Olivier GODECHOT, *Wages, Bonuses, and Appropriation of Profit in the Financial Industry. The Working Rich* (London/New York Routledge 2017)

The financialization of capitalist economies and growing top-end income inequality represent two of the most significant socio-economic transformations of our era. In recent years a growing literature in economic sociology, stratification studies, and political economy has explored the relationship between these phenomena at multiple levels of analysis [e.g. Kus 2013[1]; Lin and Tomaskovic-Devey 2013[2]; Alvarez 2015[3]; Godechot 2016[4]]. The most direct connection between financialization and inequality results from the high incomes accrued by financial sector workers, primarily in the form of headline-grabbing annual performance bonuses. These pay bonuses are the topic of Olivier Godechot's remarkable monograph *Wages, Bonuses, and Appropriation of Profit in the Financial Industry: The Working Rich* [Routledge 2017].

The Working Rich represents a substantially revised and updated English edition of Godechot's 2007 French book of the same title. It is a first-rate piece of economic sociology, and its publication should hopefully bring the work of this creative and methodologically versatile scholar to a wider English-reading audience. I suspect it will become a mainstay on sociology of finance syllabi, as well as an important reference on organizational dimensions of inequality.

Empirically, *The Working Rich* presents a comprehensive multi-method analysis of the production and distribution of bonuses in French banking firms. One of the great virtues of the study is its meso-level approach. Godechot goes beyond aggregate statistics and axiomatic "winner-take-all" theories to examine the underlying organizational mechanisms by which bankers are able to capture such outsized compensation. Godechot marshals a truly formidable amount

[1] Kus B., 2013. "Financialisation and Income Inequality in OECD Nations: 1995-2007", *The Economic and Social Review*, 43(4, Winter): 477-495.

[2] Lin, K.H. and D. Tomaskovic-Devey, 2013. "Financialization and US Income Inequality, 1970-2008", *American Journal of Sociology*, 118(5): 1284-1329.

[3] Alvarez, I., 2015. "Financialization, Non-Financial Corporations and Income Inequality: The Case of France", *Socio-Economic Review*, 13(3): 449-475.

[4] Godechot O., 2016. "Financialization is Marketization! A Study of the Respective Impacts of Various Dimensions of Financialization on the Increase in Global Inequality", *Sociological Science*, 3: 495-519.

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of original data collected over eighteen years [1997-2015]. This includes several rounds of fieldwork at three major French banks (including participant observation, interviews, internally enumerated surveys, and review of internal documents). To this he also adds more recent quantitative analyses of survey and administrative data. Although most of the interview material precedes the financial crisis and the imposition of new EU regulations on bonus pay in 2010 and 2013 (Capital Requirement Directives III & IV), the book does not feel dated. In fact, the older fieldwork within the French banks represents some of the most original and interesting aspects of the work, for reasons I elaborate below.

In order to understand what Godechot is doing here and why it matters, it is useful to consider the book's subtitle. "The Working Rich" gestures at an important paradox: financialization has heightened top-end income inequality throughout the advanced economies, but it has done so primarily through labor income rather than capital income. Earnings now account for a substantially greater share of income in the top 1 % and top 0.1 % than during previous "Gilded Ages." These high-earning persons are concentrated disproportionately in the financial sector. Indeed, the financial sector is anomalous in its high rate of profit, and its high pay levels. Across the majority of OECD countries, financial workers enjoy significantly greater compensation than similarly skilled workers in other industries [Lindley and McIntosh 2017[5]], a phenomenon which is often termed the financial wage premium. In the U.S., France, and the U.K., pay to finance industry workers accounts for one-third, one-half, and over two-thirds of the respective growth in each country's top 0.1 % income share over recent decades [Bakija, Cole, and Heim 2012[6]; Bell and Van Reenen 2015[7]; Godechot 2012[8]].

Godechot's goal in *The Working Rich* is to answer the difficult questions of "how?" and "why?". How are sectoral rents transformed into pay rents? Why are financial firm employees able to make such large claims on the firm's profits in the form of annual bonuses? His answer is somewhat complex, but ultimately compelling: he argues

[5] Lindley, J. and S. McIntosh, 2017. *Finance Sector Wage Growth and the Role of Human Capital*, Oxf Bull Econ Stat, 79: 570-591. DOI: 10.1111/obes.12155

[6] Bakija, J., A. Cole and B.T. Heim, 2012. *Jobs and Income Growth of Top Earners and the Causes of Changing Income Inequality: Evidence from US Tax Return Data,* Unpublished manuscript, Williams College.

[7] Bell B. and J. Van Reenen, 2014. "Bankers and their Bonuses", *The Economic Journal*, 124 (574).

[8] Godechot O., 2012. "Is Finance Responsible for the Rise in Wage Inequality In France?", *Socio-Economic Review,* 10 (3): 447-470.

that both the levels and distribution of bonuses emerge from a particular "regime of appropriation" whereby employees assert *de facto* property rights over key assets (e.g. products, trading strategies, client relationships). It is through their effective ownership and control of firm assets that employees can put themselves in a position to demand a share of firm profits.

Before unpacking the specifics of his argument, it is important to clarify the empirical basis for Godechot's analytical framework, which he details in the second and third chapters. Two main points stand out in my reading. First, bonus considerations represent a constant and omnipresent social fact in banking firms. A naive observer might suspect that the negotiation and calculation of bonuses would occur at the end of the fiscal year, after results are in and just before the payouts are made. In fact, the slow-pitched battle over the next year's bonus rages all year long, subject to never-ending maneuvers. Actors throughout the hierarchy are keenly aware of the distributional implications of any given action, and this lurks behind virtually every decision they make. As Godechot evocatively puts it, "bonuses are the centre of gravity around which not only the allocation of process itself revolves but essentially the bank's entire management system [46]". (The evidence he presents in later chapters confirms that this is hardly an exaggeration!) Methodologically, the centrality of pay politics implies that an analysis of bonuses is not easily separable from an analysis of the organization as a whole.

The second starting point is the idea that bonus allocation defies any simple *proximate* explanation. Nor does it adhere to any single dominant distribution principle. Godechot begins by showing how simple functional accounts (both folk and theoretical) fall apart rather quickly. For instance, the stylized notion that bonuses reflect efficient performance incentives or rewards for each individual's marginal contribution is undermined by the basic fact that variations in bonus levels are driven above all by fluctuations in global economic conditions—not fluctuations in individuals' relative performance. Moreover, the actual process of determining bonus distributions takes little account of individual-level variations at most stages. Key valuations and negotiations are made with reference to collective entities—divisions, departments, and teams. Only in the final stage, after most of the possible variation has been accounted for, do managers make specific decisions about the distribution to individual subordinates. Even then, operative logics of allocation and/or justification can take any number of forms, including both backwardlooking logics of reward, and forward-looking logics of retention. In short, there is no simple formula, no one-to-one correspondence between team performance, seniority, occupational prestige, intra-firm power and payouts. All of these things matter, but they are mediated through political struggles, strategic framing, labor market structure, claims-making about the production of value, collective negotiations about various teams' contributions, and a whole host of contested accounting maneuvers.

Having established both the centrality and complexity of the bonus distribution, Godechot turns to the core of his analysis. Here he sets about reconstructing the underlying social structure and power dynamics that create the conditions for appropriation. The basic insight here is that actors' ability to appropriate profit depends on their ability to assert a form of *de facto* ownership over the firms' productive assets (e.g. know-how, products, client relationships, etc.). He argues that the social organization of banks can be viewed in terms of an informal property rights regime: groups of employees establish and then exploit exclusive domain claims over portfolios, products, strategies, technologies, and clients. Traders and salespersons vigorously protect their assets, because monopolization means that they and only they can lay claim to the returns on these assets. Any activity or strategy that threatens to encroach on another desk's turf is considered a very rare act of war. As Godechot points out, the entire division of labor within financial firms is as much about managing internal competition as it is about functional efficiency [72].

Even more important than exclusivity, quasi-ownership grants holders the rights of transferability. By threatening to redeploy assets (e.g. by moving to another firm and taking one's team and client relationships), actors can gain advantage in intra-firm exchange relationships (including bonus negotiations). Asset ownership is not determinative of one's bonus amount, but it does form the basis of the power relationships from which employees seek to appropriate what they can.

Lest one think this notion of *de facto* asset ownership represents a heavy-handed theoretical imposition, it is worth noting that Godechot's respondents themselves speak of work roles using the language of property: a portfolio, product, or client relationship is alternately "conquered" (when new products, markets, and business lines are emerging), "created" (the strongest type of claim), or "inherited" (the weakest type of claim).

At its core, Godechot's asset ownership perspective is grounded in an organizational theory of power. However, it is worth acknowledging that this is a rather strange theory of organizational power. It requires us to consider employees at capitalist firms possessing effective ownership rights over the means of production. Many sociologists will find this incongruous at first glance. Indeed, it might come as little surprise that the theoretical basis of this ownership rights approach comes by way of institutional economics rather than organizational sociology (especially a 1998 paper by Rajan and Zingales[9] on property rights and power within the firm).

Despite the theory's conceptual idiosyncrasies, the more important point is that it succeeds in providing Godechot with a framework to explain several features of bonus pay and the organizational processes undergirding it. The significance of asset transferability comes into sharpest relief in the context of the external labor market (the focus of chapters 7-8). Godechot shows how employees wield negotiating power by threatening to decamp to other firms, taking their entire teams, client relationships, trading strategies, and other intangible know-how with them. Some job moves are driven by bonus considerations in a very direct manner. In one extreme example, Godechot recounts an incident where "Neptune Bank's" head of capital markets sought to impose a risk-adjustment formula on the collective bonus pool for a fifty-person trading team. The entire team responded by resigning *en masse* and relocating to "Mars Bank" [187]. Of course the loss of fifty traders imposes substantial replacement costs on the firm, highlighting how the collective organization of financial production in teams magnifies employees' bargaining power. Such threats of asset transfer can help explain the often weak link between individual performance and bonus pay. Even middling performers can extract millions of euros if their potential departure threatens to unravel a large team, and this can redound to the benefit of their subordinates as well (see chapter 6).

Godechot also uses the ownership perspective to shed light on inter-group stratification in the bonus pay system. Different occupational classes have access to very different assets with varying strength of ownership claims. In the middle chapters of the book, Godechot shows how these variations in ownership can account for patterns which might appear puzzling from a purely human capital perspective. One interesting example is the "middle-office" technical

[9] Rajan, R.G. and L. Zingales, 1998. "Power in a Theory of the Firm", *The Quarterly Journal of Economics*, 113 (2): 387-432.

positions. These so-called "quants" develop analytical tools and conduct the simulation modelling which undergirds much of the trading activity. Although quants possess high-demand skills which are increasingly crucial to banks' operations, their weak ownership claims place them at an enormous disadvantage in the bonus distribution. Whereas front-office operators "own" their assets, and back-office support staff "lease" their work, the technical specialists aspire to the former but typically end up in the same lot as the latter. Godechot elaborates this by treating the research and technical groups as "inventors" whose assets are akin to intellectual property. Intellectual property is notoriously difficult to maintain in the absence of strong patent or copyright protections, features which are notably absent from the reigning informal property rights regime in these banks. Inventors can sometimes gain power by rationing their transfer of specialized knowledge to traders and thereby breeding dependence. However, because they cannot retain stable control of their assets, their output ultimately tends to end up relegated to the status of a support service rather than that of an independent center of profit generation.

Conversely, several of Godechot's respondents perceived the functional importance of general salespersons to be declining as increasingly complex products and specialized client demands required greater participation by specialized sell-side analysts [108]. Yet salespersons were able to maintain larger bonuses on average because they retained effective ownership over the crucial asset of client relationships. Assets end up mattering more than human capital skills.

Although structural position in the production system has the greatest impact on groups' ownership claims and their consequent ability to appropriate profits, Godechot is careful to avoid any sort of reductionism. He emphasizes how asset values and their relationship to appropriation are both products of ongoing negotiations. Perhaps the most interesting negotiations are those between sales and trading—the two ostensibly co-equal front-office positions with the strongest claims over two most important types of assets (clients and products, respectively). These two socially distinct occupational groups interact in a mutually dependent yet frequently antagonistic relationship. On a day-to-day level this is manifested in occasional opportunistic exchanges, and in arguments over pricing, priorities, and who can lay claim to being the "true" profit center within the bank. Who is an accessory to whom? The answer to this question carries enormous implications for the bonus distribution, a battle that plays out in debates over the accounting methods by which profits on a given transaction should be allocated between the two departments. Even in cases where bank management imposes a formal accounting system intended to tamp down on the power struggles between sales and trading, the always looming bonus distribution leads social actors "to covertly restore an analytical accounting system that is considered more 'real' but also more contentious on a day-to-day level" [132].

The Working Rich also carries broader implications for the sociology of finance beyond its immediate explanatory focus. Studies of financiers often mention bonuses in passing as a currency of status, but rarely do they consider how the reigning pay system might affect other domains of action. Godechot's findings highlight the need to avoid treating the bonus system as a self-contained, *ex post* allocation of rewards. Rather it should be understood as an ongoing game in which actors are maneuvering in real time even as they pursue day-to-day goals. Pay politics can inflect even the most seemingly mundane exchanges. The implication is that sociological studies of financial trading, strategy, and technology all ought to be more attentive to how bonus considerations are shaping behaviors and outcomes across these seemingly disconnected activities.

Finally, no review would be complete without a few critiques. I conclude by noting two missing strands in Godechot's analysis.

First, Godechot tends to equate finance with banking, and the working rich with bankers. Increasingly, however, the financial working rich operate in non-bank organizations, including hedge funds and private equity firms. Pay levels in these organizations often rival or exceed those in the large banks, especially in the U.S. Non-bank forms admittedly played a less prominent role during the period of Godechot's fieldwork, but they had already started to appear in his discussion of the financial labor market insofar as hedge funds represent an ever-present exit option for many traders. Given his attentiveness to organizational dynamics, it is surprising that Godechot does not discuss the shifting organizational locus of financial activity in greater detail. Does increasing organizational diversity further entrench the reigning regime of appropriation in banks, or does it begin to destabilize it in some way? The issue of organizational heterogeneity becomes even more salient in the aftermath of the 2013 EU bonus caps insofar as the regulations only apply to large banks.

Second, the analysis would benefit from more fully situating the financial industry with respect to pay systems in other industries.

Godechot provides a very convincing explanation for patterns of appropriation *within* banking, but a basic puzzle remains: why are financial employees able to extract such large pay rents compared to employees in other high-profit industries? Of all the organizational factors he uncovers, which critical features differentiate banks? I suspect that Godechot's asset ownership perspective offers a promising explanatory framework to address this question. Of course it would be unreasonable to expect this already ambitious research project to also include a full cross-industry comparative analysis. Nonetheless some additional discussion of these parameters could help us gain a better tentative understanding of why the working rich are so concentrated in finance.

Neither of the above omissions should be seen as flaws so much as sources of lingering questions. Like any provocative scholarship, *The Working Rich* opens up plenty of new ground for future research.

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