

their colleagues to overcome their hostility to subjective data (see, e.g., Manski, 1999; Dominitz and Manski, 1999). At the same time, though, these economists remain unimpressed by what sociologists have achieved in the way of producing such data. The looseness of the conceptualisation and the coarseness of the measurement involved mean that data on preferences and, especially, expectations, deriving either from surveys or from the 'intensive' interviews of qualitative studies, tend to be of limited use in the context of more formal theoretical models.

These criticisms are, I believe, ones that sociologists need to take seriously, and still more worthy of note are the attempts that Manski and others are now making, in more positive vein, to develop new techniques for the collection of subjective data, in particular, through the use in both surveys and laboratory experiments of questions that elicit respondents' expectations in *probabilistic* form. Promising results have in fact already been achieved in regard to expected earnings returns from education and also in regard to questions of job security and household income prospects (for a review, see Manski, 2004). At the same time, some advances are also being made within sociology, as was earlier noted (vol. I, ch. 4: p. 82), in treating issues of the reliability and validity of subjective survey data on far more sophisticated lines than hitherto, which economists following Manski's lead might well adapt to their own purposes.

There is then at least the possibility, given a continuing interdisciplinary 'permeability' (cf. Steuer, 2002), that the middle ground between economics and sociology, within which the BG and several other theories of educational choice and inequality have of late been developed, could become an area for progress not only in theory construction but further in work aimed at overcoming a rather fundamental methodological problem in the social sciences at large.

CHAPTER FIVE

Social Class and the Differentiation of Employment Contracts*

My concern in this chapter is with the theory of social class: I aim to contribute to the ultimate goal of explaining why social classes exist. However, I start out from a way of conceptualising class, and in turn of making 'class' operational in empirical research, that I have developed, along with a number of colleagues, over the last 30 years. The fundamental idea that has been pursued is that class positions can be understood—in a way to be explained more fully below—as positions defined by *employment relations*. A class schema has been progressively elaborated that differentiates class categories by reference to such relations, and that can be implemented in research through information on employment status and occupation.

This programme of work was undertaken as the basis for studies of social mobility envisaged within a class structural context (Goldthorpe and Llewellyn, 1977; Goldthorpe, 1987; Erikson, Goldthorpe, and Portocarero, 1979; Erikson and Goldthorpe, 1992). However, the class schema, in one or other of its several versions,¹ has subsequently become used in many other areas of research and, more recently, has been adopted in Britain as the basis of the National Statistics Socio-Economic Classification (NS-SEC), which from the time of the Census of 2001 replaced the Registrar General's Social Classes in all official statistics (see further Rose and O'Reilly eds., 1997; Rose and O'Reilly, 1998; Rose and Pevalin eds., 2003; Rose, Pevalin, and O'Reilly, 2005).²

*I am indebted to Sam Bowles, Richard Breen, Jerker Denrell, John Ermisch, Duncan Gallie, Dan Krymkowski, and Aage Sorensen for comments on an earlier draft, and to Tony Atkinson, Geoff Evans, Abigail McKnight, Colin Mills, Meg Meyer, Karen O'Reilly, and David Rose for useful advice and information.

In consequence of its widespread use, evidence of the *construct* validity of the schema has steadily accumulated: that is, evidence of its capacity to display variation in other, dependent variables on theoretically expected lines: for example, in patterns of voting (Heath et al., 1991; Evans, Heath, and Payne, 1991, 1996; Evans, 1999), in differentials in educational attainment (Jonsson, 1993; Müller and Haun, 1994; Jonsson, Mills, and Müller, 1996; Jackson et al., 2005), or in health (Bartley et al., 1996; Kunst, 1996; Sacker et al., 2000). One line of further research that is then prompted—but that is not here my concern—is that aimed at elucidating exactly how class, as conceptualised in terms of employment relations, exerts its influence on such variables. What are the actual causal processes involved? For example, just how does the incumbency of different class positions operate so as to produce the empirical regularities that are apparent in the association between class and party support (cf. Evans, 1993; Weakliem and Heath, 1994; Andersen and Heath, 2002) or in that between class and educational choice (cf. chs. 2–4, this volume) or class and morbidity and mortality?³

At the same time, though, the wider use of the schema and especially its adoption in official statistics has encouraged interest in its *criterion* validity: that is, in the extent to which, as operationalised through occupation and employment status, it does in fact capture those differences in employment relations that it is, conceptually, supposed to capture.⁴ The findings so far reported on this issue, based largely on British data, indicate that the schema does in fact perform quite well (see Evans, 1992, 1996; Evans and Mills, 1998, 2000; Rose and O'Reilly, eds., 1997; Rose and O'Reilly, 1998; and also specifically on NS-SEC, Rose and Pevalin, eds., 2003).⁵ In particular, for individuals of employee status, occupation can, it appears, for the most part serve as an adequate proxy for those features of their employment relations that the schema takes as distinguishing class positions.

In this way, then, another line of further investigation is suggested and one that I shall here seek to pursue: namely, that directed to the question of why it should be that different occupations do tend to be associated with differences in the employment relations of those engaged in them of the kind that I would in turn see as implying different class positions. Insofar as this question can be answered—insofar as the empirical regularity that is here involved can be given a satisfactory explanation—the class schema will be provided with a fuller and more explicit theoretical rationale.

employed = commission

In the conceptualisation of class that underlies the schema (see further Erikson and Goldthorpe, 1992: 35–47), basic distinctions are made among employers, the self-employed, and employees: that is, among those who buy the labour of others, those do not buy the labour of others but neither sell their own, and those who do sell their labour to an employer or employing organisation. Why these three categories should exist is not itself especially problematic, or at least not in the context of any form of society that sustains the institutions of private property and a labour market. However, in such societies in the modern world the third category, that of employees, is numerically quite preponderant, usually accounting for some 85–90 percent of the active population.⁶ Thus, what is crucial to the class schema is the further level of distinction that is introduced, applying specifically to the employment relations of employees. This focuses on the form of regulation of their employment or, one might alternatively say, on the nature of their employment contracts, explicit and implicit.

In this regard, the main contrast that is set up is that between, on the one hand, the 'labour contract', supposed typically to operate in the case of manual and lower-grade nonmanual workers, and, on the other hand, the 'service relationship' as expressed in the kind of contract taken as typical for the professional and managerial staffs of organisational bureaucracies, public and private.

Employment relationships regulated by a labour contract entail a relatively short-term and specific exchange of money for effort. Employees supply more or less discrete amounts of labour, under the supervision of the employer or of the employer's agents, in return for wages that are calculated on a 'piece' or 'time' basis. In contrast, employment relationships within a bureaucratic context involve a longer-term and generally more diffuse exchange. Employees render service to their employing organization in return for 'compensation', which takes the form not only of reward for work done, through a salary and various perquisites, but also comprises important prospective elements—for example, salary increments on an established scale, assurances of security both in employment and, through pensions rights, after retirement, and, above all, well-defined career opportunities. (Erikson and Goldthorpe, 1992: 41)

It is recognised that these two basic forms of the regulation of employment may exist with degrees of modification and, further, that 'mixed' forms also occur, typically associated with positions intermediate between bureau-

TABLE 5.1

Categories of the Class Schema and Supposed Form of Regulation of Employment

Class ^a		Form of regulation of employment
I	Professionals and managers, higher grade	Service relationship
II	Professionals and managers, lower grade; technicians, higher grade	Service relationship (modified)
IIIa	Routine nonmanual employees, higher grade	Mixed
IIIb	Routine nonmanual employees, lower grade	Labour contract (modified)
IVabc ^b	Small proprietors and employers and self-employed workers	
V	Technicians, lower-grade supervisors of manual workers	Mixed
VI	Skilled manual workers	Labour contract (modified)
VIIa	Nonskilled manual workers (other than in agriculture)	Labour contract
VIIIb	Agricultural workers	Labour contract

^aThe class descriptions given should be understood as labels only. In any implementation of the schema, the detailed occupational groupings to be allocated to each class are to be fully specified. For example, for Britain, see Goldthorpe and Heath (1992).

^bIVabc is included only for completeness here, and no regulation of employment is involved.

cratic structures and rank-and-file workforces: for example, those of clerical or sales personnel or of lower-grade technicians and first-line supervisors. Table 5.1 summarises the argument in relation to the categories of the class schema.

The main significance, for present purposes, of the enquiries into the criterion validity of the class schema, referred to above, is then the following. They reveal that the regulation of employment of different occupational groupings of employees does in fact tend to follow the pattern indicated in Table 5.1. More specifically, when indicators of various relevant features of employment relations are considered for samples of the economically active population—concerning form of payment, perquisites, control of working time, job security, opportunities for promotion, and so on—then occupations as differentiated in terms of these indicators are found to map onto the class categories distinguished by the schema in ways broadly consistent with its conceptual basis.⁷ The central issue that arises is therefore that of how this empirical regularity actually comes about. Why should there be such a tendency for individuals engaged in different kinds of work to have their employment regulated via different contractual arrangements and understandings?

In previous work (Goldthorpe, 1982, cf. also 1995), I have made some attempt at an answer to this question, with particular reference to the idea

of the formation of a service class or salariat, but only in a brief and rather ad hoc fashion. Here, I aim at a more systematic and theoretically informed treatment. I draw, as in previous chapters, on rational action theory and in particular on such theory as deployed in recent organisational and personnel economics (see, e.g., Milgrom and Roberts, 1992; Lazear, 1995), and in the new institutional, especially transaction-cost, economics (see, e.g., Williamson, 1985, 1996). I would not regard this cross-disciplinary borrowing as in any way implying the abandonment of a sociological perspective, as is suggested, for example, by Pfeffer (1997: ch. 9). What is in fact striking about the economics literature referred to is how much of it can be read as a more rigorous development—from the standpoint of a particular theory of action—of observations and insights already to be found in the industrial sociology of the later 1940s and 1950s.⁸ Moreover, the version of RAT that is chiefly in use, at least in transaction-cost economics, is not the utility theory of neoclassical orthodoxy but a version in which the idea of rationality as objective and infinite gives way to that of rationality as subjective and bounded: or, in the words of Simon (1961; cf. Williamson, 1985: ch. 2), actors are seen as being 'intendedly rational but only limitedly so'. As earlier argued (vol. I, chs. 6–8), this modification produces an obvious convergence with approaches to the theory of action that are central to the classic sociological tradition; and all the more so to the extent that rationality is seen as being restricted not only by psychological, cognitive constraints on information processing but further by social constraints on the availability of information, or knowledge, itself.

Such efforts as sociologists have previously made to account for variation in the form of employment contracts (see, e.g., Edwards, 1979; Wright, 1985, 1989, 1997: ch. 1) derive largely from Marxist political economy (cf. Marglin, 1974; Stone, 1974; Bowles and Gintis, 1976) and are in turn characterised by an almost exclusive emphasis on considerations of power and control. The basic assumption is that, under capitalism, the prime concern of employers will be to maximise the 'exploitation' of their workers: that is, to maximise the extraction of actual labour from employees' working time. Employers will thus in general aim to establish forms of contract that are to their greatest advantage in this regard in that they effectively 'commodify' labour. To the extent that variation in contracts does occur, it is then to be explained in terms of employers seeking to privilege their managerial and supervisory staffs as a means of buying their loyalty in the process of exploi-

tation or to create conflicts of interest among employees as part of a larger strategy of 'divide and rule'. Organisational and transaction-cost economists have, however, been critical of such Marxist interpretations on both theoretical and empirical grounds. The main counter-claim that they have advanced is that, rather than being seen as expressions of power and means of exploitation, most features of employment contracts are better understood in terms of efficiency: that is, as serving not only to ensure the viability of the enterprise within a competitive market context but further to increase the *total value* of the contract, to the benefit of all parties involved (see, e.g., Milgrom and Roberts, 1992: ch. 10; Williamson, 1985: 206–11, 1994).

In what follows I aim to take up an intermediate position that avoids what I would see as ideologically induced weaknesses in the more extreme versions of both the 'exploitation' and the 'efficiency' arguments.⁹ I treat employment contracts primarily from the standpoint of employers, with whom the *initiative* in their design and implementation does at all events lie. I first set out what would appear to be certain general problems of the employment contract as such, and I then try to show how the different forms that this contract may take can be understood primarily as employers' responses to the more particular ways in which these problems arise in the case of employees involved in different kinds of work. I make the assumption that in this regard the central tendency is for employers to act as rationally as they are able towards the goal of maintaining the viability and success of their organisations within the context of whatever constraints they may face. This may then lead them, depending on the specific circumstances that obtain, to view their contractual relations with employees in *either* zero-sum *or* positive-sum terms—just as employees may take a similarly varying view of their contractual relations with employers. In other words, I see no reason to treat the interests of employers and employees as being 'fundamentally' either in harmony or in conflict.¹⁰

GENERAL PROBLEMS OF THE EMPLOYMENT CONTRACT

It has for long been recognised by economists and sociologists alike that the employment contract has distinctive features (see, e.g., Commons, 1924; Simon, 1951; Baldamus, 1961). These stem basically from the fact that the labour that is bought by employers on the labour market cannot be physically separated from the individual persons who sell it. What is in effect bought

and sold through the employment contract is not a commodity, or at least not in the sense of some definite, objective thing, but rather a social relationship. Employment contracts are contracts through which employees agree, in return for remuneration, to place themselves under the authority of the employer or of the employer's agents.¹¹ Further, though, employment contracts are in varying, but often substantial, degree implicit or in fact incomplete, and especially in regard to what employers may demand of employees and what in turn the obligations of employees are. Employers buy the right to tell employees what to do while at work, and minimum requirements may be formally laid down concerning, say, hours of work, working methods and procedures, and so on. But contracts rarely if ever seek to specify just how hard employees should work—what intensity of effort they should make—let alone what degree of responsibility, adaptability, or initiative they should be ready to show in their employer's interest. Such matters would indeed seem largely to defy formulation in explicit contractual terms.

From the employer's point of view, therefore, a major objective must be that not merely of *enforcing* the compliance of employees with the authority that they have in principle accepted but, further, that of *inducing* their maximum effort and cooperation in the performance of the work allocated to them. Another way of putting the matter would be to say that within the employment contract employees will always have some non-negligible amount of discretion; and that it will then be of obvious importance to employers and their agents to ensure that this discretion is as far as possible used in ways that support rather than subvert the purposes of the employing organisation.

In the industrial sociology of the immediate postwar years (see, e.g., Miller and Form, 1951), which had a strongly managerialist orientation, the problems arising in this regard were treated in terms of the degree of congruence prevailing between 'formal' and 'informal' organisation—especially, that is, between employers' work rules and work-group values and norms. The greater the congruence that could be achieved, the higher, it was supposed, would be levels of employee motivation and morale. This goal was then to be pursued through 'human relations' policies, implemented by first-line managers and supervisors at the level of the work group—or, as critics would have it, through social-psychological manipulation.

In the economics literature previously referred to, essentially the same issues are addressed, also in fact largely from the employer's standpoint, but in a different idiom. The key issue is taken to be that of how the employ-

ment contract may be most efficiently elaborated, not only in its explicit *ex ante* design, to which limitations clearly apply, but, more important perhaps, in its *ex post*, and possibly quite implicit, interpretation and actual day-to-day execution: that is, in the way in which it serves as the basis for the continuing regulation of employment relations over time.¹² At a minimum, the employer must be given protection against employee shirking or opportunism, but it is a further requirement that employee interests should as far as possible be aligned with those of the employer or, in other words, that appropriate incentive structures should be set in place. And at the same time transaction costs have to be taken into account: that is, the arrangements and procedures involved in actually implementing the contract must be cost effective as compared with available alternatives.

The rational action theory that informs this latter approach does, I believe, endow it with greater intellectual coherence than that achieved by early industrial sociology (cf. ch. 4, this volume, pp. 83–4 and n. 14). However, for my present purposes its most immediate attraction is that it leads naturally to recognition of the fact that employment contracts will need to take on different forms in relation to the different kinds of work-task and work-role that employees are engaged to perform.

DIFFERENTIATION OF THE EMPLOYMENT CONTRACT AND TYPES OF WORK

What is to be explained here is, to repeat, the association between different occupational groupings of employees and the form of regulation of their employment that can, it appears, be empirically demonstrated on the lines indicated in Table 5.1. To this end, it is necessary to consider types of work analytically, and in a more abstract yet focused way than could be achieved by reliance on occupational designations themselves. The organisational and transaction-cost economics on which I draw would suggest two main dimensions in terms of which potential problems—or sources of ‘contractual hazard’—from the employer’s point of view can be identified (cf. Weakliem, 1989).

1. The degree of difficulty involved in monitoring the work performed by employees: that is, the degree of difficulty involved both in measuring its quantity and also in observing and controlling its quality; and
2. the degree of specificity of the human assets or human capital—skills, expertise, knowledge—used by employees in performing their work: that is,

the degree to which productive value would be lost if these assets were to be transferred to some other employment.

In pursuing the explanatory task in hand, I shall therefore find it helpful to refer to the two-dimensional space described in Figure 5.1.

Work that falls into the lower-left quadrant of Figure 5.1 is that which may be expected to give rise to fewest hazards for employers as regards the employment contract. The absence of serious work monitoring problems means that some kind of ‘variable pay’ system can operate or, in other words, employees can be remunerated in direct relation to their productivity. And the absence of serious asset specificity problems means that no understandings need be entered into about the long-term continuation of the contract. No such understandings are required in order to provide employees with an incentive to acquire skills of specific value in their present employment and then to remain in this employment. Under these conditions, the employment contract can simply provide for discrete, short-term exchanges of money for effort, in the way characteristic of the labour contract as earlier described,

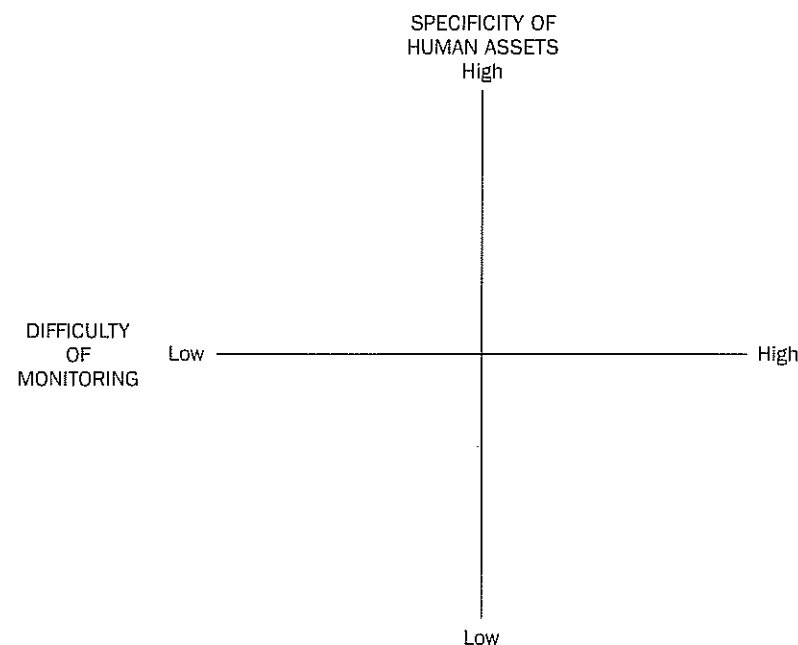


Figure 5.1. Dimensions of work as sources of contractual hazard

and thus come in fact as close as is possible to a simple spot contract—albeit perhaps of a recurrent kind—for the purchase of a quantity of a commodity (cf. Kay, 1993: ch. 4).

However, the question does then at once arise of why it is that, despite the evident advantages of the labour contract to employers, the occupational range of its application would appear, as is indicated in Table 5.1, to be rather restricted: that is, in its pure form to nonskilled manual occupations and, somewhat modified, to skilled manual and lower-grade nonmanual occupations. What will here be argued is that this limitation is to be explained in terms of various *concomitant* features of the kind of work in regard to which a labour contract proves viable.

The Occupational Restriction of the Labour Contract

Difficulties in measuring the quantity of work done by employees will be least, and a variable pay system will thus be most easily implemented, where measurement can be based on actual *output*. In this case, a direct link between work and pay can be established through piece rates of some kind. However, work that can be thus measured and remunerated is likely to have various other characteristics. To begin with, the measurement of work by output implies output that is of a specific, well-defined kind, and efficient payment by output implies a production process that is relatively simple: first, so that output can be clearly attributed to particular individuals or at most to small work groups and, second, so that the employer—as well as employees—can have reliable knowledge of how quickly the work can be done and can therefore set an appropriate rate of pay.¹³ Moreover, because piece rates give an inducement to workers to concentrate on quantity of work at the expense of quality, it is important, from the employer's point of view, that the quality of the product as well as its quantity is easy to monitor—that is, to observe and assess—and likewise such other aspects of work quality as the use of tools, equipment, and raw materials (cf. Milgrom and Roberts, 1992: 394–35). It could then be said that the kind of work with which piece rates are most likely to be associated is work in which workers, acting individually or in small groups, undertake physical (rather than mental) operations that lead in a fairly transparent way to discrete material (rather than symbolic) results. Typical piece-rate workers are in fact fruit and vegetable pickers, various kinds of loaders, fillers, and packers, and machinists in batch-production manufacturing industry.

It may also be possible for work to be more or less adequately measured by *input* in the sense of time spent at work, and thus for a variable pay system to operate through time rates, calculated, say, on an hourly or daily basis. Once more, though, for this to be the case—in effect, for time worked to be informative about output—restrictions would seem to apply to the nature of the work involved. If under piece rates the employer's main monitoring problem is that of quality, under time rates it becomes that of assessing and maintaining the level of worker effort. This problem will be least severe, and time rates thus most attractive to employers, where workers have in fact only limited autonomy in regard to their pace of work: where, for example, this is largely determined by technology, as in assembly line or continuous process production, or by the flow of customers or clients, as in the case, say, of checkout operators, ticket sellers, or counter staff. Otherwise, it will be important that worker effort should be easily observable, and thus open to control through supervision, and this would then again tend to imply work activity with a clear physical component, even if not necessarily of a kind conventionally classified as 'manual' (cf. Fama, 1991).

The payment of employees in return for discrete amounts of work done, whether by piece or time, is one defining element of the labour contract. The other is that the exchange is of a short-term nature in the sense that, while it may in fact be many times repeated, there is nothing in the contract itself, explicit or implicit, that is aimed at securing the relationship between employer and employee on a long-term basis. As earlier suggested, an employer is able to operate with such a contract where there is little to be gained in encouraging workers to invest in the acquisition of human assets specific to their present employment, and in turn little to be lost if employees should leave this employment—that is, the costs of labour turnover are slight. Here too, though, the argument may be made that where such a situation prevails, there are likely to be further implications for the type of work that is involved.

Thus, while in principle a workforce with which no problems of human asset specificity arose could still be a skilled workforce—that is, one reliant simply on general purpose skills—it would seem empirically to be the case that where general purpose skills are brought to particular employments, it tends to be both possible and advantageous for further, more specific skills, expertise, and knowledge to be developed around them.¹⁴ Consequently, a situation in which employers need take no account of asset specificity in regard to their employees can be reckoned as most probably one in which

employers are able to recruit the workers they require from a fairly homogeneous pool of labour, the individual members of which are substitutable for each other without serious loss of productive value on the basis simply of their physical capacities plus, perhaps, minimal literacy and numeracy.

In the light of the foregoing, then, what underlies the restriction of the occupational range of the labour contract should be more apparent. It is work with features that locate it in the lower-left quadrant of Figure 5.1 that allows employers to resort to this form of regulation of employment. But work that is easily measured and otherwise monitored *and* that in itself offers little potential for the development of specific human capital will have other characteristics too. Its archetype can in fact be regarded as manual work of a nonskilled kind, or what might be thought of as labour in its most basic sense. It is, then, with such work that the labour contract can operate in its purest form or, in other words, that employers can take the commodification of labour to its furthest possible point. Correspondingly, any extension of the labour contract beyond such work is likely to entail some departure from the pure form in one direction or another. For example, where the monitoring of work is not entirely straightforward, as regards either quantity or quality, the strict principle of pay in return for discrete amounts of work done will need to be modified in some degree. Thus, a *weekly* wage with, perhaps, provision for overtime pay or time off 'in lieu' for work in excess of a given number of hours is a fairly common arrangement among more skilled manual and lower-grade nonmanual employees. And likewise such workers may be given certain privileges of seniority—such as pay guarantees or a 'first-in, last-out' understanding in the case of redundancies—in circumstances where employers are compelled to recognise some need for the development and retention of human assets of an organisation-specific kind (cf. Doeringer and Piore, 1971; Weakliem, 1989).

The full significance of these latter points can, however, only be fully brought out by changing perspective somewhat. Having begun by asking what accounts for the empirically observed restriction of the labour contract to manual and lower-grade nonmanual occupations, I shall next ask why it should be that in the case of professional and managerial occupations, this form of regulation of employment would appear to be effectively precluded and is typically replaced by what has been called the service relationship. Again, I shall seek to give an answer in terms of employers' responses to the

potential contractual hazards that are mapped out in Figure 5.1 and, more specifically, as these intensify as one moves from the lower-left quadrant towards the upper right.

The Rationale of the Service Relationship

The general problems of the employment contract, as outlined in the previous section, are sometimes represented (e.g., Pratt and Zeckhauser, 1984; Eggertsson, 1990) as ones of a 'principal-agent' relationship: that is, of a relationship in which a principal (the employer) engages an agent (the employee) to act in the principal's interest in circumstances in which the principal cannot observe the agent's actions, nor share in all of the information guiding those actions. This representation may seem somewhat strained where it is possible for labour to be more or less commodified and some approximation to a spot contract is thus viable. However, it takes on special force where employees act in a professional or managerial capacity.¹⁵ Professionals are engaged to exercise specialised knowledge and expertise that they have obtained from a lengthy training; while managers are engaged to exercise the delegated authority of the employer. In both cases alike, therefore, the nature of the work-tasks and work-roles that are performed imply some asymmetry of information as between employer and employee and thus, for the latter, a significant area of autonomy and discretion into which monitoring by the employer cannot feasibly extend. Indeed, effective monitoring would here entail some kind of infinite regress. It would itself require precisely the kind of use of specialised knowledge and expertise and of delegated authority that creates the agency problem in the first place (cf. Simon, 1991).

Where such difficulty in monitoring work arises, it then becomes especially important for the employer to gain the commitment of employees, which in turn implies designing and implementing a form of contract that can as far as possible ensure that their interests are, and remain, aligned with the goals of the organisation as the employer would define them. In the case of profit-making organisations, one evident recourse is to link employee compensation to the economic success of the enterprise as, for example, through stock awards or stock options or profit-related bonuses or other profit-sharing schemes. However, while these kinds of remuneration may often play a major part in the compensation of chief executive officers and other very senior personnel, they are difficult to extend at a similar level of importance throughout the staff hierarchy, and they would appear to have

no very effective analogues in the case of employees in public sector or non-profit-making bodies.¹⁶

Moreover, further circumstances may well obtain in which serious difficulties for any kind of performance-related pay system are created: that is, where employees are required—as professionals and managers typically are—to carry out tasks, or roles, of a very diverse character. In such a situation, payment can scarcely be related equally to every aspect of the work that is undertaken. It will, rather, have to be linked to just one, or at most one or two, aspects—those for which performance indicators can most easily be devised being most likely to be chosen. But such arrangements hold dangers for employers. For the incentives offered will in this case serve not simply to induce greater effort on the part of employees but further to influence their *distribution* of effort, and of time and attention, among their different responsibilities. That is to say, those aspects of their work to which pay is in fact related will tend to be favoured at the expense of others, and to a degree that need not be optimal from the employer's point of view (cf. Holström and Milgrom, 1991). Employers may 'get what they pay for' in an all too literal sense (cf. Gibbons, 1997). Moreover, given that work-tasks are diverse, monitoring that is then specifically aimed at preventing such unintended consequences, or 'perverse effects', may well not be cost effective, even if practical at all.

Since, therefore, in the employment of professionals and managers general principal-agent problems may often be compounded by the further ones posed by multitask agents, forms of employment contract in which either direct work monitoring or specific performance indicators provide the basis for pay would seem unlikely, in the main, to answer to employers' requirements. The alternative and generally more appropriate strategy will be for employers to seek to gain the commitment of their professional and managerial personnel, or in Simon's apt phrase (1991: 32) to shape their 'decision premises', through a form of contract with a quite different rationale. That is, one which relies on performance appraisal of only a broad and long-term, though perhaps comparative, kind and that then sets up, conditional on such appraisal, the possibility of a steadily rising level of compensation throughout the course of the employee's working life. In this regard, the contract provides for compensation primarily through an annual salary that may be expected to increase both in accordance with an established scale and further, and more substantially, as the result of the employee's advancement

through a career structure. Given the prospect of such an 'upward-sloping experience-earnings profile', as Lazear (1995: 39) has termed it, both effective incentives for employees and effective sanctions for the employer are created—and especially so if, as Lazear would argue (cf. also 1981), what is typically entailed is paying employees *less* than they are worth, in terms of their productivity, when they are young or at all events in the lower levels of the hierarchy and *more* than they are worth when they are older or in higher-level positions.

On the one hand, the better employees perform (or at least are perceived to perform) in the pursuit of organisational goals, the further, and more rapidly, they will be promoted out of the levels at which they are underpaid and into those at which they are overpaid. On the other hand, because for most employees higher rewards will still lie ahead, and ones that they have already in part earned through their previous underpayment, 'hasty quits' are discouraged and the threat of dismissal, as, say, in the case of manifest shirking or incompetence or of malfeasance, becomes a more potent one. Furthermore, appropriately constructed pensions schemes can also be seen as an integral part of such 'deferred payment' contracts, encouraging employees to stay with their organisations up to the peak of the expected present value of benefits but then discouraging them from staying on too long (in the absence of a mandatory retiring age) in the phase when, relative to their productivity, they are being overpaid (Lazear, 1995: 42–45).¹⁷

In other words, the solution to the problem of agency, as it arises with professional and managerial employees, is sought essentially in the service relationship as this was earlier described. In place of any attempt at the immediate linking of performance and pay, the employment contract envisages, even if implicitly as much as explicitly, a quite diffuse exchange of service to the organisation in return for compensation in which the prospective element is crucial; and, by the same token, the contract is understood as having a long-term rather than a short-term basis. The key connection that the contract aims to establish is that between employees' commitment to, and effective pursuit of, organisational goals and their career success and lifetime material well-being.¹⁸

So far in this subsection, I have concentrated on employers' contractual problems associated with work located towards the right of the horizontal dimension of Figure 5.1: that is, those of monitoring. However, problems associated with work located towards the top of the vertical dimension are

also relevant: that is, those of human asset specificity. I earlier suggested that these problems would be least demanding where employers could operate satisfactorily with workers who possessed no more than commonly available physical or cognitive capacities. Insofar as a higher quality workforce is called for, the probability increases that there will be advantage to the employer in ensuring that any general purpose skills that employees bring with them are, as Williamson has put it (1985: 242), 'deepened and specialized' in the particular organisational contexts in which they are to be applied. And, where this is so, a form of contract that does nothing to help secure the employment relationship on a long-term basis will obviously be deficient: it will fail to provide incentives for employers to engage in the training, or for employees in the learning, from which both parties could alike benefit.

Problems of human asset specificity are not confined to professional and managerial employees—as was earlier indicated and as will be seen further below. However, such problems may be thought to take on an importance in the case of these employees that is proportional to that of the organisational roles that they perform. That is to say, failure to provide for either the development or the retention of organisation-specific skills, expertise, and knowledge on the part of professionals and managers is likely to be especially damaging. Here again, then, the rationale of the service relationship, with its implication of continuing employment, is apparent. Through such a relationship, in contrast to one in which renewal is entirely contingent, employers can more securely embark on costly training and planned-experience programmes aimed at increasing employees' organisation-specific abilities, and employees can in turn more securely devote the time and effort necessary to acquire such abilities. In other words, it becomes possible for both the costs of and the returns to investments of this kind to be shared between employers and employees (Milgrom and Roberts, 1992: 363; Lazear, 1995: 74). The advantage of the long-term character of the service relationship as the basis of a solution to agency problems—that is, via the rising worklife compensation curve—is therefore reinforced in that at the same time the basis for a solution to asset specificity problems is also provided.¹⁹

Mixed Forms

Finally in this section some explanation should be attempted of the prevalence within certain occupational groupings—as indicated in Table 5.1—of mixed

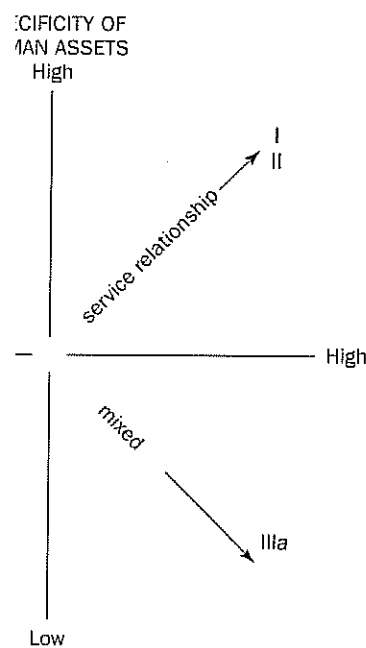
forms of the employment contract: that is, of forms that, in various ways, combine elements of both the labour contract and the service relationship.

Referring back once more to Figure 5.1, a tendency may be supposed, in the light of the discussion so far, for empirical instances to be concentrated on the lower-left to upper-right diagonal: or, in other words, for there to be some correlation between the severity of the monitoring problems and of the human asset specificity problems to which different kinds of work give rise. Nonetheless, instances lying off this diagonal can certainly be envisaged, and the suggestion I would advance is that it is in terms of work thus located that the occupational distribution of mixed forms of the employment contract is to be explained. Work falling in the lower-right quadrant of Figure 5.1, that is, work that confronts employers with real difficulties of monitoring but not of asset specificity, could be expected to lead to a form of contract in which features entailing some departure from the exchange of discrete amounts of money and effort characteristic of the labour contract would be more apparent than ones directed towards furthering a long-term relationship. And, conversely, work falling in the upper-left quadrant, where asset specificity problems are serious but not monitoring problems, could be expected to lead to a form of contract in which a fairly specific money-for-effort exchange is preserved but some understanding of the long-term nature of the contract is at least implied.

Some empirical support for this argument can in fact be provided, and indeed for a rather more precise version of it: namely, one which would associate the first of the two situations outlined above primarily with routine nonmanual occupations in administration and commerce that exist, so to speak, on the fringes of bureaucratic structures, and the second situation with manual supervisory and lower-grade technical occupations.²⁰ Thus, routine nonmanual employees—clerical workers, secretaries, and so on—would appear to enjoy fixed salaries and also relatively relaxed or flexible time-keeping arrangements almost to the same extent as the professionals and managers with whom they typically work in ancillary roles, although for the most part deploying only rather standardised skills (cf. Fama, 1991). However, they are not to the same extent involved in career structures within their employing organisations that would hold out the prospect of steadily increasing rewards over the entire course of their working lives.²¹ Conversely, supervisors of manual workers and lower-grade technicians tend to have a

cially as a result of overtime pay, or many of the rank-and-file employees control. But their distinctive value recognised through agreements or un- security and also perhaps through that are based primarily on senior- the institutions of the classic firm- iore, 1971; Osterman, 1987).²²

those previously advanced in this to give an overall representation of 5.1 are seen to relate to the empiri- it is, regularities in the association s of employees and the form of reg- e in Figure 5.2. On the understand- to be regarded as only probabilistic, ainly be found, this latter figure can



types of contractual hazard, forms of employee classes of the schema

stand as a summary of the explanation that is here offered of how they are in fact generated and sustained through employers' responses to the problems of contractual regulation that arise from the engagement of workers to undertake differing kinds of work.

NEW EMPLOYER STRATEGIES AND THE FUTURE OF THE SERVICE RELATIONSHIP

One objection that might be raised against the foregoing analysis is that it seeks to explain in very general theoretical terms a pattern of differentiation in employment contracts that could well prove specific to a particular historical era. Several authors have indeed already broached the question of the continuing viability of the service relationship under conditions of rapid change in technological and market conditions and of intensifying global competition that impose ever greater requirements of organisational flexibility (see, e.g., Halford and Savage, 1995); and others have gone further in maintaining that, under these conditions, the service relationship is actually being eroded, and in the public as well as the private sector, as competitive tendering and other forms of market discipline are increasingly imposed (see, e.g., Brown, 1995 and also the globalisation theorists discussed in vol. I, ch. 5). There is constant pressure, it is argued, to 'downsize' or 'de-layer' management structures, to buy in professional services rather than to provide them in-house, to engage staff on fixed-term contracts, and to introduce performance-related pay systems at all levels of employment. From this point of view, then, the service relationship appears not as a form of contract with a rather sophisticated underlying rationale but as an expression merely of a conventional status distinction that could be sustained as an aspect of 'organisational slack' during the long boom of the postwar years but that is now being swept aside in a far more demanding economic environment.

Insofar as attempts are under way radically to reshape the form of regulation of employment of professional and managerial personnel, a valuable opportunity is then afforded for the empirical testing of the account I have offered of the logic of the differentiation of employment contracts. Some of the relevant evidence, pertaining, for example, to risks of job loss and unemployment and to the persistence of career structures, I have already reviewed in my critique of globalisation theorists in Volume I; and in the following chapter I return to the main empirical questions that arise in the larger con-

larger variable element in their pay, especially as a result of overtime pay, or shift premia, in much the same way as many of the rank-and-file employees over whom they exercise direction and control. But their distinctive value to their organisations is more often recognised through agreements or understandings on employment and income security and also perhaps through opportunities to progress up job ladders that are based primarily on seniority—that is, in the manner provided for by the institutions of the classic firm-internal labour market (Doeringer and Piore, 1971; Osterman, 1987).²²

Taking this argument together with those previously advanced in this section of the chapter, it is then possible to give an overall representation of how the analytical dimensions of Figure 5.1 are seen to relate to the empirical regularities implied in Table 5.1: that is, regularities in the association between different occupational groupings of employees and the form of regulation of their employment. This is done in Figure 5.2. On the understanding that the regularities in question are to be regarded as only probabilistic, and that exceptions to them will thus certainly be found, this latter figure can

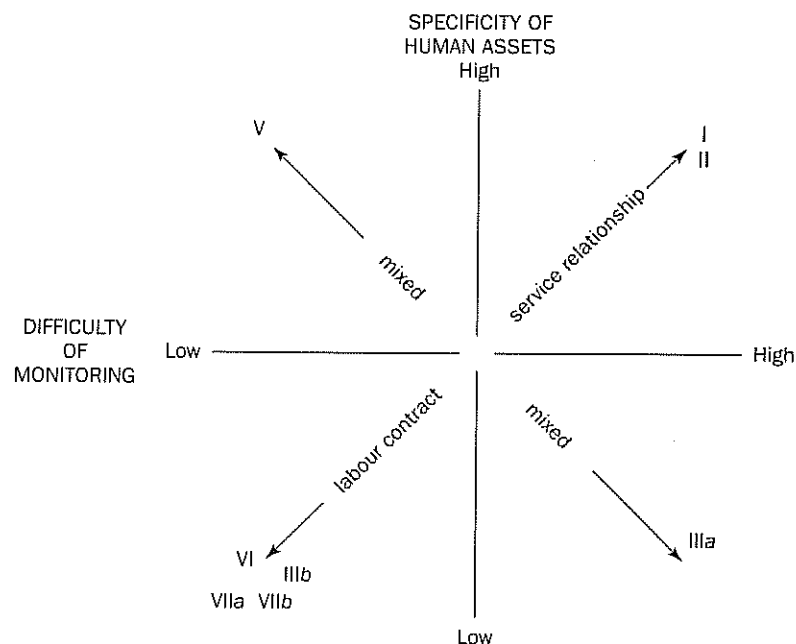


Figure 5.2. Dimensions of work as sources of contractual hazard, forms of employment contract, and location of employee classes of the schema

stand as a summary of the explanation that is here offered of how they are in fact generated and sustained through employers' responses to the problems of contractual regulation that arise from the engagement of workers to undertake differing kinds of work.

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text of current debates in class analysis. Here, though, it may serve as a useful preliminary and at the same time help further to clarify the theoretical arguments I have advanced if I attempt to spell out just what, from the point of view of their evaluation, has to be regarded as centrally at issue.

To begin with, it is entirely consistent with the general position that I have taken that employers *should try* to exploit any changes in labour market or other economic conditions that might enable them to modify contracts of employment, explicitly or implicitly, in ways that would be to their advantage or, more specifically, that would reduce their contractual hazard. And it is further consistent that such modifications should then, all else equal, be ones leading away from the service relationship and towards the discrete and short-term exchange of the labour contract; or, in other words, away from forms of the regulation of employment that presuppose a diffuse and continuing exchange and towards ones in which labour is to a greater degree commodified. As Breen (1997a) has observed, one can in this respect think of employers as seeking to transfer risk from themselves to their employees: that is, to free themselves from the inflexibility entailed by the 'quasi-generalised reciprocity' of the service relationship and to secure instead an 'asymmetric commitment' or in effect an *option* on the supply of labour, which they can then decline, if necessary, in order to avoid 'downside' risk while preserving the possibility of profiting from 'upside' risk. Evidence simply of employers being alert to the possibility of revising forms of contract in ways they would see as being in their interests is not therefore, in itself, of any great consequence. What matters is how far employers are thus led actually to abandon the service relationship in cases where it had previously applied.

In this connection, it has also to be recognised that some of the strategies that employers may pursue in search of greater flexibility need have little or no impact on the service relationship *per se*, and indeed may even help to make this relationship *more* viable. Thus, by downsizing and delayering management structures and also by buying in professional expertise, employers may reduce the proportion of their total workforce to whom the service relationship is extended, and in turn the degree to which they are involved in quasi-generalised reciprocity, but without abandoning this relationship for the professional and managerial staff that they retain.²³ Likewise, by creating greater flexibility in the employment of *other* grades of worker—as, say, by modifying features of internal labour markets for skilled manual

workers (cf. Capelli, 1995)—employers may be better able to sustain the service relationship in the case of those employees for whom they would see it as specifically appropriate. In some influential models of the 'flexible firm' (e.g., Atkinson, 1985), the emphasis is in fact on the *divergence* between the employment relations that apply with the 'core' and with the 'peripheral' workforce.

What, therefore, emerges as the key question is that of how far in prevailing economic circumstances, and on what basis, employers do come to regard the service relationship itself as expressing a form of contract that they should aim in general to terminate rather than to preserve. And insofar as this relationship is in fact undermined in the case of professional and managerial staff, as, say, through the introduction of short-term contracts or performance-related pay, it will in turn be important to know just how employers then seek to handle those problems of work monitoring and of human asset specificity out of which, I have maintained, the rationale of the service relationship and of its occupational range initially arise.

Breen, for example, has pointed out (1997a) that, despite employers' concern to off-load risk within the employment contract onto their employees, there are still good grounds for supposing that the service relationship will prove durable since there is no other obvious solution to the agency problem deriving primarily from asymmetric information. Professionals and managers are employees in regard to whom it is generally less important that the employment contract should provide for flexibility (from the employer's point of view) than that it should ensure that the employee has strong incentives to show commitment to organisational goals (see also Gallie et al. 1998: 312–13). And to this I would add that even if improved techniques of monitoring may in some instances be capable of reducing agency problems (Halford and Savage, 1995: 129), attempts at basing pay on performance will still threaten to give rise to perverse effects in the way earlier noted where employees are engaged in work-tasks of a multifaceted kind.²⁴ In this respect, the requirements of contractual flexibility would seem to come into direct conflict with those of 'functional' flexibility (Atkinson, 1985), which in fact lead to demands on employees to be ready to take on an ever-wider range of tasks and responsibilities.

What is perhaps more plausible than the idea of the general abandonment of the service relationship is the suggestion that, at least with some employee groupings, the 'deal' that it comprises may be reformulated: in

particular, so that what the employee is offered, in return for commitment and a readiness to develop organisation-specific assets, is an understanding not of continuity of employment but rather on continuity of *employability*. In this case, it falls to the employer to provide employees with training and experience that, as well as enhancing their organisation-specific skills, expertise, and knowledge, will also equip them for future career progression in the external labour market. However, it is still far from clear that even this modification of the service relationship would necessarily be to the employer's advantage. The evident risk that the employer incurs is that if investment is made in the development of human assets that are *not* organisation specific and if the employees who benefit from this investment are not then retained, the returns on the investment will largely be lost: they will be divided between the employees and their *subsequent* employers. Again, then, the force of the original rationale of the service relationship is brought out.

In sum, for a compelling argument to be advanced that the service relationship is in general decline, two things would seem to be required: first, direct evidence that employment contracts expressing this relationship are indeed being discontinued across the range of employee groupings for which they were previously typical; and, second, evidence that such a change is to be regarded as permanent—rather than being, say, a response merely to short-term economic exigencies or to the current vogue among management consultants—*because* the rationale that previously underlay the service relationship has now ceased to apply or has in some way been transcended.²⁵ The analysis that I have earlier presented obviously leads me to the view that evidence of the latter kind at least will not be readily forthcoming.

In this chapter I have started from an empirical regularity that has emerged from attempts to assess the criterion validity of the class schema that colleagues and I have developed as a research instrument. At least for the British case, a pattern of association has been established, among employees, between their broad occupational grouping and the form of regulation of their employment. I have then suggested, drawing chiefly on theoretical ideas developed in both more and less orthodox branches of modern economics, how this regularity might be explained at the level of social action: that is, in terms of employers' rationally intelligible responses to the problems that they face in devising and implementing employment contracts for workers engaged in different types of work—in particular, problems of work moni-

toring and of human asset specificity. I have also indicated how I believe that attempts at testing the explanation offered, within the contemporary economic context, might best be focused. To end with, I make two observations concerning what is and what is not implied by the central argument of the chapter for the more general understanding of the stratification of modern societies—on the assumption, of course, that the argument is basically sound. Since this assumption is, for the present at least, obviously open to challenge, the remarks will be brief, although they relate to large questions.

First, if the analysis I have presented is valid, it must follow that modern societies, at least insofar as they retain capitalist market economies of some kind, will have a relatively complex class structure as one of their concomitant and abiding features. In addition to the differentiation of employers, the self-employed, and employees, the latter will themselves be differentiated in terms of the employment relations in which they are involved as the result of a highly generalised 'situational logic' that applies, and that will have its effects, across a wide range of societal contexts. The further implication then is that although national societies may well show much variation in the historical evolution of their class structures—that is, in the rates of growth or decline of different classes and thus in their proportionate sizes—they will at the same time be characterised by class-related inequalities that run on far more comparable lines. The form of these inequalities is likely to be no less complex than the structure of class relations from which they derive, and therefore not open to adequate representation in a one-dimensional fashion. Nonetheless, it may still be said that insofar as employees are involved in a service relationship rather than a labour contract, they will be significantly advantaged not only in that they will tend to receive a higher level of income from their employment but, further, in that their incomes will be less subject to interruption through job loss and unemployment or to short-term fluctuation and will tend to follow a rising curve over the larger part of their working lives. It is in the case of intermediate classes that the problems of any one-dimensional ordering become most apparent.²⁶

Second, though, it is important to recognise that the analysis advanced carries no particular implications for the overall *degree* of economic inequality, including inequality in incomes from employment, that will be found among members of different classes. Indeed, what should be noted in this regard is that substantial change in the extent of such inequality can occur over time while essentially the same *pattern* of class differentiation is

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CHAPTER SIX

Class Analysis
New Versions and Their Problems*

Of late, sociologists have engaged in animated debate over the question of the continuing relevance of class analysis in contemporary, postindustrial, or postmodern societies (see, e.g., Lee and Turner, eds., 1996; Marshall, 1997; Evans, ed., 1999; Clark and Lipset, eds., 2001). For those who believe that in such societies class, as a social phenomenon, is in steady and inevitable decline, class analysis is merely a relic of the sociology of the nineteenth and twentieth centuries that must now give way to 'new paradigms'. But for those who would reject the idea of the decline of class, class analysis remains central to the sociology of contemporary societies, even though needing—as ever previously—to adapt its focus to changes in the forms of class structures and in the modalities of class relations.

In the present essay my concern is not with this debate, which has, I suspect, by now been pursued to the point of diminishing returns. I have, I hope, made my own position clear enough elsewhere: in short, that class and class analysis are of abiding importance (Goldthorpe and Marshall, 1992; Goldthorpe, 2001; and cf. also vol. I, ch. 5). Here, I seek to move on to a range of issues that have arisen among sociologists who would broadly share my view that class analysis retains its relevance but who would differ from me, and from each other, in the ways in which they would understand the nature and objectives of class analysis and wish to see it develop. I concentrate on

*This essay draws at various points on papers that appeared in the *American Journal of Sociology*, 105 (2000) and in *Acta Sociologica*, 45 (2002a). I am indebted to Tony Atkinson, Richard Breen, Robert Erikson, David Grusky, Stephen Morgan, Aage Sørensen, Kim Weeden, and Herman Van de Werfhorst for helpful conversations, information, criticism, and advice.

maintained. For example, in Britain over the last quarter of the twentieth century class inequalities in income from employment widened sharply but with little effect on class differences in security and stability of income and in lifetime income prospects (Goldthorpe and McKnight, 2006). Moreover, a cross-national perspective might be expected to reveal an analogous situation: that is, that variation in the degree more than in the pattern of class inequality may be produced as the same situational logic of class relations works itself out in national societies with differing political economies, industrial relations systems and social welfare regimes.²⁷

Esping-Andersen (1993: 2, 8) has complained that class theory, from Marx and Weber down to the present day, tends to assume that 'classes emerge out of unfettered exchange relations, be it in the market or at the "point of production"', and is thus 'nested in an institutionally "naked" world'. Regardless of how far such a characterisation is in fact correct, it is, I believe, still a mistake to see it as pointing to a deficiency. Rather, it would seem important that any theory of social class *should* aim to be as general as possible—to require only minimal assumptions about the institutional forms of labour markets and production units—precisely so that the impact of wider institutional variation, and likewise of underlying political and cultural factors, can then be assessed.²⁸ And the further question can of course in turn be raised of how far this variation, and also that in the differing shapes of national class structures previously referred to, are in fact themselves open to general theoretical explanation or have rather to be accounted for in more specific historical terms.

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