Financialization, the ‘Great Recession’ and the Stratification of the US Labor Market

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Outline of the paper

• Financialisation and the “Great Recession”

• Theoretical Analysis: Financialisation, the wage premium and the stratification of the US labour market

• Empirical Analysis: Long-run relationships of earnings inequality between demographic groups by occupation through cointegration analysis
What is Financialisation?

- The dominance of ‘shareholder value’ as a mode of governance
- The rising popularity of market-based over bank-based financial systems
- The increasing economic and political power of the ‘rentiers’

... There has thus been an increasingly ‘financialisation’ of the economy, an increasing role for the financial sector. Financial firms as a result have accounted for an increased share of GDP, of corporate profits, and of stock market capitalisation. And there has been a sharp rise in income differential between many employees in the financial sector and average incomes across the whole of the economy (Lord Turner, 2010)
The Process of Financialisation (1980s-2000s)

US National Income

↑ Capital Share

Interests

↑ Profits

Non-Financial Sector

↑ Financial Sector

Labour Share

6 Broad Occupations: Managerial and Financial; Professional; Sales; Service; Construction; Farming, Fishing and Forestry

Gender and Race Stratification

Source: Palley (2008) and authors’ elaboration
The Finance Wage Premium

- Financialisation and the creation of the finance wage premium in the US labour market:
  - 1980s: 10%
  - 1990s: 15%
  - 2005: 20%

... something other than returns to education, skill intensity, and risk factors have caused the actual wage to deviate from the benchmark. Compensating differentials are unlikely to explain the evolution of the excess wage ... we conclude that a large part of the excess is due to rents (Philippon and Reshef, 2009)
Weekly Earnings in Managerial and Financial Occupations by Gender and Ethnicity

Weekly earnings (US$)

Note: Earnings represent the annual average of mean weekly earnings by ethnicity (1999 US$).
Social Hysteresis Effects of the Financialisation Process

Managerial and Financial Occupations → High Earnings → Social Status of Dominant Demographic Group /s (e.g. white men)
Financialisation, Social Hysteresis, and Stratification of the US Labour Market

- Social norms and ‘fair’ (=socially acceptable) wages constraints in Mexican households: gender income gap inside households leads to gender wage gap in labour market (Charles 2011)

- Financialisation meets ‘fair’ wage constraints: the finance wage premium for the dominant demographic group

- From ‘identity preferences’ to the exacerbation of race/gender labour market stratification: employers’ ‘identity preferences’ affect pay offers, hiring and firing decisions (own group identity versus others), and lead to an unequal distribution of the finance wage premium
Theoretical Hypotheses Tested

- H1: the existence of a wage premium for individuals working in managerial and financial occupations, which has been labelled as the finance wage premium.
- H2: the unequal distribution of the finance wage premium described above amongst different ethnic and gender groups, namely White men, White women, Black men, Black women, Hispanic men, Hispanic women.
- H3: the existence of a wage premium for individuals of a particular ethnic or gender group across all occupations.

Long-run relationships of earnings across occupations and demographic groups from 1983 to 2009 (Current Population Survey Data)
Cointegration Analysis

- **H1 → VECM₁**: Long-run Relationships and Short-run Dynamics of Weekly Earnings for individuals working in managerial and financial, professional, sales, service, farming/forestry/fishing, construction occupations.

- **H2 → VECM₂**: Long-run Relationships and Short-run Dynamics of Weekly Earnings in managerial and financial occupations for different ethnic and gender groups, namely White men, White women, Black men, Black women, Hispanic men, Hispanic women.

- **H3 → VECM₃**: Long-run Relationships and Short-run Dynamics of Weekly Earnings in all occupations for different ethnic and gender groups, namely White men, White women, Black men, Black women, Hispanic men, Hispanic women.
H1: cointegration of earnings in ...

- Managerial and financial occupations
- Professional occupations
- Sales Occupations
- Service Occupations
- Construction, trades occupations
- Farming, forestry, and fishing occupations
H2: in managerial and financial occupations, cointegration of earnings for...

White men

Hispanic men

Black men

White men

Hispanic women

Black women

White women
H3: for all occupations, cointegration of earnings for...

- White men
- Hispanic men
- Black men

- Hispanic women
- Black women
- White women
- White men
H1: finance wage premium

VECM1: managerial and financial (manfin), professional (prof), service, sales, construction (const), and farming/forestry/fishing (farm) occupations

- Coint. Eq. VECM1:

\[ \text{manfin} = -406 + 0.70 \text{prof} + 1.75 \text{service} \]

- Short-run dynamics:

\[ \Delta \text{manfin} = -761 + 0.08 \Delta \text{manfin}_{t-1} - 0.22 \Delta \text{prof}_{t-1} - 0.77 \Delta \text{service}_{t-1} + 0.59 \text{sales} + 0.22 \text{constr} + 0.55 \text{farm} - 0.63 \text{EC1} \]

→ H1: Finance wage premium √
H2: unequal distribution of finance wage premium

VECM2: White men (wm), Black men (bm), Hispanic men (hm), White women (wf), Black women (bf), Hispanic women (hf)

• Coint. Eq. VECM2:

VECM2a:  \[ wm = -1851 + 4.44bm - 0.89hm \]
          \[ 0.82^{*} \quad 0.60^{**} \]

VECM2b:  \[ wm = -450 + 1.04wf + 0.08bf + 1.12hf \]
          \[ 0.21^{*} \quad 0.20 \quad 0.34^{*} \]

\[ \rightarrow \text{H2: Finance wage premium unequally distributed } \checkmark \]
H3: wage premium across all occupations

VECM1: White men (wm), Black men (bm), Hispanic men (hm), White women (wf), Black women (bf), Hispanic women (hf)

- Coint. Eq. VECM3:

VECM3a: \[ wm = 542 + 0.95 bm - 0.49 hm \]

VECM3b: \[ wm = 42 + 0.86 wf + 0.21 hf \]

→ H3: wage premium of White men across all occupations X
Results

• The existence of a wage premium for individuals working in managerial and financial occupations, i.e. the existence of a finance wage premium

• The unequal distribution of the finance wage premium between different ethnic and gender groups: White and Hispanic men have enjoyed a disproportionate share of the finance wage premium at the expense of Black men and White women

• Inconclusive evidence for all occupations → Are there different norms for different groups?
New Theoretical Hypotheses Tested

The existence of a rising wage premium for White men in managerial and financial occupations over the earnings of each demographic group across occupations, namely managerial and financial, professional, sales, service, construction farming, fishing and forestry occupations:

- H1: white women
- H2: black men
- H3: black women
- H4: Hispanic men
- H5: Hispanic men

→ Long-run relationships of earnings across occupations and demographic groups from 1983 to 2009 (Current Population Survey Data)
H1: Weekly earnings of...

- White men in managerial and financial occupations
- White women in managerial and financial occupations
- White women in professional occupations
- White women in sales occupations
- White women in construction, trades occupations
- White women in service occupations
- White women in farming, forestry, and fishing occupations
H2: Weekly earnings of...

- White men in managerial and financial occupations
- Black men in managerial and financial occupations
- Black men in professional occupations
- Black men in sales occupations
- Black men in service occupations
- Black men in construction, trades occupations
- Black men in farming, forestry, and fishing occupations

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H1: White women

VECM1: white men in managerial and financial occupations (\(wm^{\text{manfin}}\)), white women in managerial and financial (\(wf^{\text{manfin}}\)), professional (\(wf^{\text{prof}}\)), service (\(wf^{\text{service}}\)), sales (\(wf^{\text{sales}}\)) and farming/forestry/ fishing (\(wf^{\text{farm}}\)) occupations:

- Coint. Eq. VECM1:

\[
wm^{\text{manfin}} = -1286 - 0.73 \, wf^{\text{manfin}} + 2.52 \, wf^{\text{prof}} + 7.24 \, wf^{\text{service}} - 1.64 \, wf^{\text{sales}} - 1.92 \, wf^{\text{farm}}
\]

\(\rightarrow\) H1: Finance wage premium for white men against white women’s earnings in professional and service occupations
H2: Black men

VECM2: white men in managerial and financial occupations ($wm^{\text{manfin}}$), black men in managerial and financial ($bm^{\text{manfin}}$), professional ($bm^{\text{prof}}$), service ($bm^{\text{service}}$), and sales ($bm^{\text{sales}}$) occupations:

- Coint. Eq. VECM2:

$$wm^{\text{manfin}} = 5.57 \cdot bm^{\text{manfin}} - 0.75 \cdot bm^{\text{prof}} - 6.10 \cdot bm^{\text{service}} - 0.41 \cdot bm^{\text{sales}}$$

$\rightarrow$ H2: Finance wage premium for white men against black men’s earnings in managerial and financial occupations.
Conclusions

- Financialisation and stratification

- Theoretical Analysis: Financialisation, the finance wage premium and the exacerbation of gender and race stratification in the US labour market

- Empirical Analysis: Long-run relationships of earnings inequality between demographic groups through cointegration analysis
Conclusions

• The existence of a wage premium for individuals working in managerial and financial occupations, i.e. the existence of a finance wage premium

• The unequal distribution of the finance wage premium between different ethnic and gender groups: White men have enjoyed a disproportionate share of the finance wage premium at the expense of Black men and White women

• Evidence of norms by demographic group combined with occupational norms