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Review

Labor in the Age of Finance: Pensions, Politics, and Corporations from Deindustrialization to Dodd-Frank, by Sanford Jacoby (Princeton University Press, Princeton, NJ, 2021), pp. 368.

A whole issue of the *Economic Record* could be filled with reviews of books written on the modern era of financialisation. Many have focused on episodes where financialisaton brought crisis, such as the collapses of LTCM, Enron and 1MDB, the Global Financial Crisis, or the impact of lending to developing countries. Others have weaved financialisation into overviews of recent economic and political history. Some have described the major figures who influenced the course of financialisation, such as Greenspan and Soros.

An important part of the recent story of financialisation that, however, is yet to receive much attention is what happened to organised labour. This is the task taken up (for the United States) by Sanford Jacoby's excellent new book. Jacoby is Distinguished Research Professor at UCLA and one of the world's leading industrial relations scholars. In this, his latest work, he draws on his vast knowledge of unions and corporate governance to describe what took place when they met the present-day world of finance.

The book begins with overview of the main themes to be pursued. Following large declines in their membership in the 1970s–80s, unions were looking for new ways to recruit. Financialisation, and specifically bringing to bear influence via the pension funds which held their members' money, seemed to offer scope to do this. Unions could, for example, exert pressure on businesses that needed pension fund money to get them to allow organising drives for members. Financialisation also came to be seen as a way for unions to achieve broader objectives – such as influencing corporate governance and regulation of financial markets; and achieving social objectives. Unions did have some successes in seeking to use financialisation in these ways. However, as Jacoby makes clear, this was not a simple one-way story. Using pension assets became something of a Faustian bargain – with those same pension assets often supporting the activities of entities such as private equity which built their profits from laying off and reducing the wages of workforces of the companies they took over. As well, the impact of unions on government regulation was for the most part limited due to formidable opposition from the finance sector.

Chapter 1 provides an overview of the nexus between labour and finance from 1890 to 1980. One of the important roles of this chapter is to show how the way unions sought to use finance in the modern era was a natural outgrowth from developments in preceding decades – such as the use of corporate campaigns to achieve labour and social goals (e.g., the work of Ralph Nader to promote consumer safety); the deliberate application of pension funds to assist with local economic development intended to create extra union jobs; and using broader social goals (such as quality of care for hospital and aged care residents) to motivate the important role of unions.

Chapters 2 and 3 largely concentrate on how unions developed strategies that would allow them to use their influence within pension funds to increase membership. Jacoby details how the role of unions as an activist shareholder matched with (and indeed supported) a general shift to a view that the primary objective of a corporation should be to maximise shareholder value. Chapter 4 describes how, with the accession of John Sweeney to leadership of the AFL-CIO, the union movement devoted more of its resources to organising for members. It also increased its use of strategies based around financial markets with information campaigns playing an important role, for example, on executive pay and advice to pension funds on worker-friendly investment products.

Chapter 5 reports on the path by which unions came to take a stronger interest in regulation of financial markets. Labour had for the most part been silent on the Clinton reforms which substantially deregulated financial markets. This changed with the onset of financial scandals such as Enron and World.com, after which the union movement became a vocal critic of financial

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deregulation and sought to have a major voice in the design of new regulations (such as Sarbanes-Oxley). Chapters 6 and 7 are about the role of unions in campaigns for better corporate governance – especially for stronger regulation of executive pay; and to increase the power for shareholders to nominate and control selection of board members.

Chapter 8 describes unions' direct interactions with the finance sector: banks, private equity and hedge funds. Unions saw this sector as a potentially rich source of new members; and as a sector they could exert pressure to support their interests with businesses in other industries. As Jacoby reveals, this strategy worked to some extent. But it was also doing deals with the devil, as examples such as the long-term effects of the takeover of the aged residential care provider Manor Care by the private equity fund Carlyle Company amply demonstrate (pp. 180–83). Chapter 9 concludes the narrative with an account of the Global Financial Crisis and the enactment and subsequent shredding (through the implementation process) of Dodds-Frank.

Chapter 10 provides a summary and epilogue. As is the case throughout the book, there is a nice balance here between what unions achieved and where they fell short (p. 224):

> American unions became alchemists during the age of finance, seeking to transform the power of money into power for workers. The attempt bolstered the labor movement and brought a measure of corporate accountability. Organized labor, an institution whose origins lay in the nineteenth century, again had demonstrated an ability to adapt.The financial turn wasn't heroic. Rank-and-file members rarely participated. Pursuing worker interests through financial activism led to strange bedfellows and the messy compromises of real politik.

Labor in the Age of Finance has many features to recommend it. It is based on detailed research (as the 100 pages of notes and sources attest). It is highly readable, with a nice balance in its presentation of data, findings from previous research and illustrative episodes. What I most liked is that the book does such a great job of describing the history of unions and finance from 1980 to 2010 as it was – with all its messiness and complexity – yet at the same time it draws out so effectively the main threads that ran through that history and the direction they are pointing.

That direction can only be described as troubling. The growth and increased sophistication of financial markets has undoubtedly been important historically for economic development (e.g., Coggan, 2020, pp. 6–7). But the modern era has extended what happens in financial markets into activities where the contribution to social value is highly questionable (e.g., Kay, 2015). In developed countries, financialisation since the 1980s has not accompanied a phase of faster economic growth, has not brought greater macroeconomic stability or fewer financial crises and has been a source of substantially increased inequality (as well as contributing to a culture where there is a greater sense of the justness of inequality). In developing countries, it appears to have vastly expanded the scope for corruption and looting of national economies (for a case study, see Burgis, 2020). The dilemma, though, is that by allowing financialisation to occur, governments have created a powerful group of financial institutions which, motivated by private interest, thus far have been able to prevent any major winding back of their activities (Acemoglu & Robinson, 2013).

What then is to be done? Jacoby ends his book by arguing that unions can continue to play the role that they have in the past – generating and ensuring an equitable distribution of prosperity and therefore shoring up democracy – as long as they are given the right help. I agree with Jacoby that there is an important future role for unions to play, some of which will depend on governments making reforms that allow unions to play that role. But for that to happen, as well as other reforms to control the financial sector, a more fundamental change also seems to be needed.

That change is in the way we view the objectives of corporations. The modern corporation and the operation of financial markets have come to be built on the principle of shareholder primacy. As Jacoby describes, this view has underpinned financialisation and many of its problems. It is, however, just one possible view. In fact, seeing the corporation this way involved undoing an earlier view – which, as expressed by the Kaysen Committee in the US in the mid-1950s, regarded the corporation as having 'four broad responsibilities: to consumers, to employees, to stockholders, and to the general public. . .In any case, each group is on an equal footing; the function of management is to secure justice for all and unconditional maxima for none' (pp. 22–23).

Importantly, there is no scientific truth that says shareholder primacy is the right way to think about corporations. How we view corporations and financial markets is rather a matter of choice. The choice we make will then drive government policy and what happens in society. So how we choose to view corporations and financial markets is a matter of preference over the type of society we want.

Jacoby's book is an impressive and vital addition to the history of organised labour. By also getting readers to think about the question of what modern financialisation has wrought, it has much broader relevance. It deserves a wide readership.

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