


**A VERY SHORT,
FAIRLY INTERESTING AND
REASONABLY CHEAP BOOK ABOUT**

**EMPLOYMENT
RELATIONS**


**TONY DUNDON,
NIALL CULLINANE AND
ADRIAN WILKINSON**

 **SAGE**

Los Angeles | London | New Delhi
Singapore | Washington DC | Melbourne



Los Angeles | London | New Delhi
Singapore | Washington DC | Melbourne

SAGE Publications Ltd
1 Oliver's Yard
55 City Road
London EC1Y 1SP

SAGE Publications Inc.
2455 Teller Road
Thousand Oaks, California 91320

SAGE Publications India Pvt Ltd
B 1/1 Mohan Cooperative Industrial Area
Mathura Road
New Delhi 110 044

SAGE Publications Asia-Pacific Pte Ltd
3 Church Street
#10-04 Samsung Hub
Singapore 049483

Editor: Delia Martinez-Alfonso
Assistant editor: Lyndsay Aitken
Production editor: Sarah Cooke
Copyeditor: William Baginsky
Proofreader: Tom Hickman
Indexer: Silvia Benvenuto
Marketing manager: Alison Borg
Cover design: Wendy Scott
Typeset by: C&M Digitals (P) Ltd, Chennai, India
Printed in the UK

© Tony Dundon, Niall Cullinane and Adrian Wilkinson
2017

First published 2017

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted in any form, or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction, in accordance with the terms of licences issued by the Copyright Licensing Agency. Enquiries concerning reproduction outside those terms should be sent to the publishers.

The title for the 'Very Short, Fairly Interesting and Reasonably Cheap Book about...' Series was devised by Chris Grey. His book, *A Very Short, Fairly Interesting and Reasonably Cheap Book about Studying Organizations*, was the founding title of this series.

Chris Grey asserts his right to be recognized as founding editor of the 'Very Short, Fairly Interesting and Reasonably Cheap Book about...' Series.

Library of Congress Control Number: 2016949399

British Library Cataloguing in Publication data

A catalogue record for this book is available from the British Library

ISBN 978-1-44629-410-9

ISBN 978-1-44629-411-6 (pbk)

At SAGE we take sustainability seriously. Most of our products are printed in the UK using FSC papers and boards. When we print overseas we ensure sustainable papers are used as measured by the PREPS grading system. We undertake an annual audit to monitor our sustainability.

Casinos, Crises and Cutbacks: The Context for Employment Relations

introduction

Standard fare in mainstream textbooks on ER is often a chapter on ‘environment forces’. The idea behind such efforts is to describe the wider contextual influences that shape employment. Typically this amounts to a discrete consideration of technology, politics, law, economics and social trends, and how product and labour markets impact the employment relationship. Accompanying the chapter might even be a few nice charts or one or two reflective questions asking you to consider how technology influences the jobs of people who work in the likes of Burger King or a call centre. But let’s be honest, these sorts of chapters can be a little drab, if not also a heavy read. At the risk of some self-deprecation we can say this with some confidence, having been involved in writing such weighty if not also dreary tomes in other not-so-short texts (see Dundon and Rollinson, 2011, Chapter 3; Marchington and Wilkinson, 2012, Chapter 2). Nonetheless, even if some instructional texts which cover environmental forces can be bit of a struggle to get through, an appreciation and conversation about ‘context’ is important in order to engage more fully with issues of state power and employer action, along with worker and union responses. By way of example: imagine you are watching television one evening and haphazardly switch to a channel covering a live football match, a sport we shall suppose you have no interest in. From the information on screen, you can see that the game is 110 minutes in progress and is currently 3-3. As you have no interest in football all this will mean very little to you. You switch channel. Now consider an alternative scenario. You are a keen football fan. Your favourite team is playing, it is a cup final, and despite being regarded as underdogs from the outset, they have come from 3-0 down to push the match into extra time. Penalties beckon. Clearly in this second scenario, the nature of the game, as you observe it, is now completely different. What in the first scenario might amount

to little more than an observation of grown men (or women) kicking a polyurethane-covered ball around a pitch would, in the second scenario, have transformed into a heart-thumping, nail-biting clash of epic proportions that you will probably remember for the rest of your days. The circumstances that form the setting for the second scenario then – your love of football, your team in the final, the dramatic comeback – mean that what is otherwise a very simple phenomenon of kicking a ball is now a spectacle of momentous significance.

While we can safely assume that understanding the context of contemporary employment relationships is unlikely to stir the same passions as in our second scenario, appreciating that contexts differ is an important part of studying ER. Describing the actions of employers and employees and their efforts at employment regulation is not nearly enough for appreciating the full magnitude of what is really going on. So in this chapter we will discuss some context of contemporary ER. Rather than evaluate the main contextual factors in discrete self-contained sections, we have decided to take a more discursive overview. We interlink what are impactful social, political, legal and economic influences that shape the subject. Specifically, we reflect on ER in the contemporary context of financialisation, economic crises and the pursuit of austerity. Somewhat impishly we have referred to these in the chapter's title as 'casino' and 'cutback' factors. This is not meant as an evaluative statement per se, but simply to state the obvious: no one really wants to live under conditions of permanent austerity and suffer the disruptions caused by economic crisis, risk and uncertainty that seem to pervade contemporary life resemble an outright gamble.

returning to our very short little bit on history

We continue to live in the long shadow of a global financial crisis, or the Great Recession. For those unschooled in the complexities of financial economics, understanding this recession can be difficult. It can all seem a confusing mix of banks on the precipice, exotic financial instruments and government debt. In many ways, it seems a world apart from the day-to-day stuff of ER, much of which we will discuss in the course of this book. Yet all of the talk of public sector cuts in the news, at least at the time of writing, should give you some inkling that all this stuff matters for ER. In fact it is sometimes not realised that the crisis of today is in fact closely related to long-term, historical trajectories in the employment relationship across advanced economies. Let us explain by wading back through the mists of time.

One of the major obstacles to continued economic growth for employers in the 1970s was labour supply (Armstrong et al. 1991). Scarcities of labour were common across Western Europe and the United States. Workers at this time were frequently well organised, both industrially and politically and, by historical standards, reasonably well paid. Employers, threatened increasingly by a profit squeeze from organised labour, needed access to cheaper and less organised employees. One route to circumvent organised workers was to encourage immigration. So a French employer would seek to import workers from the Maghreb, whilst an English employer might draw on its country's historical ties to former colonies, employing some casual Irish labourers for example. Swedish employers, faced with labour shortages, worked out a deal with Marshal Tito and imported Yugoslavs, whilst German employers often sourced Turkish *Gastarbeiter*.⁶ If sourcing migrant labour was not always feasible, another option for employers was new technology. Automating work tasks might be with the aim of raising productivity but, in the process, it could potentially de-skill work and thereby make labour cheaper and easier to control. It also meant workers were substitutable with one another and a firm could shed labour, creating unemployment, which meant managers could more easily discipline those members of organised labour who remained in work (more about this in Chapter 5 on 'Cooperation'). Unsurprisingly, unions would resist such initiatives or at least seek out an appropriate quid pro quo in return: productivity agreements were common, with 'restrictive practices' bought out through bonus payments or wage increases for instance.

Nonetheless, employers at this time could be slow to take up automation. In this post-war period, employers operated in relatively sheltered domestic economies and had less of an incentive to adopt cost-reducing technology. The worlds of trade and commerce were generally less global than they are now. Then, employers could simply pass on increased production costs to their consumers who, in these times of tariffs and quotas, were largely a captured market. There is an important point here about automation adoption, if you will afford us a digression. We return to the issue of new technology and its potential impact on the future of ER in Chapter 8; for now, it is almost impossible to avoid the headline claims, whether from *Financial Times* reports⁷ or MIT academics (Brynjolfson and McAfee, 2014), prophesying robots stealing people's jobs in the near future. Despite all current talk about a new automation wave, it is quite likely that employers will not live up to the hype: there may be far too much cheap labour around for employers to risk investment in expensive technologies. Contrary to many of the slogans plastered on the billboards of the typical university business school,

many corporations simply do not have some innate potential to 'be innovative' or 'inspire leadership': in fact, many are quite content to live off the fat of the efforts of large pools of cheap and precariously placed workers employed in global supply chains across the world. It also points to an interesting conclusion about technology in the employment relationship. Far from being a neutral force or 'independent variable', the use of technology at work is conditioned by existing hierarchical social relations: namely the balance of power between capital and labour and not some allegedly neutral objective of securing 'efficiency'. You might enjoy, in this regard, David Noble's (2000) historical account of computer numerical control (CNC) machinery, where employers used new technology to dilute craft labour controls over production. It is a matter we will return to in later chapters.

But let's briefly get back to our little bit of recent history. The days of sheltered domestic markets carved up between national champions were eventually undermined by exports from rival industrial nations in the 1980s (most notable here were the Japanese who seem to have perfected Taylorism in the form of 'lean production'). The response of employers passing on production costs to the consumer was no longer tolerated or seen as legitimate. Aping Japanese production techniques suddenly became the fashion as every employer rushed to adopt some variant of 'total quality management' or 'quality circle'. Pushing through such changes industrially was not always easy although, as recounted in Chapter 2, governments have refashioned a particular environment to help businesses do so. Whether it was Helmut Kohl in Germany, Margaret Thatcher in Britain, or Ronald Reagan in the United States (who had previously eked out an acting career starring in such classics as *Bedtime for Bonzo*, and as former union leader of the Actors Guild of America a key protagonist in the film industry's communist witch-hunt), politicians of a neo-liberal disposition could invariably be relied upon to help boost employers' profitability. This could work in different ways. Combatting the then significant problem of inflation (rising prices) encouraged a curb on the supply of money (through raising interest rates or cutting government spending), which in turn created unemployment and thereby checked wage growth. Politically, new zones of profitability could be prised open by the privatisation of national resources and utilities: water, electricity, telecommunications, transportation, public housing, pensions and health care. But perhaps above all was a new global architecture designed to facilitate the easy international flow of money to wherever it could be used most profitably (Glyn, 2007). Barriers to trade, such as tariffs and quotas, were reduced and a globally interlinked system of financial markets was constructed through what became known in 1986 as the

'Big Bang', linking London and New York and ultimately the world's major financial markets into one system. Liquid money capital could now scour the globe looking for locations where the return was highest (Harvey, 2011). Global financialisation was born.

In this brave new world the contextual environment had shifted: multinational businesses now had the option to go where the cheapest labour and raw material were on offer, a process facilitated by a radical reorganisation of transport systems like 'containerisation' and developments in information and communication technologies. Whilst multinational corporations and financial assets were now able to roam much more freely, labour, and of course governments, remained rooted in particular nations and localities. The result was competition amongst states keen to maintain or attract investment and jobs through the use of tax breaks. Within multinationals and across their various subsidiary plants, it also encouraged a strategy of 'divide and rule': threatening to move production and jobs elsewhere to where wages and working conditions are cheaper. Writing at the dawn of this period, Keith Cowling (1982: 145) observed:

[Employers] become increasingly nomadic...It will be privately efficient for each transnational corporation to adopt such a nomadic existence, reflecting as it does an appropriate response to rising labour costs [in the West] and the opportunities offered by a more flexible technology...Wherever workers act to raise wages or control the intensity or duration of work they will lose their jobs to other groups of less well organised and less militant workers in other countries. Thus de-industrialisation is a consequence of class struggle in such a world.

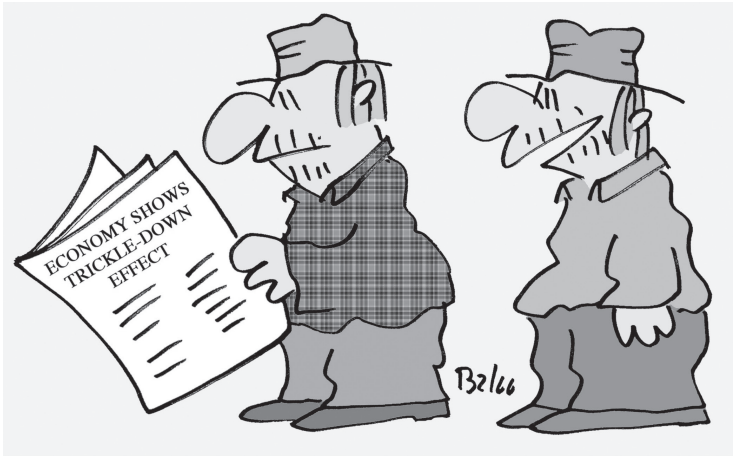
If labour becomes scarce or radicalised, then enter on stage the Mexican *Maquiladoras* and Filipino *Export Processing Zones* to supply cheaper and unorganised workers. Add to the mix the dismantlement of socialism in Eastern Europe and Deng Xiaoping's shift to a state regulated variety of capitalism in China, then access to global labour becomes not only plentiful but cheap (Bellamy-Foster and McChesney, 2012). Another consequence was the feminisation of labour as more women entered into the labour market, often to take up low-paid, insecure work producing in turn highly unequal experiences for many female workers (Rubery and Rafferty, 2013). But if employers thought the labour supply problem was now solved, a glut of employment would create a combination of stagnant and downward pressure on wage growth, particularly for those whose skills were now

redundant or among those with no skills at all. Englebert Stockhammer (2012) has observed that one of the hallmarks of this process has been a progressive polarisation of income across Germany, France, Japan and to a lesser extent the US and the UK, as wages as a percentage of output fell significantly from the 1980s onwards. We shall return to the consequences of this later and consider wage inequalities and income distribution in Chapter 8.

financialisation unleashed

Several well-known movies capture the so-called multiplier of economic wealth from financial capitalism: the classic 1987 *Wall Street*, its 2010 remake *Money Never Sleeps* or the 2015 comedy–drama *The Big Short* (among others) all chart, in different ways, the rise and fall of financial capital and the ensuing global financial crisis on businesses and millions of employees. For many major employers and multinational conglomerates the new wave of globalisation was like a swanky party gone wild. Employer concerns about a possible labour shortage problem were solved, new markets prised-open gave access to untapped wealth, workers' bargaining power was considerably weakened and taxation burdens minimised or even removed. While there are winners and losers among businesses and workers, the globalisation era was something of a profit boom for speculators and many multinational employers. The narrative ran that if employers are given incentives to invest and 'create' more wealth, they will have more profit left over to invest in their business, and thereby create more jobs. This, in turn, will feed through into a rise in income for all. At one level the idea sounds logical: if investors at the top of the food chain have more money to invest, the positive multiplier is more spending, economic growth and employment, and in time workers lower down the social and economic ladder will receive higher wages. In a way, 'greed' for lack of a better word, 'is good', as Gordon Gekko, the billionaire investor of Oliver Stone's *Wall Street* claimed. There is a theory for the idea, captured in Exhibit Box 3.1, known as 'trickle down' economics.

At another level the whole idea of 'trickle down' economics can be seen as a cloak for ideological and self-serving rationales for the powerful. Ha-Joon Chang (2014) has pointed out that it frequently seems that to get the rich to work harder we need to make them richer by, say, cutting taxes on their profits; yet to get the poor to work harder, specifically, say, the unemployed, we often have to make them poorer by cutting welfare benefits that are said to act as a disincentive



"Maybe it evaporates before it gets down to us."

Exhibit Box 3.1 Trickle down economic theory.

© CartoonStock (www.CartoonStock.com). Used with permission

to work. Of course, while employers *can* invest their surplus profits into expanding production or job creation activities, they do not necessarily *have* to. Furthermore, while many can and do opt to invest, it is not necessarily in the 'real economy'. Rather, significant bodies of investors have increasingly directed their wealth into asset values and the stock markets, which had the unfortunate effect of encouraging asset bubbles of various sorts, and usually have dysfunctional consequences for the wider economy and society.

Indeed, as Bellamy-Foster and Magdoff (2009) have recounted, the excess profits employers have enjoyed in the period of globalisation have been a key factor in the expansion of so-called 'financialisation', that is, the increasing dominance of financial institutions and credit/debt in the economy. With the glut of excess profits, financial institutions like banks, hedge funds and private equity companies stepped forward with a range of new and complex investment instruments: futures, credit default swaps, derivatives were all designed to help the surplus capital find profitable investments. Indeed headline employers and traditional producers like Ford, Porsche, General Electric and General Motors got actively involved in credit markets through setting

up mortgage divisions in their corporations. In the years before its infamous bankruptcy, Enron was supposed to be an energy company, but it had increasingly made most of its money trading in the derivatives and futures markets. In 2003 General Motors, one of America's largest employers and iconic car manufacturers earned more than \$800 million, not from the making of its cars and trucks, but from investments in mortgages and finance loans. In that same year its car and truck operations earned GM just \$83 million (Rubery, 2015). In countries like the United States and Britain, the financial sector, encapsulated in Wall Street investment banks and the City of London, have become the key respective hubs of both economies (often, it must be said, at the expense of their country's manufacturing sectors).

However, it is not unreasonable to suggest that financial institutions theoretically play a serviceable economic role: for example, lending, options, derivatives, etc. can release resources that might otherwise remain idle, providing funding for other economic activity that would not have taken place. But that is only a small fraction of the real story and argument. It is more plausible to appreciate that financial institutions simply allow creditors to profit from other people's productivity, hence the now famous reference to Goldman Sachs as a 'vampire squid' by that eminent source of economic commentary, *Rolling Stone* magazine.⁸ Ultimately, financial firms and their employees make nothing, that is, nothing apart from the recirculation of money that has no productive outcome. Sure, a lot of glamour is associated with working in the likes of 'The Gherkin' in London, but often the actual work amounts to little more than someone mouse-clicking buttons on a screen, moving money from those who want to save it to those who want to invest it, profiting on the difference accrued in interest rates. If we imagine Gordon Gekko again, from the *Wall Street* movie, the whole process is seen as 'capitalism at its finest ... money itself isn't lost or made, it's simply transferred ... I create nothing.' Sayer (2014) eloquently explains that these types of earnings have no contribution to productive value. Interestingly, an understanding of this is clearly expressed by Gekko's opponent in the *Wall Street* film, Carl Fox, the blue collar trade union steward at the airline company Gekko is trying to asset strip, when he remarked that instead of creating something useful, Gekko and his ilk are simply 'living off the buying and selling of others'.

The sort of behaviour the likes of Gekko are advocating, when unregulated, can also generate serious efficiency losses and externalities for the economy. As banks found new ways of accessing funds and new avenues for making profits in the 1990s and 2000s, through the aid of integrated financial markets and global capital movements, they found

that instead of waiting for money to be deposited, they could source cheap loans from another financial institution. That is, more casino betting at the blackjack table. Instead of waiting for the maturity on some loan, banks could simply repackage and sell the loan on to another financial institution. This was the fate of the mortgage loans of the 2000s, the result of which was the sharing out of risk across many financial institutions. Financial activity as a proportion of a country's entire economic activity burgeoned in this period. As David Harvey (2011: 29), the radical geographer notes, 'why invest in [relatively] low profit production when you can borrow in Japan at a zero rate of interest and invest in London at 7 per cent whilst hedging your bets on a possible deleterious shift in the yen-sterling exchange rate?'

We will return to some of the major consequences of this behaviour further below, but it is perhaps worth thinking about the impact of financialisation on the day-to-day of employment relations. An anecdote may illustrate. In the mid-2000s, IBM entered into an agreement with stockholders to deliver \$10 earnings per share by 2010, a strategy internally known as 'Roadmap 2010'. To achieve its targets, IBM had to find ways to increase profit margins and generate quick cash returns for shareholders. Invariably this led to a short-term focus on cutting costs and seeking out efficiencies in various business operations across the company. The cash generated from such cost-cutting and boosting of margins was then handed over to shareholders in the form of dividends. The strategy to deliver \$10 by 2010 proved successful and indeed IBM's share price rose 91 per cent between 2002 and 2010 (notably a later attempt to replicate this strategy, 'Roadmap 2015', failed however with the result that stockholders dumped IBM stock, causing the company's share price to slump). Those executives who delivered on the 2010 Roadmap to the shareholders were duly rewarded; the then CEO, Sam Palmisano, for example, received a package of over \$200 million when he exited the company in 2010. Reflecting on his success, Palmisano recounted:

We gave investors annual outlooks, and we gave them earnings. You have to give them something, they're owners. In 2006 we told Wall Street that we would go from \$6 to \$10 in earnings per share by 2010. Basically, the shareholders were just asking us to be friendly with capital allocation. They wanted more margin expansion and cash generation than top-line growth, because they knew that if we generated cash, we'd give it back to them in the form of a share buyback or a dividend, not a crazy large acquisition that no one else could see value in. (Denning, 2014⁹)

On the contrary, market analysts outside the company claimed IBM was perhaps too 'friendly with capital allocation' and that its pursuit of rising earnings per share was built on wilting staff morale. Allegedly, IBM employees referred to the Roadmap as 'Roadkill', as executives shifted technical expertise from high-paid US staff to low-salaried staff in India.¹⁰ Managers, it has been alleged, were required to cull a certain percentage of their staff, regardless of an individual's absolute performance. With a reduced headcount those employees lucky enough to keep their jobs bear the brunt of increased workloads, covering the job demands left by their redundant co-workers. The wider company impact on returning dividends may also have impacted on the company's capacity to compete: for example, IBM failed to win a bid for the Central Intelligence Agency's lucrative cloud computing contract. Although its bid was said to be 30 per cent lower than that of Amazon's – which won the bid despite having no experience with government contracts – the IBM proposal was rejected on technical grounds.

This story is striking for several reasons. What it suggests is that unleashing finance has enormously increased the power of mobile capital owners in pursuit of short-term profits and high dividends. The surest way to deliver short-run profits is to minimise long-term investments, such as in machinery and research and development. Where short-term 'shareholder maximisation'¹¹ dominates business organisation then use of downsizing, outsourcing and offshoring often becomes the first, rather than the last, resort for management executives. Selling off less profitable parts of the business or sacking workers is often a quick fix for improving profit margins, boosting quarterly profits and increasing share price. Interestingly some recent studies have documented a link between 'shareholder maximisation' strategies and employment loss – see the very useful paper by Batt and Applebaum (2013) for a review. Shareholders have tended to encourage such behaviour by paying very high salaries to chief executives who are good at making cuts, even though, as with IBM, this may weaken the growth prospects of the company in the long run or, as with the General Motors example earlier, the race to seek new financial investments can lead to sudden corporate collapse. But of course shareholders do not necessarily care about the long-term future of the companies they invest in, for they can always sell their shares in pursuit of higher returns elsewhere. Indeed, as in the movie *Wall Street*, the very worst elements of shareholders who lack an interest are evident in Gekko's plans to liquidate an airline and its workforce, asset strip its hanger division, peddle the manufacturing premises to property developers and sell its planes to Mexicans, whilst also raiding the workers' pension fund.

When questioned about the consequences of such actions for the company's workforce, he replies that 'it's all about the buck'.¹²

As the IBM tale demonstrates, employees often have to live with the serious consequences of the decisions emanating from far removed corporate investors whose only engagement with the company is through the arm's length interrogation of earnings on stock market indexes. So cost cutting, insecurity and job loss, even when the company seems to be performing pretty well, is the rather dark side of financialisation that employees face. As you can imagine, this creates a whole host of problems for HR departments in trying to generate highly committed and motivated individuals at work. For those subjected to the vagaries of shareholder demands, it erodes the ability to sustain high-trust relationships at work between employers and employees (Cushen and Thompson, 2016). Employees observe and experience that tension, resulting in growing disengagement from their employer, even if they continue, under the discipline of insecurity and fear of job loss, to offer high levels of effort. As one (former) Dean of Saïd Business School at Oxford University said:

[Financialisation] systematically extinguishes any sense of commitment – of investors to companies, of executives to employees, of employees to firms, of firms to their investors, of firms to communities, or of this generation to any subsequent or past one. It is a transactional island in which you are as good as your last deal, as farsighted as the next deal, admired for what you can get away with, and condemned for what you confess. (Mayer, 2013¹³)

The interaction between financialisation and workplace outcomes can play out in other ways. As Costas Lapavistas (2012a; 2013) has recounted, the growing financialisation of economies is intimately linked to the dynamics of employment relations. The Eurozone offers a serviceable illustration. Prior to the creation of European Economic and Monetary Union (EMU), Germany's big exporters and employers, like Siemens, Daimler, Volkswagen, and ThyssenKrupp could rely on the Deutsche Bundesbank to devalue the mark to make their goods more competitive in international markets. Signing up to the single European currency clearly ruled this option out, so German employers were forced to redirect their energies to internal devaluations. In effect, this meant reducing the value of labour costs. Volkswagen was in the vanguard of this new approach. It adopted the 5000X5000 project at its Wolfsburg plant in 2001 which recruited new staff on lower terms and conditions than the company works council had previously agreed for existing workers (Schmidt and Williams, 2002). Meanwhile at

national level the ‘Hartz Reforms’, named after Peter Hartz, the HR executive at Volkswagen who designed the policies,¹⁴ eliminated payroll taxes on earnings of less than €400 a month, encouraging the creation of low-paying, part-time work (or what Germans call ‘mini-jobs’). While the reforms probably ended up costing the ruling Social Democratic Party the next election, they gave employers an incentive to create lower paid (mini) jobs which at the same time ‘encouraged’ (or, perhaps, ‘coerced’) the unemployed to take them (Mitlacher, 2007). Fear of low benefits if you became unemployed, along with the threat of moving businesses abroad, combined to force German workers to accept very low wage increases.

German export manufacturers became comparatively efficient in areas such as machine tooling, chemicals and car production, which all generated vast trade surpluses that other peripheral Eurozone countries had been unable to compete with. Greece, for example, sucked in German exports that resulted in a massive domestic trade deficit (e.g. they were importing more than they were exporting). The gap was bridged by relying on financial borrowing from the likes of German and other European banks. Resting in German bank accounts, the surpluses accrued from wage repression at home were then recycled as loans across the wider Eurozone to governments. Yet when borrowing rates shot up in the aftermath of the 2008 Financial Crisis, debtor countries like Greece could no longer cover their repayments to core banks. To ensure payment, EU authorities, along with the International Monetary Fund, provided the Greek government with assistance loans to help repay the debt. In exchange, the Greeks were required to implement measures to get government spending down and boost competitiveness, including cuts in public sector wages, public sector employment, social welfare and state pensions alongside tax rises, privatisation and the reform of collective bargaining and employee dismissal laws. Similar dynamics have played out in other EU member countries, as core banking institutions have been protected at the expense of severe employment relations restructuring in peripheral states (for a review of ER reforms in these countries see Koukiadaki et al., 2016).

One final way we might consider the impact of financialisation is by returning to the aforementioned problem of stagnant wages as brought about by global capital mobility. It is sometimes forgotten that wages are not just as a cost, but are also a source of demand. Dampening wages can lead to a problem of unrealised demand: workers who get less, spend less. To resolve this problem, the credit economy became pretty important in plugging the gap between what labour was earning and what it could spend. Again, Lapavitsas (2012b: 34) argues that:

in financialised capitalism ordinary working people have come increasingly within the purview of the financial system...as social provision has retreated in the fields of housing, pensions, education and so on. To obtain basic goods...more individuals have been forced to rely on financial institutions.

This 'privatised Keynesianism', as Colin Crouch (2009) has termed it, meant that as real incomes of workers were not keeping pace with the cost of living, household debt financed much of their spending. Mortgage debt was and is a big chunk of this debt. But also as working families increasingly needed two cars to enable multiple members to do paid work, car loans became important components of household debt. But of course one person's debt is another's asset. The rise of indebted households provided employers and other finance speculators with a superb double opportunity. Imagine you are a General Motors executive in the United States in the 2000s. Not only are your workers' wages now suppressed for fear of losing their jobs to the Mexicans, but through your mortgage division you provide loans to these same workers who then pay you back from their stagnant wages, at a rate of interest. In some way workers, like investors, were engaging in speculative asset purchasing: houses became not so much a home to live in but an asset bought on cheap credit. More borrowing to buy homes increased demand for them and thus their prices. As prices rose, workers could refinance their homes and borrow more against the increased collateral their rising house values represented. And so the cycle continued, encouraged by government policies and large banks; that is, until it all collapsed of course.

Of related relevance is that employment relations within these banks and mortgage companies were often crucial to this dynamic: senior managers pushed their sales staff to sell more and more financial services or products to customers, with performance appraisal systems monitoring employee effort through the setting of sales targets. Customers in turn were encouraged by target-pressurised workers to take on loans, even if their suitability for such loans was dubious. Ultimately, the mortgage market, in countries like the United States, Spain, Britain and Ireland became particularly lucrative. In Ireland, for example, mortgage debt soared to as much as 180 per cent above the average wage during its Celtic Tiger boom years (McDonough and Dundon, 2010). In the United States the sub-prime market offered mortgages to workers on low and insecure incomes, which fuelled rising debt. Being high risk meant profits could be made if such workers managed to pay back their loans, but even if they failed banks could always repossess such homes whose values seemed in an inexorable

rise upward. It meant, for employers and speculators, profit could be made either way.

crises and cutbacks

The unfortunate yet inevitable fact with all bubbles is, of course, they burst. The particular problem at the heart of the mortgage frenzy of the 2000s was that the rising assets, say house prices, derived from the intense competition amongst lenders to lend. An increase in the inability of workers to pay back their loans would result in a glut of houses onto the market, generating unpaid debts and eventually leading to house (asset) price reductions. This is of course what happened. As the market began to collapse, global financial institutions went into crisis; some were forced into mergers to survive, some went bankrupt, whilst others deemed 'too big to fail' had to be bailed out, nationalised or have their bad loans guaranteed with taxpayers' money. As the now bad loans had been distributed across numerous institutional investors, lenders became defensive, no one would lend and the market for credit 'crunched'. Consumer confidence sagged, housing construction ceased, demand imploded, retail sales plunged, redundancies and unemployment surged, and stores and manufacturing plants closed down or workers were put on short time. General Motors, for example, was declared bankrupt, mostly because it had diverted revenue into finance ventures and suffered substantial losses in sub-prime mortgage investments (Rubery, 2015). To survive, employment restructuring and concession bargaining, alongside a generous government bailout, would become the norm at GM in the USA (and abroad). Having taken on the debts of the banking system, many governments around the world found it increasingly difficult to cope and meet their own obligations. In some cases, a combination of bank debt guarantees and bailouts alongside a recessionary decline in tax receipts and a rise in welfare support pushed many countries' national debt skyward. Government austerity and the curbing of public spending ensued with all that has meant for employment relations, both in the public *and* private sector (Hudson, 2015).

If of course you are reflecting critically on all this you might note that when economies crash, big employers and particularly big banks that get hit worst are provided with bailouts and stimuli. Indeed, citizens' bailouts of the financial system's bad loans in this period seem to have demonstrated the limits of 'neo-liberalism' as policy practice. In neo-liberal theory, reckless investments in a market system should be punished by losses to the lender; but governments, in practice, actually

made lenders relatively immune to such losses through a form of 'bad debt socialism'. While invariably designed to keep the financial system afloat and ensure credit, endeavours of this sort can actually be damaging to market discipline and market rationality by fostering 'moral hazard'. Thus financial investors, now too big to fail, realise that they will be bailed out come what may. If their debtors go bankrupt and cannot pay, national or supranational state power can be used to 'structurally adjust' said borrower until such time as they do cough up (if they ever do). Aside from the serious social dislocation such behaviours engender, it also encourages financiers to take on bigger risks than they might otherwise have done. As Philip Mirowski (2014) demonstrates, the roulette wheel at the casino spins on but only with the increasing risk of coming unstuck. Far from neo-liberal theory, such conditions might well suggest that actually existing capitalism is more akin to the rent-seeking activities of feudal barons.

At the same time business and large employers in the main tend to be averse to new taxes on them to pay for stimulus and bailout programmes. Governments that do raise taxes on business risk capital flight with all the inevitable consequences that has on tax receipts. So instead, governments turn to borrowing the necessary funds. Certainly, bailing out banks, other financial companies and selected corporations (in the auto industry for example) requires heavy borrowing. Yet those corporations, like insurance companies, mutual funds and large banks, used the money they saved by keeping governments from taxing them to provide the huge loans governments actually need. In contrast, the majority of middle- and lower-income workers lend little if anything to their governments, with transfers of incomes simply coming in the form of tax deductions from salaries and wages. Like the General Motors mortgage example earlier, corporations in this case substitute loans to the government instead of paying more in taxes. For those loans, governments pay interest. So government borrowing rewards corporations. Yet this arrangement raises a new problem. Where will governments find funds to both pay the interest on all the borrowing and pay back lenders the full sums borrowed? Government borrowing thus paradoxically becomes a problem for corporations who now worry that they might now see taxes hiked to help government pay back loans. In the face of a tax threat, employers threaten capital flight and investment strikes. Unable to tax corporations, austerity now becomes the alternative policy preferred by governments and of course some corporations. To reduce the deficit requires tax rises on workers incomes and government cuts to public sector employment, social services and welfare payments (Blyth, 2015). The money from those raised taxes and the savings from cuts is then used to pay interest on the national debt and reduce

it over time. One might be tempted to reflect cynically on this method of resolving economic crises. For all the complexity and jargon of financial economics, for the layman it can often seem that such strategies amounts to little else than shifting the burden of adjustment, whether in the form of a bailout or later austerity, onto the backs of middle- and lower-income workers (Wolff, 2013).

As the image in Exhibit Box 3.2 below illustrates, those workers, now squeezed by falling living standards and angry that the executives of bailout banks continue to go on being well rewarded, march out on protest where they are usually shepherded by a police force who themselves are victims of the new financialisation of capitalism.

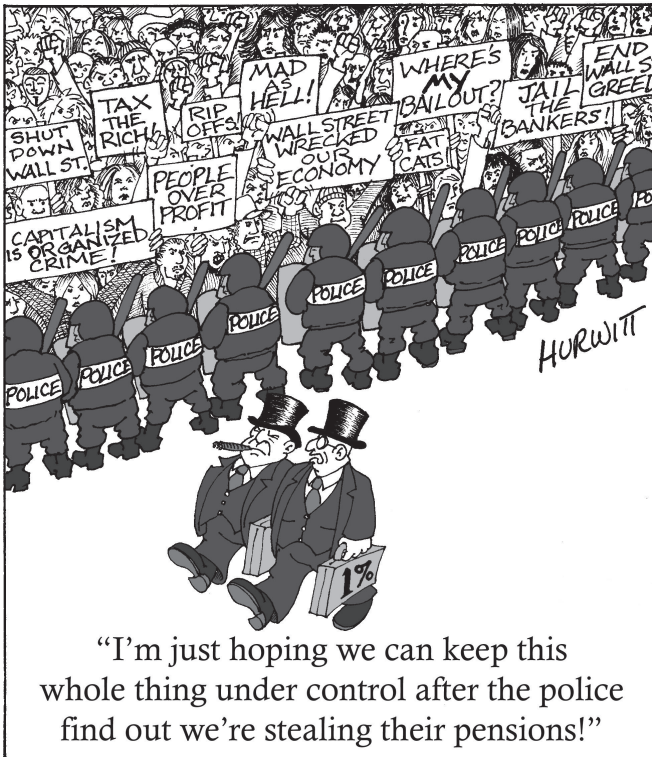


Exhibit Box 3.2 Financialisation and re-investment of public sector employee assets.

Credit: Mark Hurwitz, www.hurwitzgraphics.com

As also implied by the image, the most powerful, the chief architects of our global financial system, remain relatively unscathed by crises of their making and continue to be rewarded with high salaries and bonus payments. Perhaps this is because, as Gordon Gekko notes in the movie *Wall Street*, referring to himself and his class of financiers:

We make the rules, pal...We pick that rabbit out of the hat while everybody sits out there wondering how the hell we did it. Now, you're not naive enough to think we're living in a democracy, are you, buddy?

conclusion

So it is this context of casino-style speculation, crises and cutbacks that provides the dominant backdrop to contemporary employment relations in our times. Perhaps an overriding theme of our discussion is that ER are not hermetically sealed from the rest of the world's affairs. Although we have avoided discrete categorisations explicitly listing off how politics, law or markets act as environmental influences on employment relations, all of these influences nonetheless can be seen to permeate the considerations of this chapter. We have seen, at times through the eyes of Gordon Gekko, how the political economy of finance, debt and crises is intimately related to contemporary employment relations. In doing this we hope that you will take from our account that sometimes issues which appear to be remote from the academic concerns of employment relations, like say indebted households or the British chancellor's budget plans, can be quite central to the study of ER and work-related changes in an organisation or a society. Contrary to what some professional managerial associations might tell you, employment relations is a lot more than simply learning about the organisational-level employment relations processes that support organisational performance. Rather, ER is about society, politics and the economy, as well as inequality, ideology, power and privilege. Indeed in the pages that follow, it is these themes that will resurface.