in a hierarchical way. Psychological assumptions (level 1) define the super-ordered (inter)subjective frame defining the model of payoff and the logic of its computation (level 2).

Our model focuses specifically on level 2, defining it in terms of three basic dimensions:

- Model of value (MoV)
- Perception of relevance (Pr)
- Saliency (S)

a) *Model of value*. Individuals do not have monolithic selves. Rather, they are made up of a plurality of components of identity, each of them working as a subset of the system of self (Hermans & Dimaggio, 2004; Gergen, 1991; Salvatore & Zittoun, 2011; Salgado & Cunha, 2012). Each component of identity reflects the person's experience of a socio-cultural and intersubjective scenario (to different extents – micro, meso, macro extension): country, family, friendship, neighbour relationships, community, virtual networks, professional group and so forth. The lived experience of being part of a society is made up of participations in scenarios.

Each scenario tends to be characterized by its own system of rules, meanings and forms of subjectivity – namely, by its peculiar psychology. Consequently, being positioned within a scenario makes up a peculiar *model of value* – namely a specific pattern of feelings, intentions, desires, axiomatic tenets, ways of thinking and methods of engagement with others and world.



It is worth noting that scenarios share some aspects and at the same time can be very different from each other (e.g. the scenario of being involved with one's children and the scenario of playing the stock market are quite different, while the latter shares some aspects with the scenario of playing poker with friends). Moreover, one has to consider that scenarios are not factual, but mental realities: *socio-culturally guided and intersubjectively negotiated forms of interpretation of the world*. Positioning within a scenario is a psychological process – one need not actually be on the job to feel and act like a worker, just as one can be at work but experience it in terms of a different mental scenario (e.g. as a family).

In any circumstance of life, the different components of identity somehow engage in a competition with each other. One component (or a homogeneous pattern of them) take a foregrounded position, with the others left in the background. We use the term version of identity for the component of identity that foregrounds the self in a certain spatial-temporal circumstance. In sum, the person's version of identity is the model of subjectivity governing how the person interprets (i.e. feels, thinks, chooses, performs) the experience in a given moment. *Any version of identity is associated with a model of value, of which the former is the ground.*

Two aspects of such a definition are worth underlining. First, as the use of the term “version” suggests, each person holds a plurality of aspects of identity – and therefore of models of value - and what the person is at one moment in time is just a partial actualization of what could be. Second, any actualization is local, that is, it is performed at a given moment, due to the circumstances that lead the person to bring a certain mental scenario to the foreground. So, the person can function in one circumstance as a father, while in another as an in-group member, and still in another as a cold thinker. In sum, the version of identity is a field dynamic process, depending on time and local circumstances.

It is worth noting that notions of version of identity and model of value as proposed above take up and enlarge Veblen's typology. This is so for two basic reasons.

- a) The subjectivity of economic agents (i.e. instincts in Veblen's theory) is not considered a stable inner psychological structure; rather, it is conceived of as a multi-componential dynamic system. In other words, the variability of the forms of subjectivity is no longer located within the population – as differences between individuals – but in the very self – as difference *within* individuals.
- b) This goes beyond the view that such a variability reflects the differences in the segments of society one belongs to. Rather, a person assumes different versions of identity according to the socio-cultural scenarios she is embedded in. Incidentally, this view leaves room for the recognition of the influence of class membership (or other forms of macro-social belonging). Such membership, however, does not work per se, but indirectly, shaping the distribution of probability within which the person experiences a certain set of scenarios.

We maintain that the model of value works as a super-ordered frame shaping and constraining decision-making. Making decisions according to ethical rules, in terms of rationality, adherence, opposing, computing, saving, avoiding, pursuing loyalty, friendship, reciprocity, curiosity, pleasure: all of those are forms/logics of decision-making descending from a specific model of value (or a combination of some of them), grounded on an equally specific version of identity.

More specifically, the model of value plays a central role in decision-making, because *it shapes the content of the decision*. This is so because the content of any decision is not fixed. Rather, it depends on which aspect(s) of the experience is(are) made pertinent. As the theory of frame highlights, the same logical structure of a decision can be interpreted in different ways, due to how it is experienced (Kahneman, 2003).

In the final analysis, what is exogenous and what is endogenous in the choice is not invariant, but it is a function of the model of value. Take a worker: she can consider many aspects as relevant,



therefore as the value (and combination of values) on which her choice is focused: security, the wage, the relationship with colleagues and/or clients, the gratification associated with achievement, power, and so forth. Thus, any choice entails a previous process of making some aspects of the experience pertinent and of placing the rest into the background. For instance, to be fired can be interpreted by some workers as an instrumental issue, while for others it could be seen as a loss of identity, something with quite a destructive impact on the self, on one's reputation, on the feeling of being member of the community.

The idea that the model of value produces a hierarchy of the aspects of experience that potentially enter the decision-making process is consistent with the fast and frugal way of functioning of such processes (Gigerenzer, 2008; Gigerenzer & Todd, 1999). Above all, it provides a way to address the puzzling issue of the incommensurability of the components involved in any major decisional context. Take the increased risk of being fired associated with the increasing flexibility of the labour market. This risk entails a plurality of implications – e.g. dramatic reduction of income, increase in free time, leaving the work group, and so forth. Now, each of these aspects is experienced in peculiar, incommensurable way – there is no general psychological metrics governing how such aspects are integrated in a single mental computation. For instance, how does the person compare the loss of income and the enhancing of free time? The answer to this question provided by the concept of model of value lies in the idea that people do not make comparisons among the components involved in the decision; rather, they perform a hierarchy, placing something in the foreground and the rest in the background. In the final analysis a model of value is a specific model of hierarchisation of decisional parameters.

b) Salience. As a premise, it has to be taken into account that the identification with a version of identity is not an all-or-nothing process. Rather, it must be considered a continuous dimension: one can identify with a certain version of identity to different extents, ranging from the lack of identification to a total level of identification. With the term identification here we mean the *existential force* – the truthfulness - the person attributes to a given version of identity (when it is experienced as the foreground) - therefore to the experience and representations she makes through the mediation of such a version of identity. To identify deeply with a certain version of identity means feeling the representation/experience produced within this version as absolutely true-for-the-person, therefore having a very strong existential force - in other words not as one among other possible representations of the world, but the only true possible world³.

3. The following examples illustrate this issue. Take a person watching a film – she can be caught by and within the story, feeling part of it – afraid, happy, surprised and the like, like and together with the characters. She does not feel she is a spectator of something happening outside her – rather she is within the story just as the story is part of her (in that current moment). In other cases – usually when the film is of lower quality – this does not happen and the screen images are experienced as something distant. The watcher becomes bored, starting to think to other things. Now, the content of the experience does not change – what changes is the salience of such content, namely the existential value it conveys: to what extent the subject lives the experience as something-being-part-of-her. Another example can be found in playing. The quality of the experience of playing does not only depend on the content of the game, but mainly on the capacity of feeling the game is real, something that in that current moment is the player's whole life – in the terms of our model: as a very salient version of identity. Reference to the context of playing is useful to highlight the role of salience in choice. Consider a person playing Monopoly. It is evident that the output of her decision will not depend only on the terms/structure of the decision (payoff, resources). Her decision will also depend on the extent to which she feels the experiential scenario of Monopoly is salient – namely at what extent the version of identity in the foreground at that moment (I as the character acted in the game) dominates the person's self. The more the experience of playing is salient (at the moment of its actuation), the more the person will follow the rules of the game.



In sum, the salience of the version of identity determines how seriously the person takes the experience mediated by this version of identity, namely to what extent she gives it existential force (Salvatore & Freda, 2011). This makes the role that salience plays in decision making clear – the more the salience, the more the actor will be forced/constrained to adopt her own version of identity as the super-order frame regulating the choice. Conversely, the less the salience, the more the actor is able to adopt forms/logics of decision making that are peripheral to herself.

It is worth noting three aspects associated with the construct discussed here.

First, salience does not concern the content of the representation, but the existential truthfulness of the representation itself. A representation can be felt to be highly salient even if its content consists of something considered to lack relevance. The rational paradigm of choice provides a clear example of this. According to this representation, the psychological aspects are void of relevance, despite everyday experience - even the everyday experience of those who claim such a representation. This means that such representation is full of salience, it is seen as having full truthfulness. In other words, the version of identity framing such a representation – I as theorist – is absolutized and therefore the other components of the self following the rational paradigm (e.g. the theorist's experiences of making decision in actual circumstance of daily life) are radically marginalized, pushed totally into the background. The opposite situation can also be considered – a content with high relevance but void of salience. Examples of that can be found in the situations where the correct recognition of the risk does not produce a consistent decision. Paradigmatically, take a smoker who is fully aware of the risk associated with such conduct. Nevertheless, she does not stop smoking. The common sense interpretation of this contradictory decision says that this happens because the smoker underestimates the risk. But this is just a post hoc description of what happens, rather than an explanation of it. The notion of salience enables such inconsistency to be understood - the representation of the risk is correct, but the salience of this representation is lacking or is quite weak. Consequently, the representation is unable to lead to a decision – it is correct but has no existential force.

Second, salience has to be considered as the by-product of emotions. From an evolutionary standpoint, emotions are just that – the attribution of relevance to the stimulus preparing the subject to react to it (Panksepp, 1998). Also from the phenomenological standpoint, to have an emotion means feeling that experience vividly, as something that has immediate and relevant value for the subject (Salvatore & Zittoun, 2011). Finally, from the neurobiological standpoint, it has been highlighted that the damage of the neural circuits involved in the computation of emotional information does not inflate the capability of reasoning; rather it leads the subject to consider the content of her thought as just conjectural, namely void of existential force, therefore unable to motivate the individual to choose and act. (Damasio, 1999)

Third, salience is a field dynamic characteristic, even if its effects concern single individuals. As a matter of fact, the absolutization of a version of identity depends on the extent to which the socio-cultural and intersubjective scenario is socially shared. Take the context of decision C1; in that context, persons share just one scenario, therefore the same version of identity. Consider now the context C2, where there is a plurality of versions of identity involved. The salience will be higher in C1 than in C2. To give a more concrete example, consider a firm. If in this firm the greatest proportion of workers share the version of identity “I as overworked by the ownership”, then the representation derived from such a version of identity (feelings, evaluation, thoughts, decisions, acts) will have strong salience. On the contrary, if in the firm's socio-cultural environment, a plurality of versions of identity circulate, then the level of salience of each of them is lower – the



other workers' versions of identity operate as a constraint on the salience of one's own version of identity.

c) Perception of relevance. The relevance of the object of choice plays a crucial role in affecting individual behaviour. One can distinguish between *relevant* and *irrelevant* situations (or – more reasonably – between situations of variable degrees of relevance). In other words, it seems quite reasonable to assume that *not all* situations have the same importance for individuals (the choice of work is certainly more important than the choice between a cup of coffee or a cup of tea) and that the loss caused by of the erroneous choice in the case of a relevant situation is higher.

Two aspect have to be considered further.

Firstly, it is argued that relevance derives from how the actor *perceives* the value of the object. In other words relevance is not an immediate mirror of the objective value of the object; rather it consists of how the person interprets such a value. And it is reasonable to think that this interpretation while in part depending on the objective value of the object, at the same time is affected by contextual and individual factors like household income, status, group affiliation, plans, history of previous experiences (e.g. de-sensitisation to the experience).

Second, in strict connection with the previous point, it can be observed that the attribution of relevance is made not in absolute terms, but in accordance with a normative criterion of canonicity. No value has an inherent meaning – its meaning is construed through comparing it with what it is considered normal (Valsiner, 2007). This means, for instance, that workers perceive the extent of insecurity not in terms of a continuous, fixed proportion scale – i.e. as the metrics used for measuring a physical distance - but in normative terms, namely in terms of comparison with what it is canonically expected to be – therefore, in terms of “right”, “excessive”, see below).

It is worth noting that the recognition of the role played by the perception of relevance in decision making contrasts twofold with the tenet of instrumental rationality. In fact, on the one hand, it means that decision making – rather than being based on an encapsulated, computational mechanism - is a process mediated by the persons' meaning-making, affected by contextual factors (Salvatore, Forges Davanzati, Potì & Ruggieri, 2009); on the other hand, it means that decision making – rather than working in terms of optimization - is performed in terms of maintenance/retrieval of (cultural) canons.

We claim that that the greater the perceived relevance, the more the agent tends to conform her decision making to the decisional criterion defined by the version of identity involved. For instance, if the version of identity at stake prescribes instrumental rationality as decisional criterion, individuals tends to behave in a rational way (at least in the sense that they tend to calculate, even under uncertainty) when the choice pertains to relevant events, while, by contrast, they tend to behave according to other decisional criteria in the event of less relevant outcomes. In the same way, if the version of identity is, for instance, family ties, and therefore the decisional criteria associated with such a version of identity is protection, affiliation, caring, then the more the perceived relevance, the more individuals tend to behave according to such criteria.

In sum, we have three dimensions. One dimension concerns the shape of the decision maker's self (version of identity/model of value); one the force of this version (salience), which is variable through time, space, and persons. And the third concerns the perceived relevance of the object, which is an evaluation grounded on cultural canons. These dimensions work in a complementary way: the perceived relevance defines the value of the object in accordance to the criteria of value made pertinent by the first dimension. The salience defines the existential force of this representation of the value. Working jointly, they define the logic of decision performed by the economic agent. Thus, one can model the logic of decision in terms of the position on the 3-dimensional phase space – each coordinate being the value on the corresponding dimension.



3 –“Institutions” and the motivation to work

Institutional economists approach the study of the functioning of the labour market by considering the number of psychological dimensions which affect workers' behaviour. In particular, and as regards to the main question discussed here, they stress that the main effects of labour flexibility are the reduction of labour productivity, via the reduction of workers' morale. Lujó Brentano and Francesco Saverio Nitti were the first authors, in the 20th century, to theorize this effect (see Forges Davanzati, 2000), which has become a standard view within the contemporary Institutional approach. The 1975 Nobel Prize Gunnar Myrdal (1957, pp.123-124) approached the issue starting from this question:

“Would not the motives to work [...] in the lower income groups slacken when they were relieved from pressing wants and economic insecurity?”

It has been observed that this effect can be in operation only if one considers that workers are not purely rational agents. In the opposite case, in fact, since low propensity to work is associated with a high probability of being fired, workers will not reduce their work intensity insofar as this could increase the probability of losing their jobs (see above). This is in line with Myrdal's view that, also in this case, individuals' decisions cannot be reduced to a problem of optimization, insofar as they are not taken according to the rational choice paradigm. Other fundamental factors mould workers' behaviour. The reduction of workers' 'morale' falls within the realm of impulsive reactions driven by “emotions” (Myrdal, 1957, p.128), namely what Myrdal labels “feeling of resentments” as opposed to “feeling of solidarity and identification” (Myrdal, 1958, p.64)⁴.

On the other hand, it has to be said that institutional reference to psychological dimensions (e.g. morale, emotions, feelings) is descriptive – such concepts allow the role that the agents' subjectivity plays in the determination of the choice to be highlighted, but they tell us nothing about *how* such subjectivity works, through which mechanisms it moulds the agents' behaviour. In the final analysis, those constructs represent a post hoc hypothesis, legitimated by the failure of the rational choice paradigm, rather than the grounds of an explicative model of decision making.

In what follows, we implement the 3-dimensional model of decision-making proposed above in order to move a step ahead in the perspective of the development of an explicative model of the worker's decision making.

3.1. *The phase space of labour productivity*

4. It should be stressed that this theory is fully integrated into contemporary Post Keynesian economics. As recently pointed out, among others, by Sawyer (2001, p.287, italics added), “Unemployment has scarring effects on individuals and there is *demoralisation* felt by workers in the face of heightened job insecurity, which tends to reduce productivity”.



In formal terms, consider ϕ the generic labour productivity function. Be α the degree of job insecurity, and π the labour productivity. Then, as first approximation, $\pi = \phi(\alpha)$. (1)

Yet, from the previous arguments descend that ϕ is not a stationary function, but a set of several possible functions - one for each region of the 3-dimension phase space of decision. We define μ the parameter mapping this set. Thus, according to our model, μ is a 3 point vector (Vi, A, Pr), defining the position of the decision on the phase space (see above). Each value of μ define a logic of decision. Consequently, one has to move from (1) to $\pi = \phi(\alpha, \mu)$ (2), that is labour productivity is a function of the job insecurity in the context of the logic of decision adopted locally.

As figure 1 shows, for some values of μ , (say μ_1) $\phi' > 0$, namely the choice fits the standard view; for other values of μ , (say μ_2) $\phi' < 0$, namely the choice is performed in accordance to a logic of decision different from instrumental rationality. Thus, the central point is the definition of μ_1 and μ_2 , namely the map of the regions of the 3-dimension phase space corresponding to this parameter.

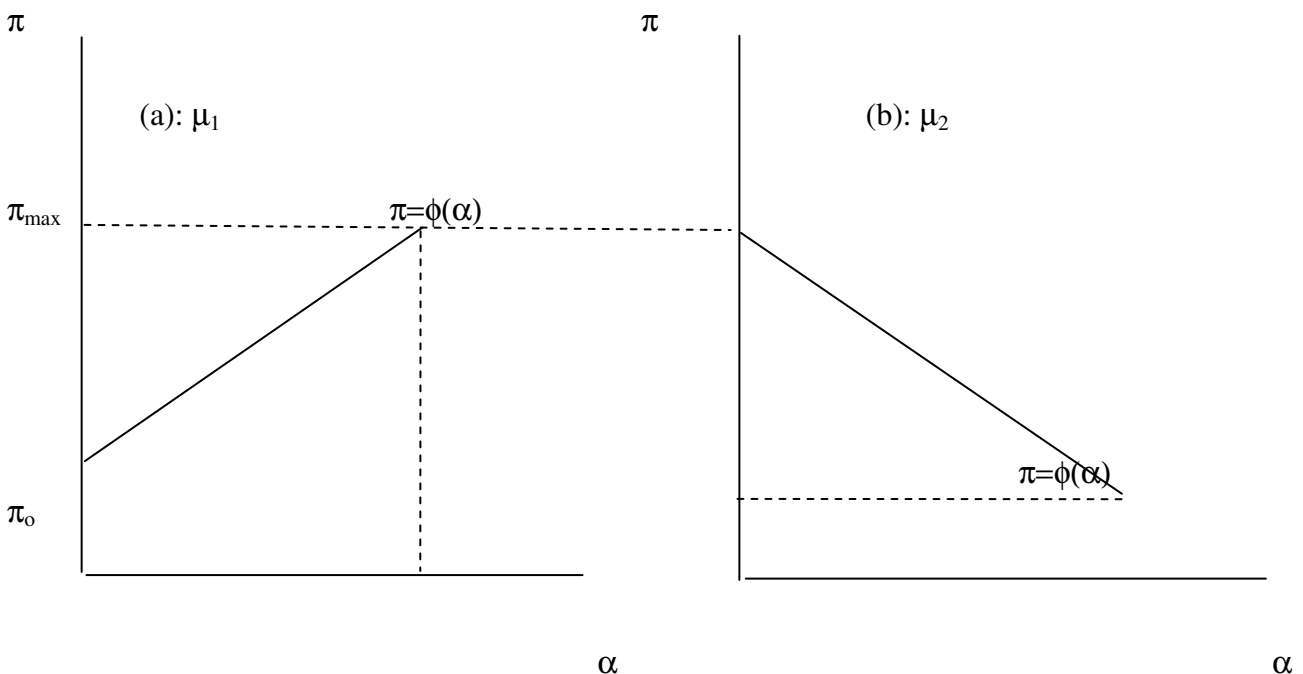


Figure 1: job insecurity and labour productivity as function of the phase space of decision (μ)



Figure 1 describes the different path of labour productivity resulting from variations in the degree of job insecurity. Labour productivity varies from its minimum level (π_0) and its maximum level (π_{\max}), corresponding to the situation where workers provide their maximum effort – relating to their available physical and psychic energy – which translated into maximum labour productivity. Panel (a) describes the case where the labour productivity function is subject to a phase space decision μ_1 . According to this parameter the labour productivity function is positively sloped. It predicts an instrumental rational reaction on the part of workers resulting from the increased flexibility. This area therefore maps the agent's adoption of instrumental rationality as the logic of decision-making, that is, as the grounds of the decision. It is reasonable to expect that μ_i corresponds to a region of the phase space defined by: i) a version of identity having economic resources (i.e. income) and individual utility as, respectively, content and criterion of value; ii) high salience, iii) high relevance.

According to the model of value involved, the agent computes the outcome of the choice and its relevance in terms of income and/or utility. Due to the high salience, the agent is deeply identified with such a model of computation. Consequently, if a wrong choice is made in a relevant situation this is experienced as a high loss, so more relevant the event is perceived to be, the more the worker tends to behave in a rational way (at least in the sense that she tends to calculate, even under uncertainty). Moreover, the level of income available at the moment of choice is likely to affect the perception of relevance of the events, in the sense that the lower the income, the higher the number of relevant events. This is due to the higher opportunity-cost for a large number of possible erroneous choices.

Now, consider μ_2 - panel (b). This is the field condition described by institutional theory, when the productivity declines as a result of flexibility, because workers perceive that their treatment, on the part of their employers, is 'unfair'. However, some specifications are required for a better understanding of this trend. First, the model of value has to involve making the worker's rights and/or the relation with the ownership pertinent. Second, as in the previous condition, here too the salience has to be high. In fact, it is only on this condition that the worker can identify with the version of identity at stake. And when this identification occurs, other components of the experience - first of all the instrumental pay-off associated with the reduction of productivity, like the increasing probability of being fired - are pushed into the background, therefore losing their power to affect the decision making. Finally, the perceived relevance has to be high as well. It is worth noting that – given that the focus of the perception of relevance is defined by the model of value (see above) - in this case the perceived relevance does not concern income or other utilities, but values, such as justice, equilibrium in the relation with the ownership, power and morale. In sum, insofar as the perceived relevance and the salience are high, the agent adopts the model of value at stake in an absolute, normative way; therefore she interprets job flexibility in terms of injustice, unfairness, feeling of reaction, decreasing morale, and as such she addresses it.

4 – Concluding remarks

This paper dealt with the effects of increasing job insecurity on labour productivity. It has been shown that the mainstream approach maintains that high levels of job insecurity, insofar as they



increase the credibility of the threat of dismissal, provide workers with an incentive to give greater effort, in order to minimize the probability of being fired. By contrast, it has been argued here that psychological factors significantly affect workers' decision and that, also based on evidence, workers may react to the increase of job insecurity by reducing their productivity. A psychological theoretical framework has been provided in order to explain this behaviour, based on the idea that individuals choose in a 3-dimensional space. One dimension concerns the symbolic scenario defining the object and the parameter of value (*model of value*); one the level of identification with this scenario (*saliency*), that is variable through time and space and persons. And the third concerns the value associated with the object (*relevance*).

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