FINANCIALIZATION AND LABOUR IN CANADA: STRUCTURAL CHANGES IN EMPLOYMENT RELATIONS

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Contents

Introduction

- Financialization has accelerated since the 1980s and has affected the economies of most – if not all – Western countries.
- What is financialization? Multiple definitions (Epstein, 2005; Krippner, 2005; Lazonick and O'Sullivan, 2000). The growing importance of financial actors, financial channels, financial products in an economy. Equally important: the growing use of finance by non-financial corporations (NFCs)
- Canada: often overlooked in the international literature despite being one of the most opened and financialized economy in the world. Few studies (exception: Dupuis, Peters and Scrimger, 2020).
- Aim of this paper: Track the evolution of financialization in Canada and dig into its impacts of the Canadian economy, labour market, and employment relations.
- Argument: the increasing role of finance and financial actors that started in the 1980s has had significant structural influence on Canada's economy, concentrating profits and power in favour of corporate actors and has been detrimental to workers and citizens in general.
- Discussion and conclusion: how to reverse the worst effects of financialization on labour? Open question for the second workshop…

Financialization, labour markets, and inequality

- Labour economists have long highlighted the opposing interests between finance and workers:
  - Opposing 'rent-seekers' in firms (shareholders *contra* labour) to capture surplus created in firms (Abowd, 1989).
  - Postwar era: regulated through the so-called 'Fordist' pact in which surpluses were redistributed fairly.
- <u>Today</u>: with deregulation, changing business models, and competitive pressures from international markets, the balance has shifted; rent seeking heavily favours some actors over workers and citizens.
- <u>Common strategies</u>: 'downsize and distribute' (Lazonick and O'Sullivan, 2000); 'Wall street manages Main street' (Batt and Appelbaum, 2013); use of financial products or debt to invest in financial speculation and share buybacks (Forhoohar, 2016)
- <u>Effects on labour markets?</u> Numerous: reducing labour costs and imposing concessions; restructuring of the employment relationships and supply chains; and termination and layoffs of workers.

The effects of financialization on labour markets and employment relationships

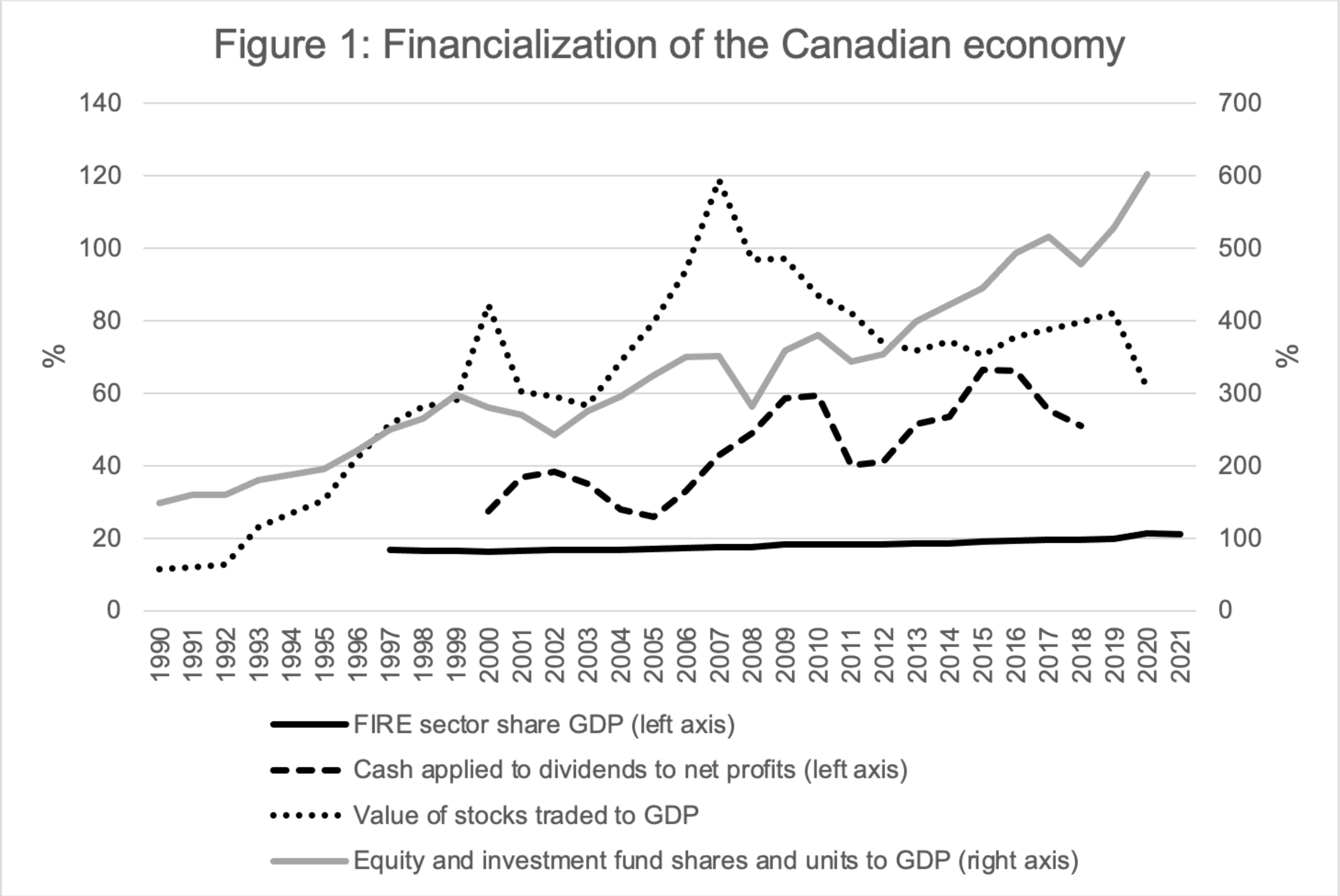
- Growing evidence in the international literature of the negative impacts. Empirical evidence from numerous countries: US, UK, EU, OECD countries etc.
- **Financialization, corporate downsizing, and the shedding of union contracts**: Jung and Lee (2021) founds that there is a link between market pressures on shareholders and the willingness of firms to slash jobs; Appelbaum and Batt illustrate through case studies that the entry of private equity firms in capital is typically associated with job reduction; Jung (2015) also uncovers the links between financialization and downsizing.
- **Financialization and union density:** negative impacts on union density, whether through direct effects (layoffs) or indirect (market deregulation) (Peters, 2011, 2012; Kollmeyer and Peters, 2018); particular effects in core economic sectors that are capital intensive, open to international competition, and composed of large firms (Dupuis, Peters, and Scrimger, 2020).
- **Financialization and labour market deregulation:** Darcillon (2015) and Meyer (2019) found negative impact of financialization on the coordinating institutions and centralization of wage bargaining structures in OECD countries.

The effects of financialization on labour markets and employment relationships

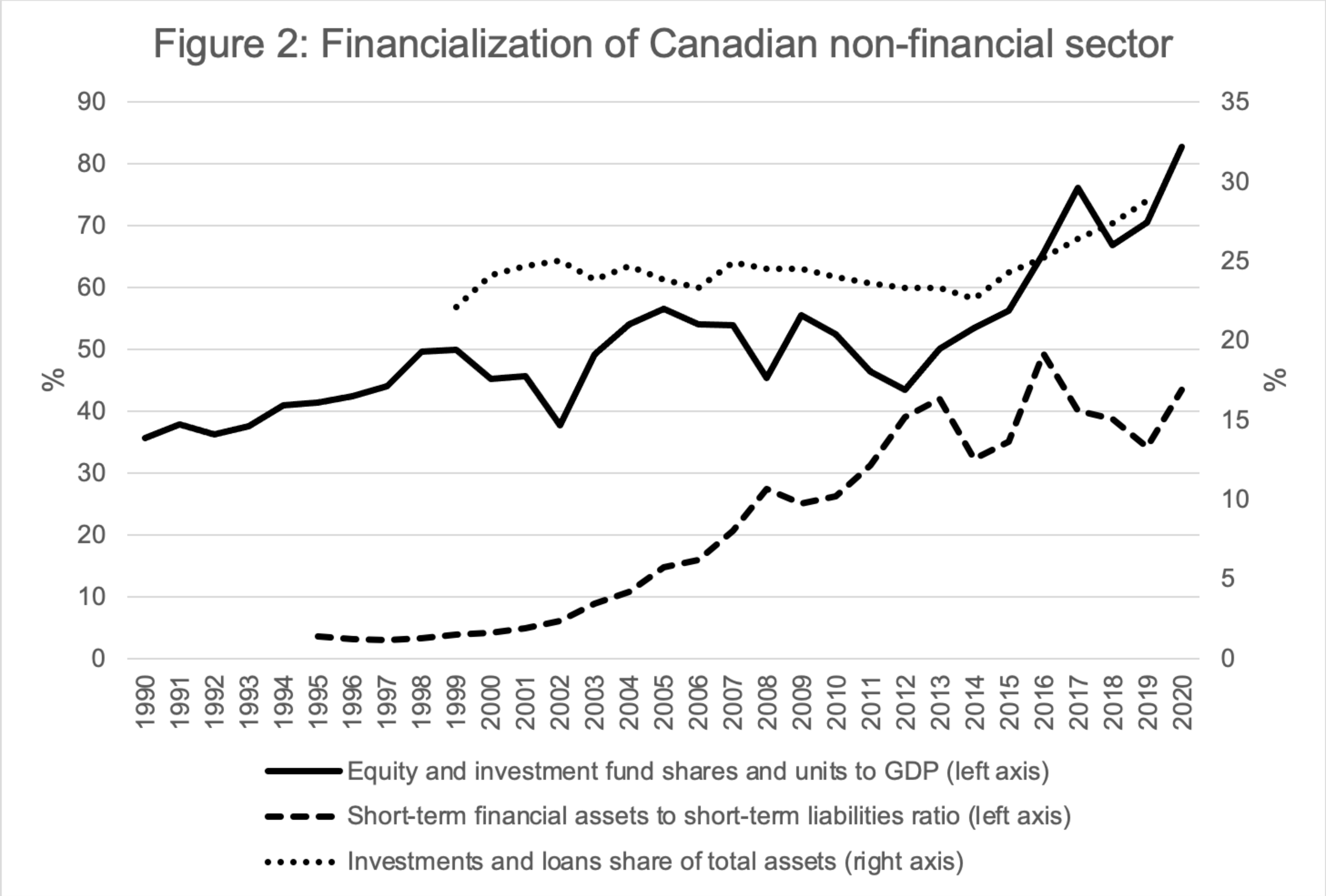
- **Effect on precarious work and job quality:** pressures of shareholders to squeeze labour costs and to intensify work. Kalleberg (2011, 2018), Appelbaum and Batt (2014) and Weil (2014): among other factors, financialization has led to growth of precarious work and the fissuring of workplaces. E.g. expansion of non-standard employment contracts, subcontracting, agencies etc.
- **Financialization and income distribution:** whether measured in terms of labour shares, wage share, income inequality, or Gini coefficient, consistent evidences of the positive effects of financialization on inequality (i.e. + financialization = + inequality). In the US (Lin and Tomaskovic, Devey, 2011), in OECD countries (Kohler et al. 2019), in Iran, Thailand, France and Sweden (Gouzoulis, 2021, 2022) and in the EU (Barradas, 2017).
- **To sum up: financialization of the economy and NFCs has led to multiple negative impacts on job quality, income distribution, unions, and labour market regulations.**

Financialization in Canada’s economy and business enterprises

- What’s the state of financialization in Canada? Analytical challenges: ‘Anglo-Saxon’ model, but a (relatively) resilient labour movement and a more tightly regulated banking system. Dependency on natural resources and a booming housing market that contributes to financialization.
- What’s the portrait of financialization in Canada?
  - *FIRE share of GDP (finance, insurance, and real estate sector): **growing**.*
  - *Cash applied to dividends to net profits in the total economy (which capture how corporations allocate their profits relatively to their shareholders): **growing**.*
  - *Equity and investment fund shares and units to GDP for the total economy and for NFCs (which capture the amount of investments that corporations have in stocks, in funds or in other financial products): **growing**.*
  - *Value of stock traded to GDP for the total economy (which capture the ‘intensity’ of the stock market in an economy): **growing***
  - *Short-term assets to short liabilities ratio for NFCs (which capture whether these firms borrow or become themselves lenders through investment in portfolio or other companies or through the acquisition of financial instruments): **growing***
  - *Investment and loans share of total assets for NFCs (Statistics Canada; which capture the share of financial assets in corporations as compared to their total assets): **growing***
- **Overall: all indicators point to a growth in financialization since the 1990s in Canada.**



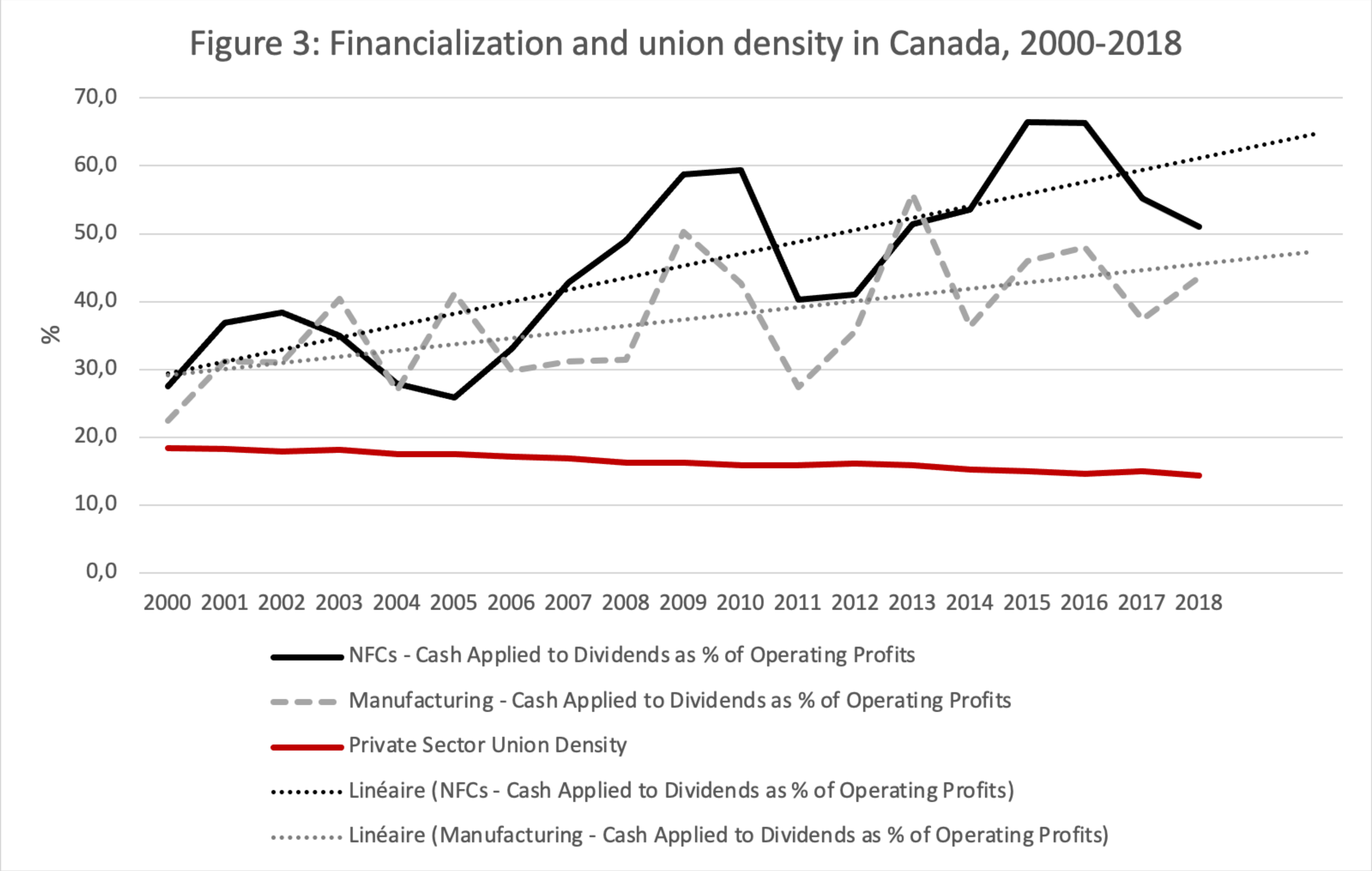
Sources: Statistics Canada, OECD stats, World Federation of Exchanges database



Sources: Statistics Canada, OECD stats

Financialization and declining union density

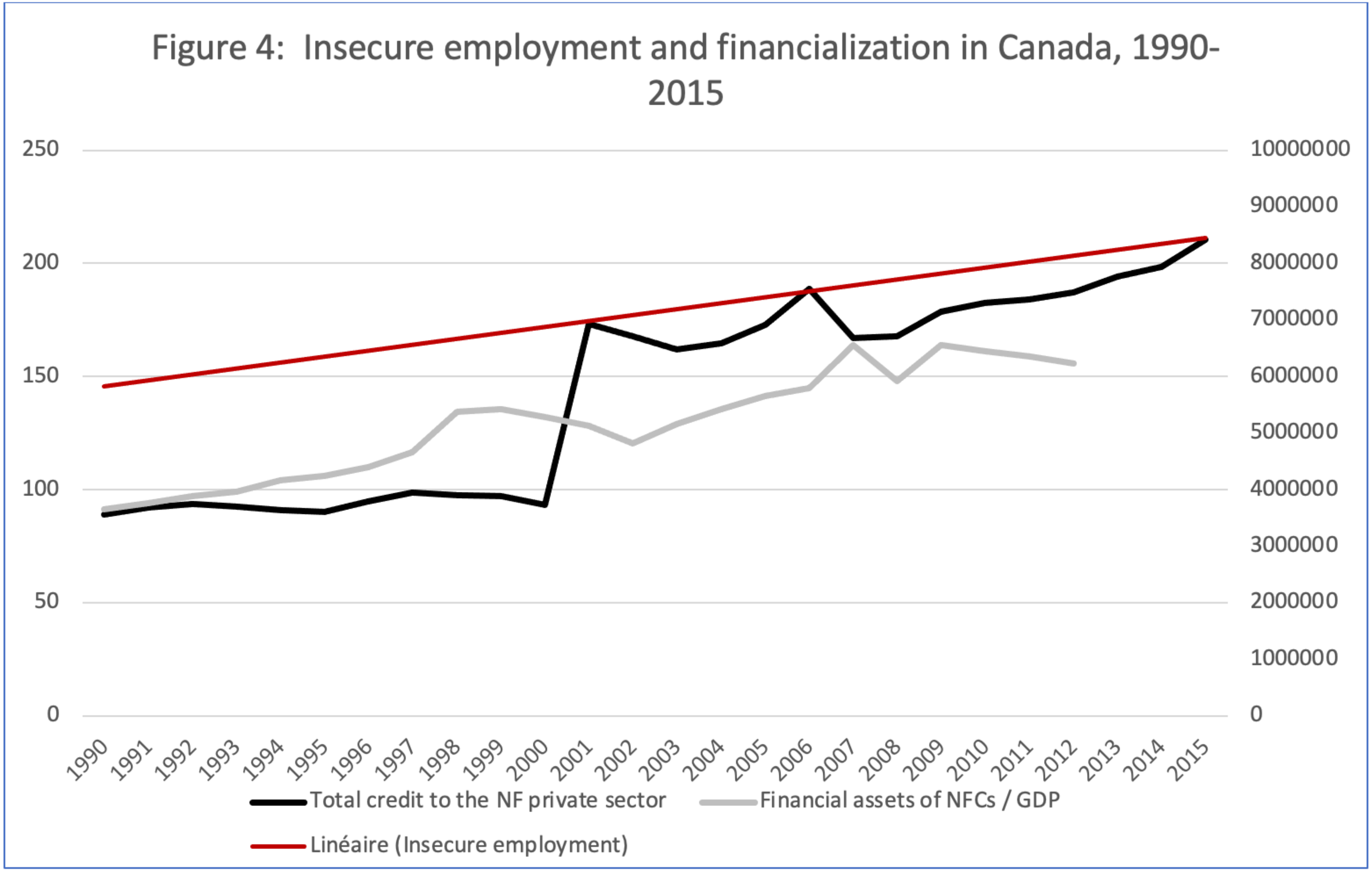
- Two general trends: 1. disinvesting of unionized firms that leads to a decline of union jobs; 2. the use of subcontracting, offshoring, and restructuring that disadvantage unionized workforces.
- Our results (Dupuis, Peters, and Scrimger, 2020): consistent negative effects of financialization on union density in Canada even if controlled for different characteristics, particularly in large firms that are export-oriented (manufacturing, natural resources, transport and warehousing).
- E.g. For both non-financial corporations as well as manufacturing more generally, dividends rose from a quarter to more than 40 percent – and in some years – more than 60 percent of total operating profits. At the same time, unadjusted private sector union density continues its slow decline from 18 percent of formal employees in 2000 to 14 percent in 2018.
- Specific sectors: auto (offshoring and outsourcing); pulp and paper (restructuring; closings; layoffs); construction (low-wage work and job-polarization).



Source: Statistics Canada

Financialization, jobs, and low-wage work in Canada

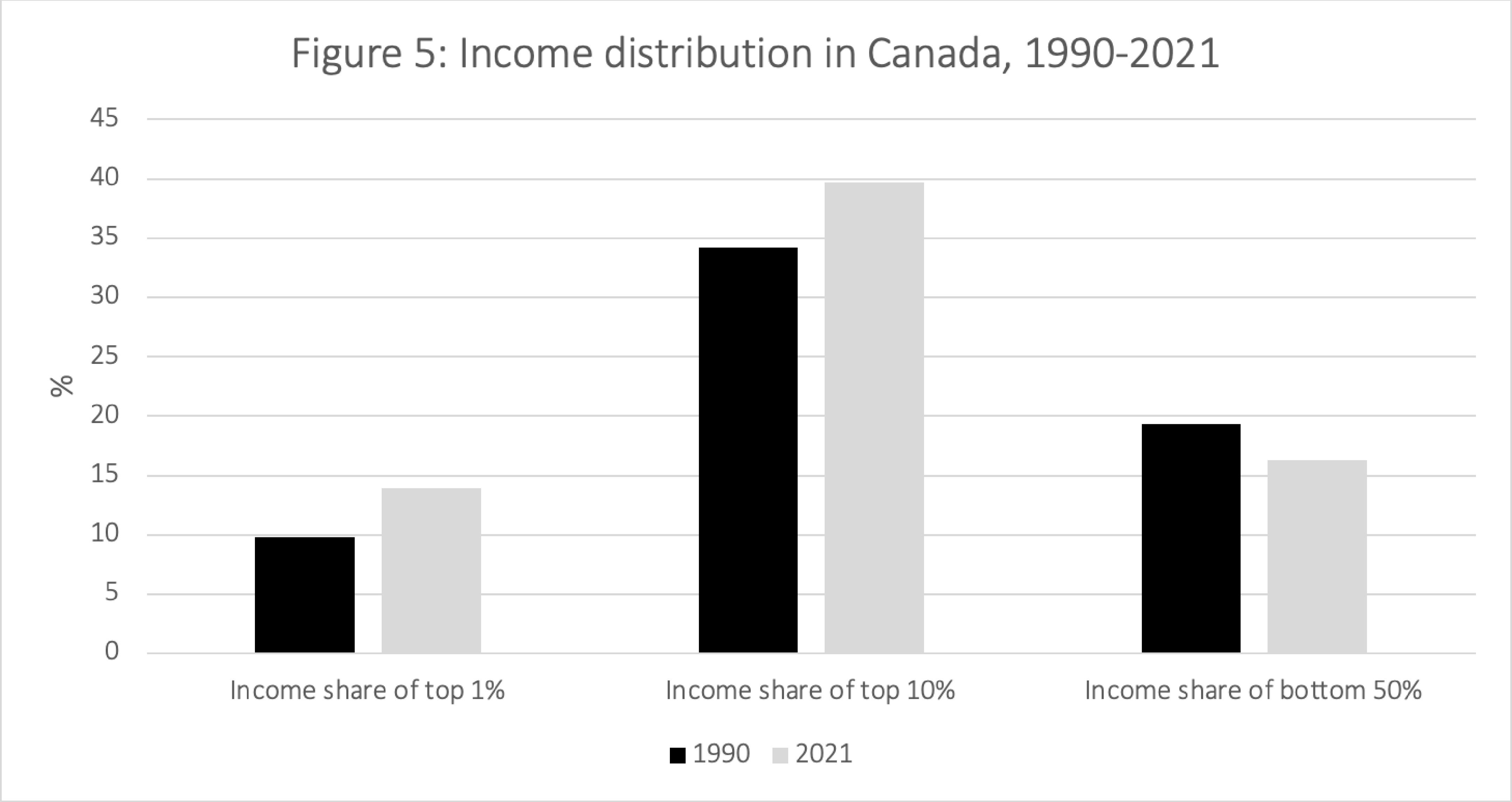
- There is a a growing body of literature that shows that financialization and increased low-wage precarious employment have been strongly connected (Appelbaum 2010; Weil 2014; Durand 2013).
- Recent investigations have highlighted the cost of such financial engineering strategies for work and employment contracts is ever widening precarity (Appelbaum 2010, 2017; Davis 2016). For as firms move money away from productive activity and towards financial activities, managers adopt much more aggressive labour management strategies ranging from layoffs and concessionary wage bargaining to the increased use of third-party agencies and contractors to the resort to low-paid non-standard employment contracts (Batt and Appelbaum 2014; Jung and Dobbin 2014; Lin 2016)
- Despite limitations in empirics, our data shows the correlations between finance, corporate debt, and insecure employment in Canada from the mid-1990s to 2015.
  - *Insecure employment: wage and work arrangements that provide less than two-thirds of the mean income for full-time workers.*
- Impacts in sectors: manufacturing (the use of a contingent workforce); transport and storage (self-employment); services and big box stores (agencies, short-term contract, franchising); agriculture and extraction (temporary and foreign labour)



Sources: Bank of International Settlements, OECD stats, Statistics Canada

Financial and income distribution and inequality

- The last topic is the extent to which financialization contributes to rising inequality and changes in income distribution.
- Despite variations in intensity, most of the OECD countries studied in the literature have experienced a rise in inequality.
- This phenomenon can be linked to different indicators: firms generally have retained more of their earnings instead of distributing them to their employees; indirectly, the decline of unions and collective bargaining structures have contributed negatively to this redistribution; financialization has overly benefited the richest persons as they can take advantage of stocks, bonds, or other financial assets that the rest of society does not have or has limited access.
- There is a growing inequality in the Canadian economy that can be illustrated by a growing share of income captured by the richest persons and a declining share of income possessed by the bottom 50%. From 1990 to 2021, the share of income of the top 1% has grown from 9,8% to 13,9%. For the top 10%, it has grown 34,2% to 39,7%. On the other hand, the share of income of the bottom 50% has declined over the same period, from 19,3% to 16,3%. Slowly but steady, the Canadian economy is becoming more and more unequal. Today, the top 1% possesses almost the same income as the bottom 50%.
- Bivariate analysis: equity and investment shares to GDP of NFCs + value of stocks traded to GDP (total economy) were positively associated with rising income shares of the top 1% and top 10%.



Source: World Income Database

Reversing financialization? The role of labour law and employment regulation

- Financialization has significantly affected how capitalism evolved. Canada is not isolated within these trends, as we have shown.
- How to reverse financialization?
- Major institutional reforms? 1. Ban stock buyback; 2. Redesign executives' pay to reward value creation; 3. Open corporate boards to include a variety of representatives (including workers); 4. Reform the tax system to redirect financial profits to households and government; 5. Redeploy corporate profits to support socioeconomic mobility (Lazonick and Shin, 2020).
- Workers and unions' financial strategies ? (Webber, 2018). Are these initiatives really affect how firms operate? (Jacoby, 2021, MacDonald and Dupuis, 2020).
- Democratize firms through 'economic bicameralism'? (Ferreras, 2017)
- Taxation?
- Labour law and regulatory reforms?