

FINANCIALIZATION AND LABOUR?

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What is the connection between financialization of capital and deterioration of labour conditions? This question is answered by drawing on the findings of major research programmes into financialization and financial innovation from the ESRC funded Centre for Research on Socio Cultural Change at the University of Manchester. The conclusion is that that the direct effects are unexpectedly complicated but the roundabout repercussions are largely negative.

Our research on financialization analyses the direct effects of shareholder value on giant firm financial performance and conduct. While financialization changes priorities, it does not transform performance or impose a single logic of downsizing the workforce and distributing to shareholders. If we consider four groups of giant firms (US S and P 500 , British FTSE 100, French CAC 40, German DAX30) similar pressures have induced different responses since the 1980s. French giant firms used the primary market to issue shares for rapid overseas expansion, for example, while British firms responded defensively to pressures from the secondary market.

One important finding is that finance is in itself an important driver of shareholder value outcomes. In all four groups of giant firms, management controlled financial variables like earnings vary cyclically while the key determinant of long run value creation is share price which is financially driven by flows of funds and savings patterns. Meanwhile, financial firms increasingly dominate the giant firm groups with (finance, insurance and real estate) firms directly producing 30-40% of profits and financial activity accounting for much more if we also add in the financial profits of non financial firms.

Our work on financial innovation relates the rise of finance to pressures for shareholder value which stimulated the reinvention of banking. Banking as intermediation declined from the late 1980s as retail banking was reinvented as fee based, mass marketing of financial products to households; while investment banking became proprietary trading in the wholesale markets. The employment effects were muted because retail finance has a low propensity to generate employment; and also profoundly unequal because wholesale is effectively run on a profit share basis between shareholders and elite employees.

The roundabout repercussion was a violent credit cycle which ended in 2007-9 with crash, bank failure, recession and unemployment. If Keynes and Minsky showed how liquid markets and banks drive cyclicity, the process was supercharged in a favourable conjuncture after 2000 when the bricolage of elite groups created fragile long chains of instruments and recourse. The costs will fall disproportionately on labour because the new priorities of shareholder value limit the social responsibility of firms.

CRESC Books

Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams, *Financialization and Strategy. Narrative and Numbers* (2006) London: Routledge.

Ismail Erturk, Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams *Financialization at Work: Key Texts and Commentary* (2008) London: Routledge,.

M Savage and K Williams, *Elites Remembered* (2008) Oxford: Blackwells

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I. Erturk and S. Solari, 'Banks as continuous reinvention' *New Political Economy*, (2007) vol.12, no.3, 2007, pp.369-80 .

S Johal and A. Leaver 'New actors in a financialised economy and the remaking of capitalism' *New Political Economy*, (2007) vol.12, no.3, pp.339-47 .

P.Folkman, J Froud, S.Johal and K.Williams, 'Working for themselves: capital market intermediaries and present day capitalism' *Business History* (2007), vol.49, no.4, pp.552-72 (also available as CRESC Working Paper, No 25) .

I. Erturk, J Froud, S.Johal and A.Leaver, 'Corporate governance and impossibilism', *Journal of Cultural Economy*, 2008, forthcoming (also available as CRESC Working Paper, No 48)

E. Engelen, I. Erturk, J Froud, S.Johal and A.Leaver, "Financial innovation: frame, conjuncture and bricolage" (CRESC Working Paper No 59)

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