

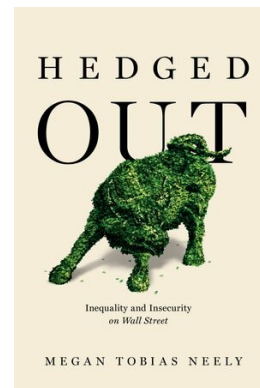
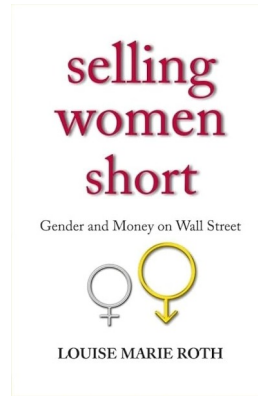
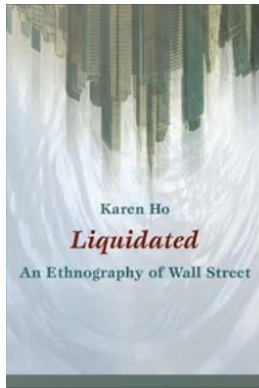
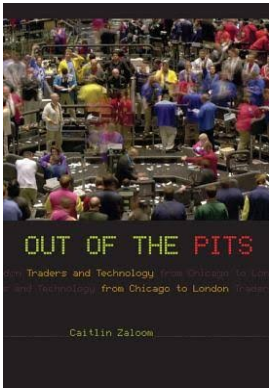
Sociology and political economy of financial markets
Lecture 3. Endogenous and exogenous
hierarchies in the financial markets

Olivier Godechot, Matthias Thiemann

Diverse source of hierarchization

- Exogenous

- Remotivation/reinvention of classical categorization
- Gender => Roth, Neely (2022)
- Bodies in traditional pits (Zaloom, 2006)
- Human capital as a symbolic barrier (Ho, 2009)



- Endogenous

- Organization of work in finance creates categories that are both cognitive and social (Mauss, Durkheim)
 - Front/back ; Trader/Sales persons
 - Efficacy => explains how financial markets work
- Bonuses in Finance → Godechot, 2017
 - How endogenous appropriation of assets (capital accumulation) creates hierarchy.

Overwork in Finance

Schœnberger, François. 2022. “Sacrifier sa vie pour le travail? Les ressorts paradoxaux de l’engagement dans le métier de banquier d’affaires” *Genèses* 126(1): 102-124.

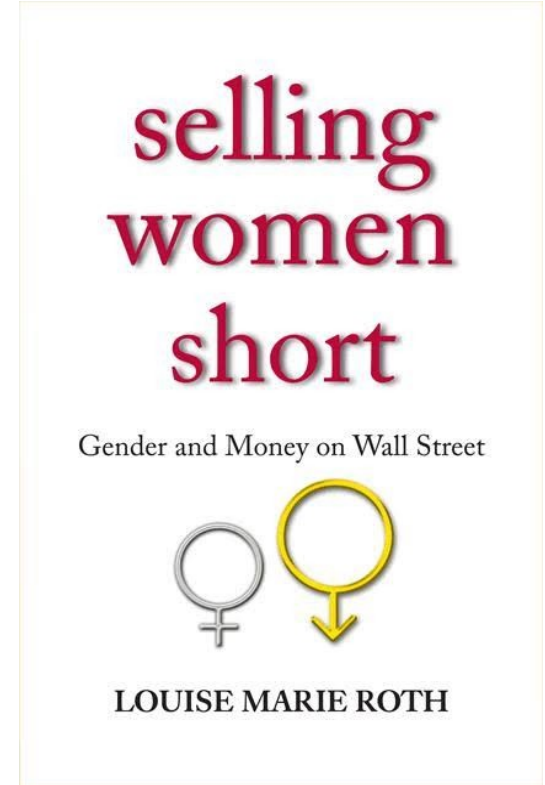
Schœnberger, François. 2022. “Giving up a life for a job?” *Genèses* 126(1): 102-124. DeepL © translation of Schœnberger, François. 2022. “Sacrifier sa vie pour le travail?.” *Genèses* 126(1): 102-124.

Discriminations in finance

The Gender issue

Gender issue in Finance

- Louise-Marie Roth, 2006, *Selling women short*
- Context :
 - Numerous cases of gender in Wall Street and in the City in the 1990s
- Nevertheless, Wall Street is still accused of discriminatory practices against women and minorities
- Wall Street could be viewed as the kingdom of pure economics with the pay to performance device
- Comparison of 76 males and females that started their career in Wall Street in the 1990s.
- Conclusions of the book
 - Women get less paid
 - But are in the less lucrative careers, are less promoted and are excluded of the worthiest deals



A case of discrimination

- Schroeder vs Bower: Case the largest compensation for sexual discrimination in London in early 2000s.
 - Woman, Analyst, 40, mother of a child sick in 2000 (cancer)
 - In 1999, £ 25,000 bonus after £ 125,000 in 1998.
 - Two of her colleagues got the same year, respectively, 650,000 and 450,000 pounds.
 - After complaining of discriminatory treatment in her business, she is dismissed and maligned on its labor market.
 - Trial obtaining £ 1,4 million.
 - Trial reveals that the chief had suddenly become "sarcastic and threatening" when she first complained about her bonus
 - Ranked 37th out of 67 analysts and not last as explained by its chief
- Interpretation: bad year for Schroeder. To save some bonus tops, compression bonuses least likely to defect people.

The gender gap

- A well designed sample
 - Students from the 5 most prestigious MBA in finance, graduating between 1991-1993
 - A sample designed to control for differences in human capital and of aspiration
 - A questionnaire in 1998-1999
 - 44 females (oversampled)
 - 32 males
 - Both quantitative and qualitative questions
- Wage differences
 - Males: 566 111 \$
 - Females: 342 743 \$ (-39.5%)
 - Much larger than in US society : -25%
- Log of wages explained with
 - Human capital and family variables:
 - -39.3% ($=1-\exp(-0.5)$)
 - Organizational measures
 - -28.8% ($=1-\exp(-0.34)$)

TABLE 2: Human Capital and Segregation OLS Regression Estimates

	Human Capital	Full Model
Background characteristics		
Gender	-.5*** (.15)	-.34* (.15)
Married	.31 (.18)	.22 (.17)
Children	-.09 (.18)	-.08 (.18)
Human capital		
Economics/finance/accounting major	.44* (.17)	.27 (.14)
Mathematics/engineering major	.32 (.21)	—
Previous experience	.23 (.14)	—
Ln(hours per week)	1.17* (.45)	.90 (.48)
Segregation measures		
Corporate finance	—	.55* (.24)
Sales and trading	—	.74** (.26)
Public finance	—	.21 (.34)
Equity research	—	.54 (.28)
Asset management	—	.36 (.26)
Organizational measures		
Vice president	—	.36* (.15)
Above vice president	—	.61* (.25)
Top firm in 1997	—	.41* (.20)
Constant	7.71*** (1.83)	7.94*** (1.96)
R ²	.41	.54
Adjusted R ²	.34	.43
N	68	68

Note: Numbers in parentheses are standard errors. All numbers are rounded to two decimal places.

* p < .05 ** p < .001 *** p < .001 (two-tailed)

Elements of comparison.
French bank (Godechot, 2011)

- Female malus:
 - Fixed wages : -11%
 - Bonus: -59%
 - Total: -31%
- Introducing controls for job specialty:
 - Fixed wages : -7%
 - Bonus: -47%
 - Total: -21%

Tableau 3
Modélisation des salaires par les moindres carrés ordinaires

	Log du salaire total 1998	Log du salaire fixe 1998	Log du bonus 1998
Constante	8,8 *** (0,39)	9,21 *** (0,15)	5,05 *** (0,82)
BEP/CAP	- 0,059 (0,099)	- 0,08 * (0,038)	- 0,16 (0,21)
Bac/bac + 2	0 (référence)	0 (référence)	0 (référence)
Bac + 3/bac + 4	0,35 *** (0,1)	0,24 *** (0,04)	0,72 *** (0,22)
Bac + 5	0,41 *** (0,09)	0,32 *** (0,04)	0,81 *** (0,2)
Doctorat	0,6 ** (0,21)	0,29 *** (0,08)	1,54 *** (0,45)
École de commerce de rang B	0,35 *** (0,1)	0,32 *** (0,04)	0,7 *** (0,2)
École de commerce de rang A	0,6 *** (0,09)	0,44 *** (0,04)	1,11 *** (0,2)
École d'ingénieurs de rang B	0,38 *** (0,11)	0,34 *** (0,04)	0,68 ** (0,23)
École d'ingénieurs de rang A	0,96 *** (0,1)	0,51 *** (0,04)	1,79 *** (0,21)
Inconnu	0,53 *** (0,09)	0,4 *** (0,03)	0,86 *** (0,19)
Homme	0,38 *** (0,04)	0,12 *** (0,01)	0,91 *** (0,08)
Âge	0,17 *** (0,02)	0,14 *** (0,01)	0,26 *** (0,04)
Âge au carré	- 0,001 9 *** (0,000 3)	- 0,001 3 *** (0,000 1)	- 0,003 3 *** (0,000 5)
Ancienneté	0,001 9 (0,008)	- 0,004 5 (0,003 1)	0,02 (0,017)
Ancienneté au carré	- 0,000 15 (0,000 22)	0,000 030 (0,000 085)	- 0,000 54 (0,000 46)

Making the team

- Chapter 4
 - A macho environment hostile to women
 - Women handicapped as a minority
 - Homophily shape networks, opportunities, careers and trajectories
 - Stereotypes on the lack of skills
 - Women face double standards

Wall street machism (1)

- Many story about Wall Street sexism
- 32% of female interviewed declare facing some discrimination
- A very masculine area, with high wages and quite hostile to women
 - Strippers
- But also unintentional and unconscious discriminations

When I was on the trading floor, someone did actually sort of sexually harass me. I was working on the equity floor. . . . I was sitting in a chair, and when I got up he bent down and smelled my chair. And then he made this joke about how he wanted to—I don't remember, but I remember hearing him say something really crude.

Outsiders in Wall Street firms

- Sabrina, african-american
 - Recruited as a research analyst in a Wall Street firm
 - Some skills but no previous experience in the sector
 - No help from the firm, from the manager
 - A firm not opened to neither minorities nor women
 - Finally quits for a job with lower wage and status
 - “She planned to work as a consultant to financial services firms in a capacity where her skills and expertise would be more important than relationships with and evaluations of peers.”
 - Female minorities (intersectionality) inform us well of problems met by outsiders, either female or minorities

When you walk up on your secretary and she's telling “nigger nigger” jokes in your face, to your coworkers, how do you deal with that? What do you say? “I'm going to give up all of this money because my feelings are hurt.” Because I know the secretaries always put my work at the bottom of the pile because they know I don't have any power here. . . . In the firm that I was at, it was against women as well. It was not friendly to women at all. Not friendly to minorities. Some firms have more of a reputation for being more friendly to women. This was not one of them.

Concentration in lower stratus of the market

- Concentration of females
 - In team less profitable
 - With clients less valuable
 - Lower performance
- Which leads to evaluations that are less favorable

Women has to be twice as good as men

- Stereotypes against women skills
 - Female supposed not to be good in business, money dealing,
 - mathematics,
- Male are much more trusted
 - *Around here, if you're liked, you don't have to be a star performer to get ahead as a guy, whereas as a woman, it doesn't matter whether they like you or not, they base it more on your performance*
- ==> Female have to meet higher standards

First of all, clients always assume that I'm a junior person on the team. Always. Even clients who know me, if there's a new analyst,¹⁸ a male analyst, they will assume he is senior to me. Always. People here automatically assume that women are dumb. Dumber than men [and] not as insightful, which is very often not true. Very of-

cause it was all finance. I graduated at the top of my class at this place. I get a job at the most quantitative product on Wall Street and this jerk in corporate finance asks, "Are you comfortable with numbers?"

The double standards

- In business contradiction between stereotypes associated to male roles and to female roles
 - Male roles are viewed as “agentic” => oriented to action
 - Female roles are viewed as “communal” => devotion to others
 - Double standards
 - Female are both judged on “male” and “female” stereotypes
 - If too “business oriented”, contradict the feminine image
 - If too “feminine”, not enough business oriented
 - Viewed as “Psycho bitch”

handholding and more of that. . . . That was the thing that killed me. I'm like, “Oh my gosh! Be softer!” Of all the things I would have thought they would say, that would probably have been the last thing. But I think that—if you're a man that's the way you should be, but [as a woman] you're supposed to be nicer.

times—I'll talk firmly to an analyst and say, “I need these numbers by this time. And you better proof it. And I want it right and formatted.” That will come back to me that I was being a “bitch.” I'll get a call from the staffer that says, “You can't talk like that.” Whereas a guy, my officemate, would say to some guy—same guy—“You know, you're such an asshole. How can you be so stupid? Don't you know this is how you do this? And don't come back into my office until it's right.” And that doesn't warrant a phone call. It's a

Scope and limits of the books

- Gender discrimination is very visible
 - Stereotypes
 - Homophile networks mechanism
 - Double standards
- A hostile world approach
- Not seeing people playing with gender roles

Prolongation diploma and gender favoritism

Favoritism

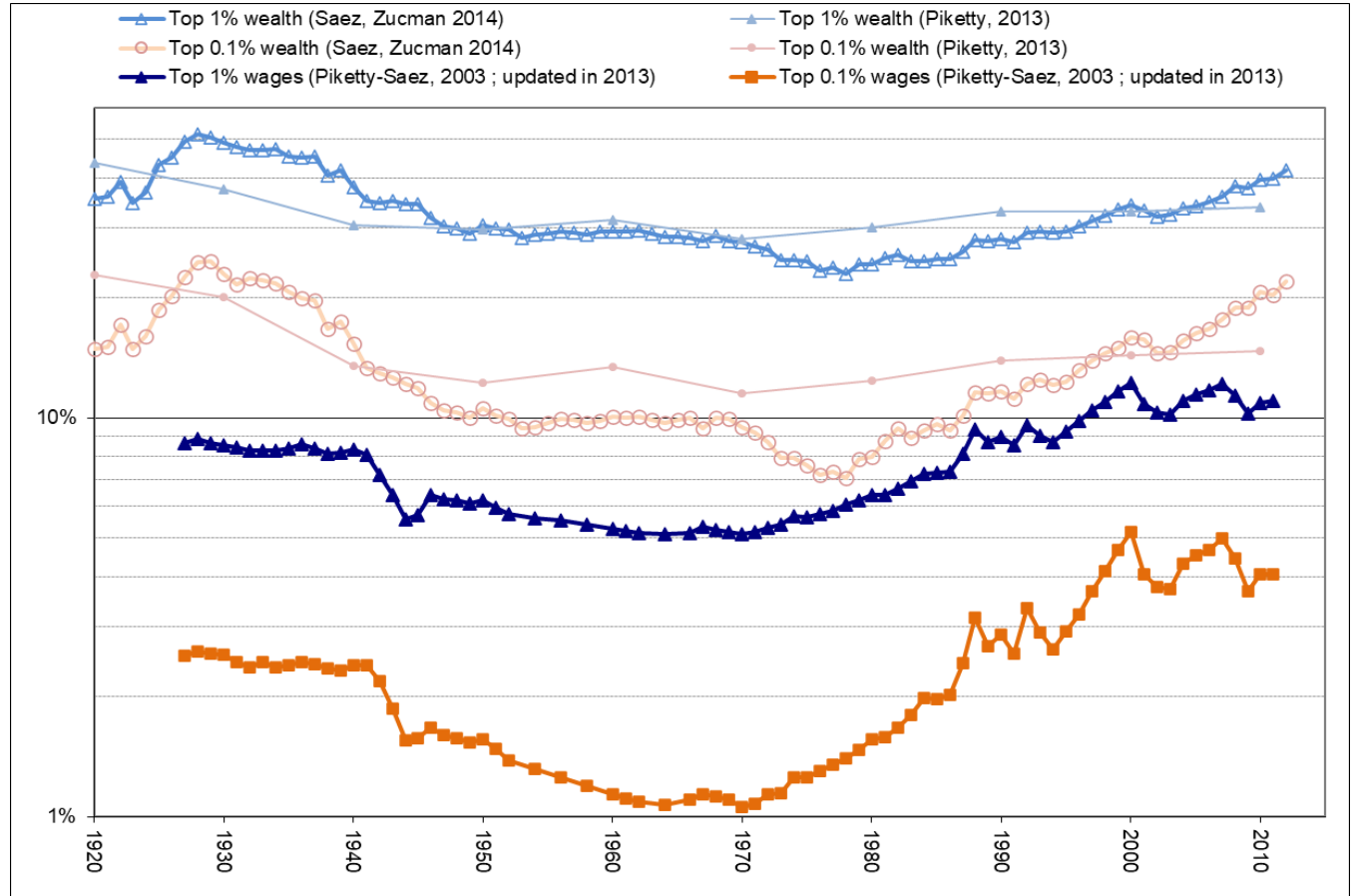
Variables (n=1280)		DF	Log of bonuses (R2=74%)		Log of total compensation (R2=76%)			
			F	Parameters (standard- estimates)	F	Parameters (standard- estimates)		
Age (quadratic)		2	35,3	**		6,9	**	
Seniority (quadratic)		2	1,3			1,9		
Diploma		9	2,8	**		5,4	***	
Collective convention classes		6	58,2	***		80,0	***	
Jobs		20	64,9	***		82,1	***	
Diploma proximity to supervisor	a) Similar diploma of top ranked school (3,5%)	3	1,2	0,204 (0,147)	2,5	*	0,134 (0,065)	+
	b) Similar type of school (4,5%)			-0,036 (0,111)			-0,016 (0,049)	
	c) Other cases(92%)			-0,006 (0,009)			-0,004 (0,004)	
Gender similarity with supervisor	d) Male with male supervisor (54%)	4	9,2	0,093 (0,026)	5,1	**	0,036 (0,012)	++
	e) Female with male supervisor(28%)			-0,222 (0,043)			-0,073 (0,019)	---
	f) Male with female supervisor (9%)			0,142 (0,086)			0,019 (0,038)	+
	g) Female with female supervisor(9%)			-0,001 (0,084)			-0,008 (0,037)	
			F	Proba	F	Proba		
Tests on favoritism	« Esprit de corps » (test a-b=0)		2,3		0,1317	4,6	*	0,0328
	Male supervisor for one sex (test d-e=0)		24,2	***	<0,0001	14,9	***	0,0001
	Female supervisor for one sex (test f-g=0)		1,4		0,2391	0,3		0,6141

Bonus and Wages in Finance and its Contribution to Global Inequality

What is the main shift?

Return of wealth or appearance of Working Rich

- Piketty I (2001, 2003). Rise in income inequality main concern
 - => Working Rich
- Piketty II (2014). Return of wealth inequality
- 1970-2010 US
 - Top 0.1%'s share of wealth: *2.3
 - Top 0.1% of wages: *3.9



Working rich

- Working rich is a striking phenomenon of contemporary capitalism
- Not just CEOs and football players
- Finance could be a good observatory
- Informs us on the key mechanisms of organizational power/exploitation

The return of inequalities (in social sciences)

- Persisting or growing inequalities & social-liberal consensus
 - a) Natural inequalities (disabled/normal)
 - b) Socio-cultural inequalities (deprived /privileged backgrounds)
 - inequalities that can be compensated
 - c) Inequalities at work
 - Consequence of the two previous types of inequalities
 - Labor market is neutral
 - Ex: Skill-biased technology
- Studying finance (with its extreme wage)... enables to think the wage-labor exchange show how labor market generates *per se* inequality

Thinking sudden increases in fortune

- Sudden increases in fortune (wealth/income) within a free exchange are intriguing:
 - Goes against the exchange of equivalent against equivalent (C-M-C circulation)
 - Even in neoclassical market approach due to something priced in the exchange (talent, quantity of work)
 - Power is not *per se* a good explanation
 - Tautological, fuzzy (Williamson)
 - More a result than a cause
 - What's at the origin of power?

From ownership to power

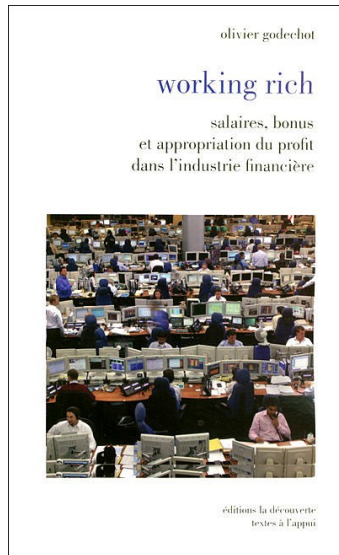
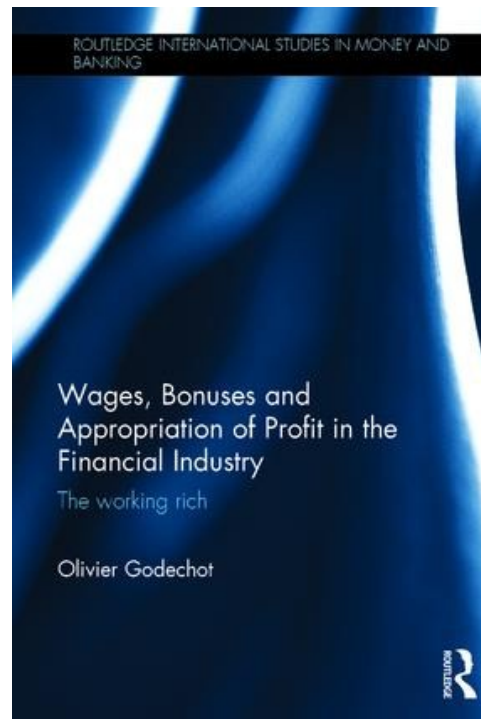
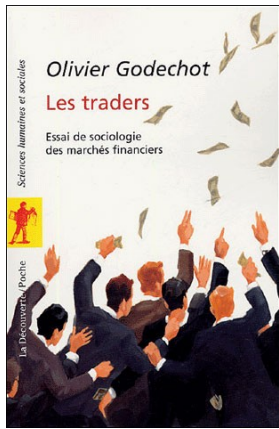
- Marx property-exploitation framework
 - Capitalist free exchange of work against wage is not an exchange of equivalent against equivalent
 - « Mystery » of surplus value: work produces more commodities than necessary for work's reproduction
 - This free and unequal exchange takes place in a special property relation: separation of capital (property of the capitalists) and labor power (property of the workers)
- Bourdieu capital-domination framework
 - Competition in a field between entities with various amounts and structure of capital
 - Possession of capital leads to domination effects (profits)
 - Dominants set the price (both economic and symbolic) of the exchange goods at their advantage (valuation and devaluation)
 - Imperfect competition mechanism

Extending the property-power framework

- Inequality mechanisms within a free market
 - People are not *per se* bound to unequal exchange due to some external constraint
 - Even when we have normal forms of competition
- “Capital” should not be taken for granted
 - Underlying appropriation
 - Has a symbolic dimension (mine/yours)
- Extension of the notion of property right out of its original sphere
 - informal property rights on assets of the firm
 - Customers, knowledge, know-how, social capital
 - Not necessarily full and complete.

Combining claims of legitimacy and trials of force

- Legitimacy claims on the fruits
 - Beliefs on how profit should be shared
 - Who deserve what?
 - Based on property rights on the assets
- Trials of force (Boltanski & Thévenot, 1990)
 - How to impose a share when legitimacy claims are not sufficient?
 - Threatening of moving the key assets they have appropriated
 - Hold-up framework (*à la* Williamson) but not completely avoidable through organization design



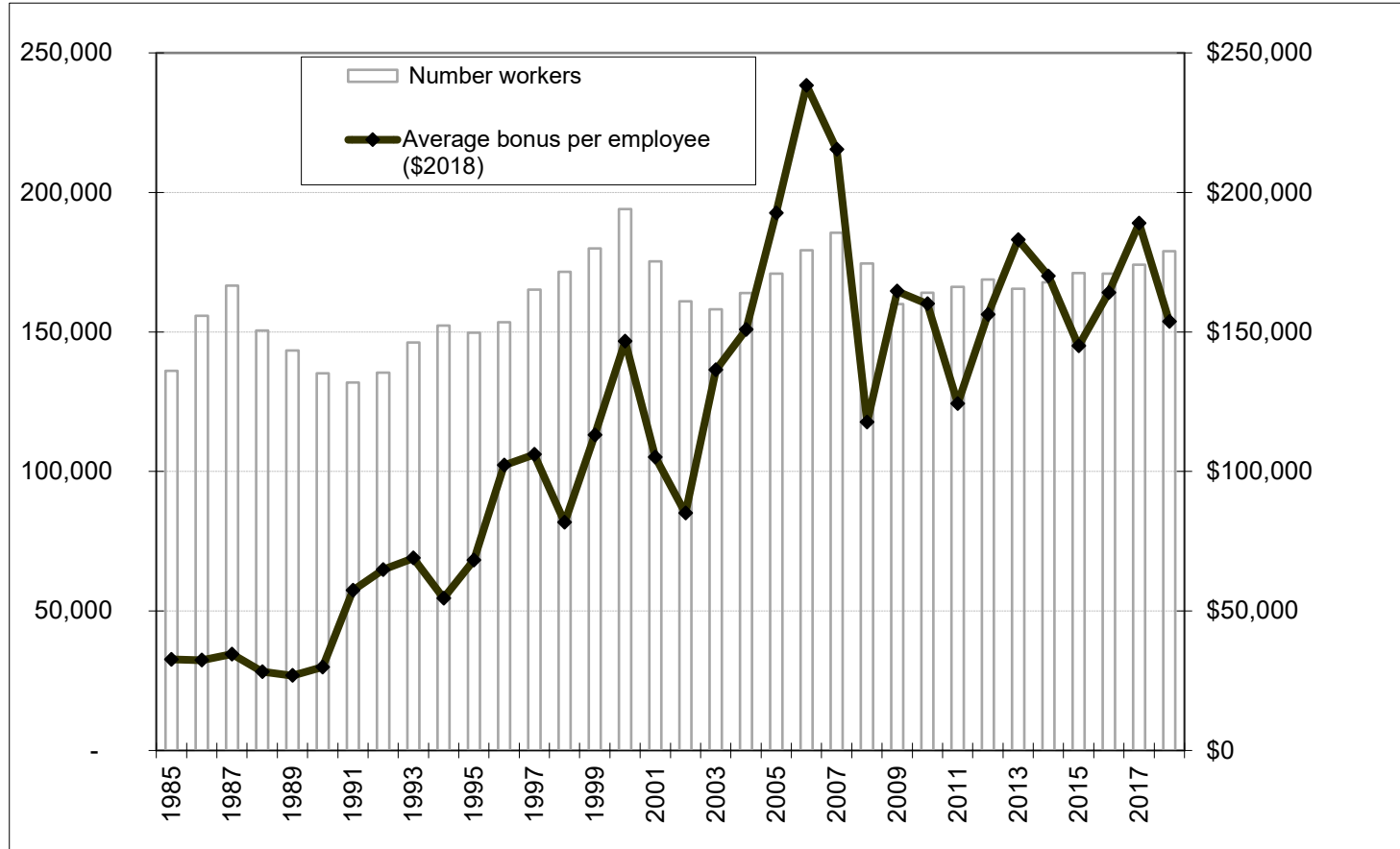
Several years of research

- Godechot, 2017, Wages, Bonuses and Appropriation of Profit in the Financial Industry. The Working Rich, Routledge.
 - _ Fieldwork 2000-2002
 - _ Compensation in Paris financial industry
 - _ Short insights from London.
- Godechot, 2016, « Financialization is Marketization ! A Study on the Respective Impact of Various Dimensions of Financialization on the Increase in Global Inequality », Sociological Science, vol. 3, p. 495-519.
- Godechot, 2014, « Getting a Job in Finance-The Strength of Collaboration Ties », European Journal of Sociology, vol. 55, n°1, p. 25-56.
- Godechot, 2011, « Le capital humain et les incitations sont-ils les deux mamelles des salaires dans la finance ? », Revue d'économie financière, n°104, p. 145-164.
- Godechot, 2008, « “Hold-up” in finance: the conditions of possibility for high bonuses in the financial industry », Revue française de sociologie, vol. 49, Supplement Annual English Edition, p. 95-123.
- Godechot, Neumann et al., 2022, Ups and Downs in Finance, Ups without Downs in Inequality, SER
- Godechot, Return to Team Moves, work in progress.

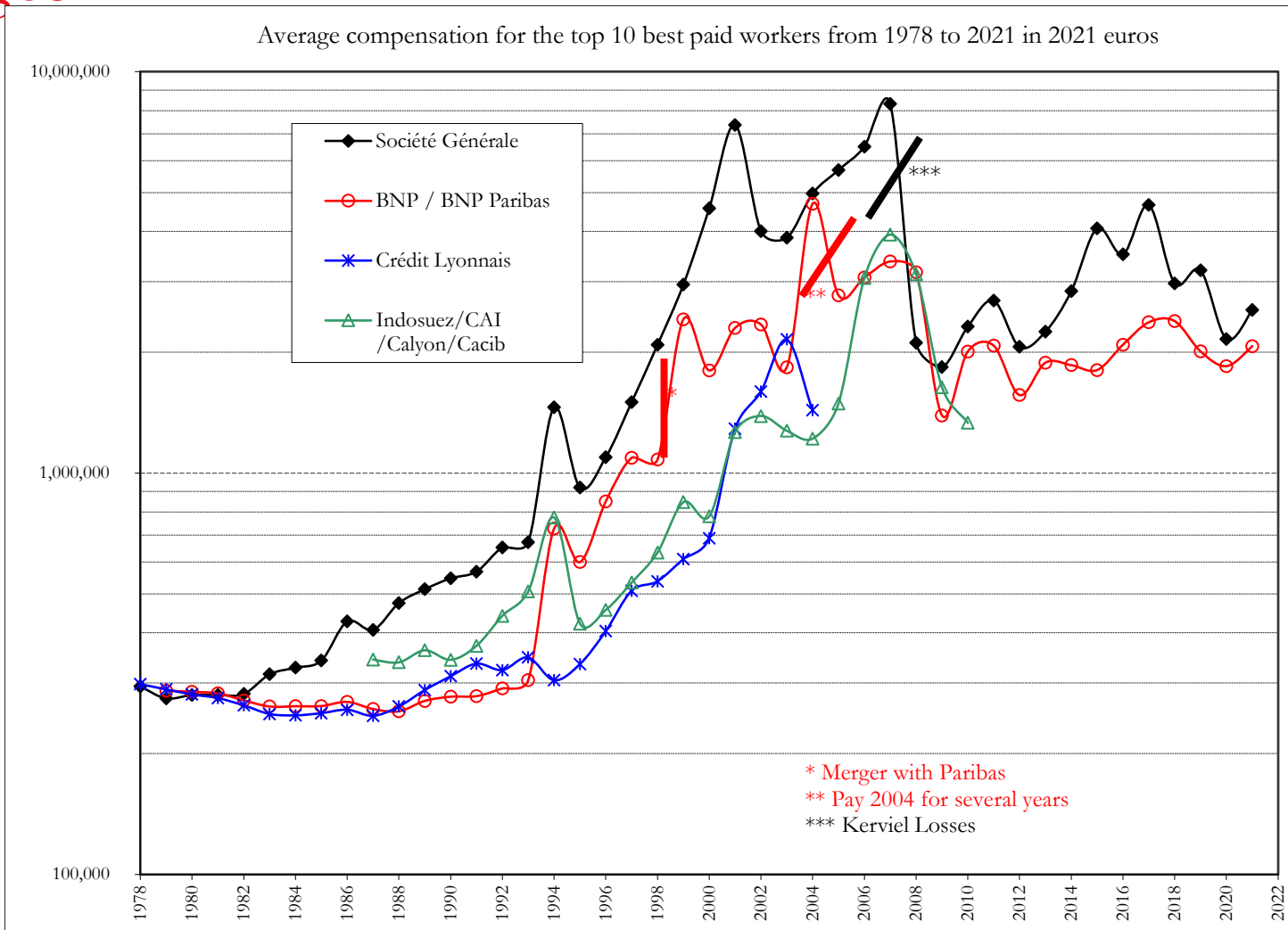
1. Finance and Inequality

From local to global

Head count and average bonuses in New-York

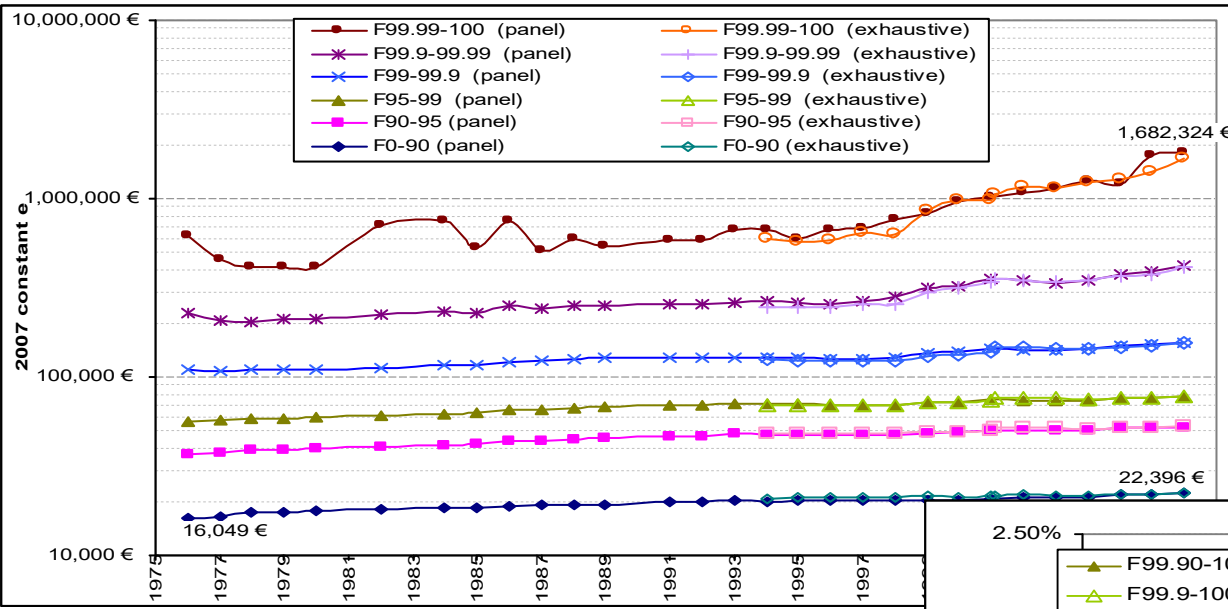


France: high wages sky-rocketing

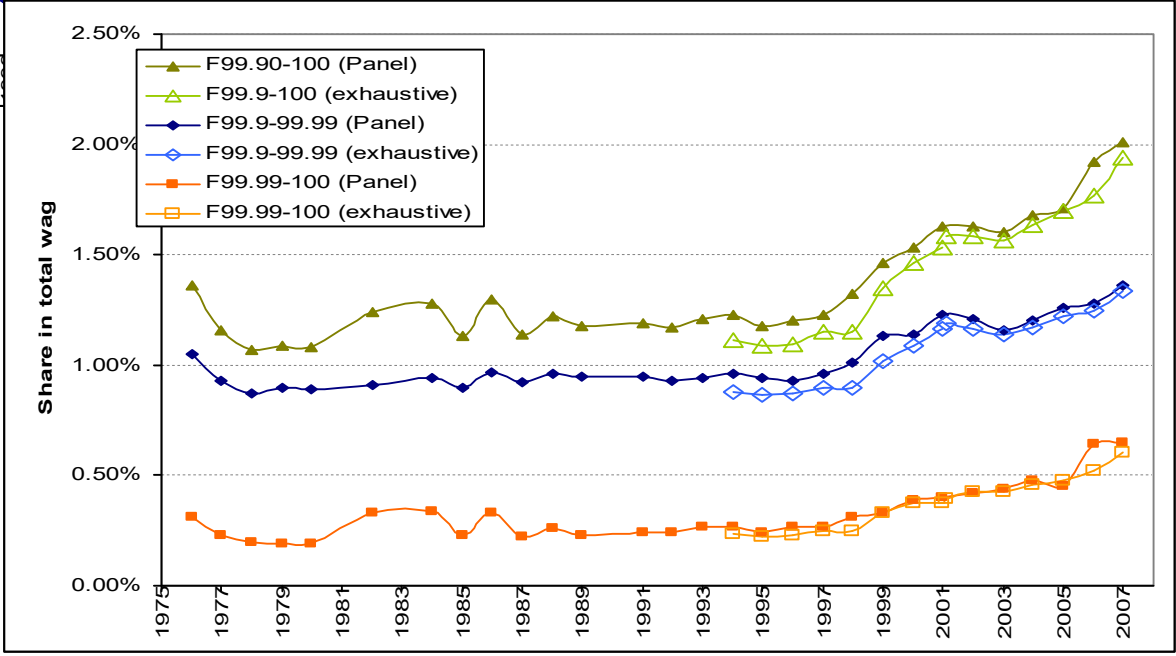


Wage inequality in France

Increase at the top

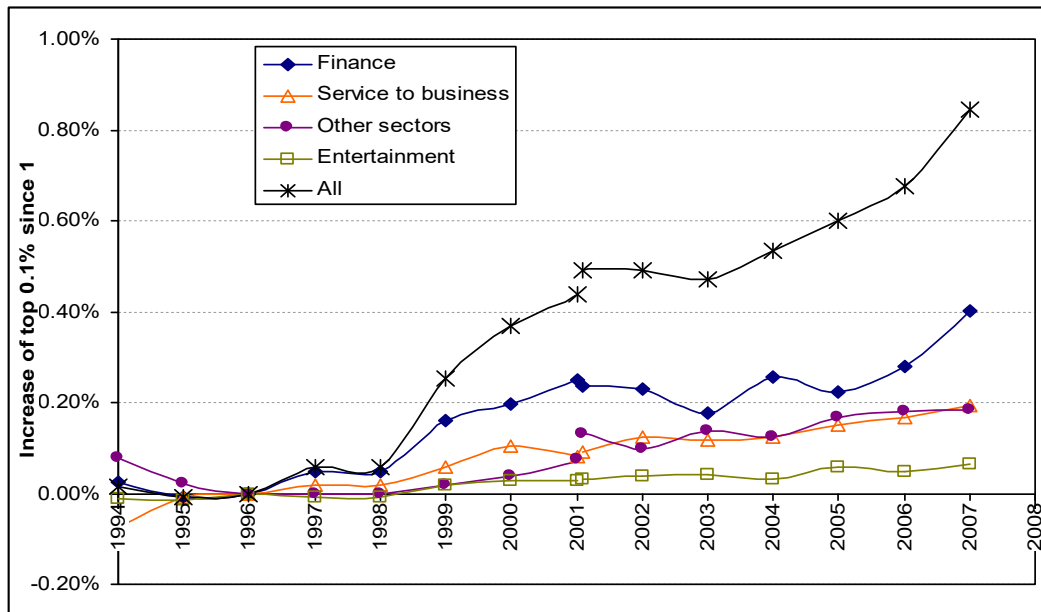


Godechot, Olivier. 2012. "Is finance responsible for the rise in wage inequality in France?." *Socio-Economic Review*.



Finance as the main suspect

- Sector decomposition of wage & income inequality
 - 1/6 to 1/3 of the rise income inequality in United-States (Philippon and Reshef 2012; Bakija, Cole, and Heim 2010)
 - 1/2 in France (Godechot 2012)
 - 2/3 in UK (Bell and Van Reenen 2013)



		Top 10%	Top 1%	Top 0.1%	Top 0.01%
France Panel	Share in 1996	26.45%	5.74%	1.20%	0.27%
	Share in 2007	27.74%	7.06%	2.01%	0.65%
	Increase in the share	1.29%	1.32%	0.81%	0.38%
	Contribution of finance to this increase	51%	47%	57%	69%
France Exhaustive files	Share in 1996	25.67%	5.43%	1.10%	0.23%
	Share in 2007	27.70%	6.97%	1.95%	0.60%
	Increase in the share	2.03%	1.54%	0.85%	0.38%
	Contribution of finance to this increase	33%	39%	48%	57%
UK 1998-2008 (Bell and Van Reenen, 2010, Table 3 - ASHE)	Increase in the share	3.00%	1.80%	-	-
	Contribution of finance to this increase	73%	72%	-	-
US 1997-2005 (Bakija et alii, 2010, Table 5 & 6)	Increase in the share		2.54%	1.65%	
	Contribution of finance to this increase		32%	31%	

Contribution of finance to top 1% increase

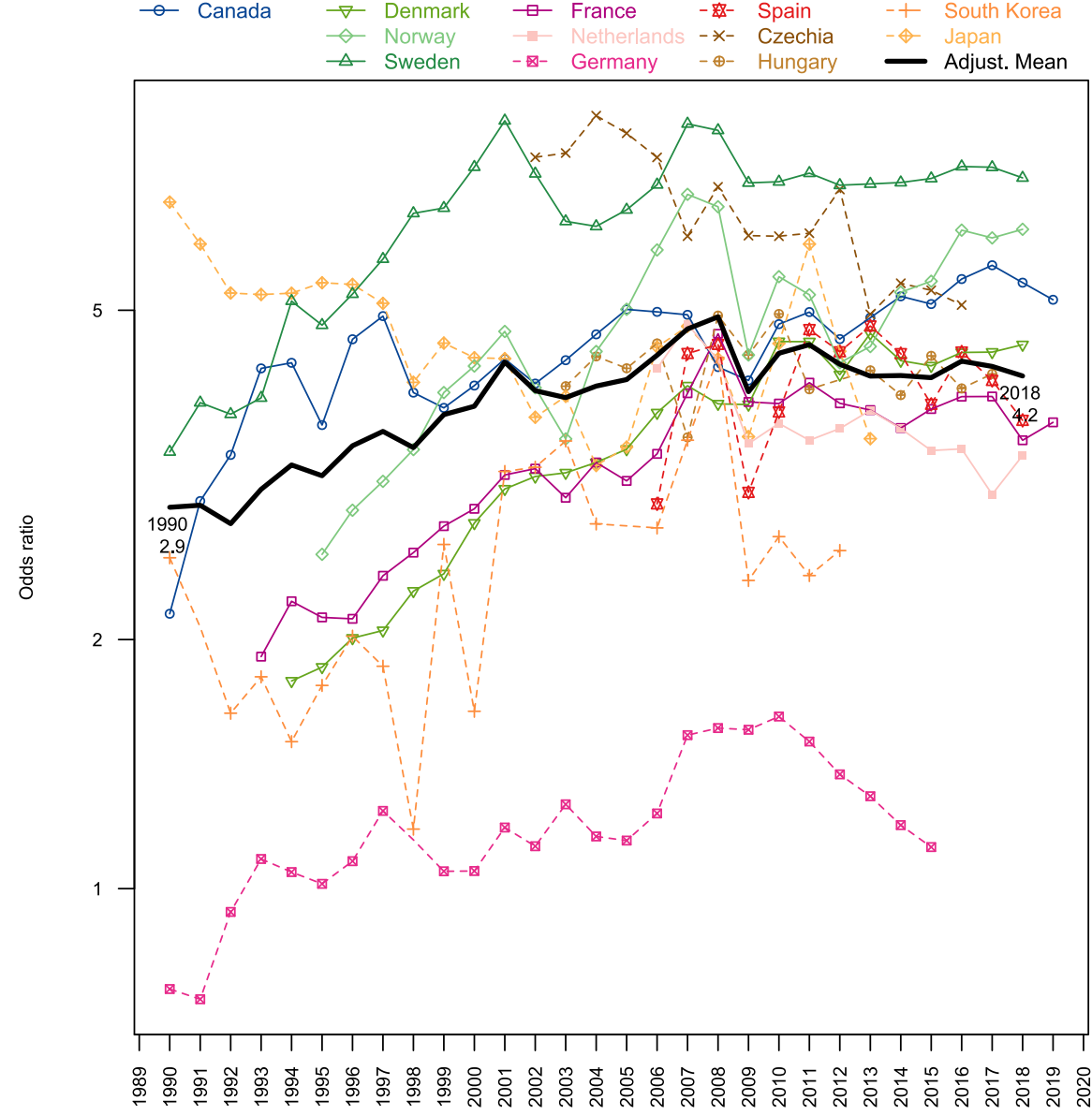
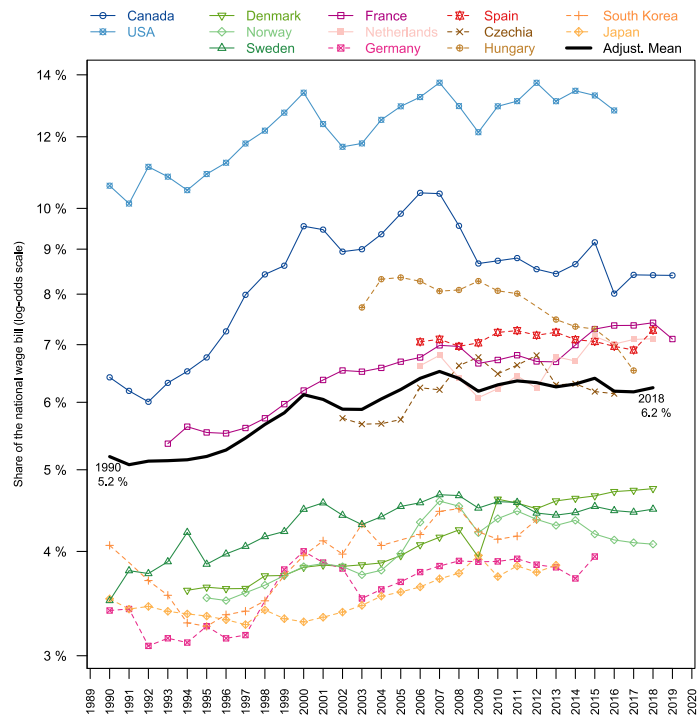
(~1993-2007)

- Godechot, Olivier, Nils Neumann et al. "Ups and downs in finance, ups without downs in inequality." *Socio-Economic Review* (2022): mwac036.

Country	Pre-financial crisis inequality upswing					
	Time-Period	Earliest year top 1% (%)	Latest year top 1% (%)	Annual increase of top 1% (%)	Annual increase of financiers of top 1% (%)	Finance contribution (%)
Japan	1997–2007	3.27	3.71	0.04	0.00	-10
Denmark	1994–2008	3.59	4.24	0.05	0.02	39
Spain	2006–2007	7.05	7.10	0.05	0.31	625
Germany	1992–2008	3.08	3.90	0.05	0.01	19
Sweden	1990–2007	3.49	4.67	0.07	0.03	50
South Korea	1995–2008	3.25	4.50	0.10	0.06	61
Norway	1996–2007	3.49	4.59	0.10	0.05	53
France	1993–2007	5.37	6.99	0.12	0.05	43
Netherlands	2006–2007	6.62	6.80	0.19	0.28	152
Czechia	2003–2008	5.66	6.62	0.19	0.01	4
Canada	1992–2006	6.01	10.41	0.31	0.09	30
Hungary	2003–2005	7.72	8.36	0.32	0.26	83
Average (year-weighted)	11.8 pre-crisis years			0.11	0.05	45
USA ^a (Bakija <i>et al.</i> , 2010)	1993–2005	12.7	17.0	0.35	0.10	29
UK (Bell and Van Reenen, 2014)	1999–2008	7.1	8.9	0.20	0.16	78

Overrepresentation of financiers in top shares

- Substantial increase
- No long term decrease after 2008 global financial crisis



More finance, more inequality!

Table 1. Impact of the finance share of the GDP on income inequality

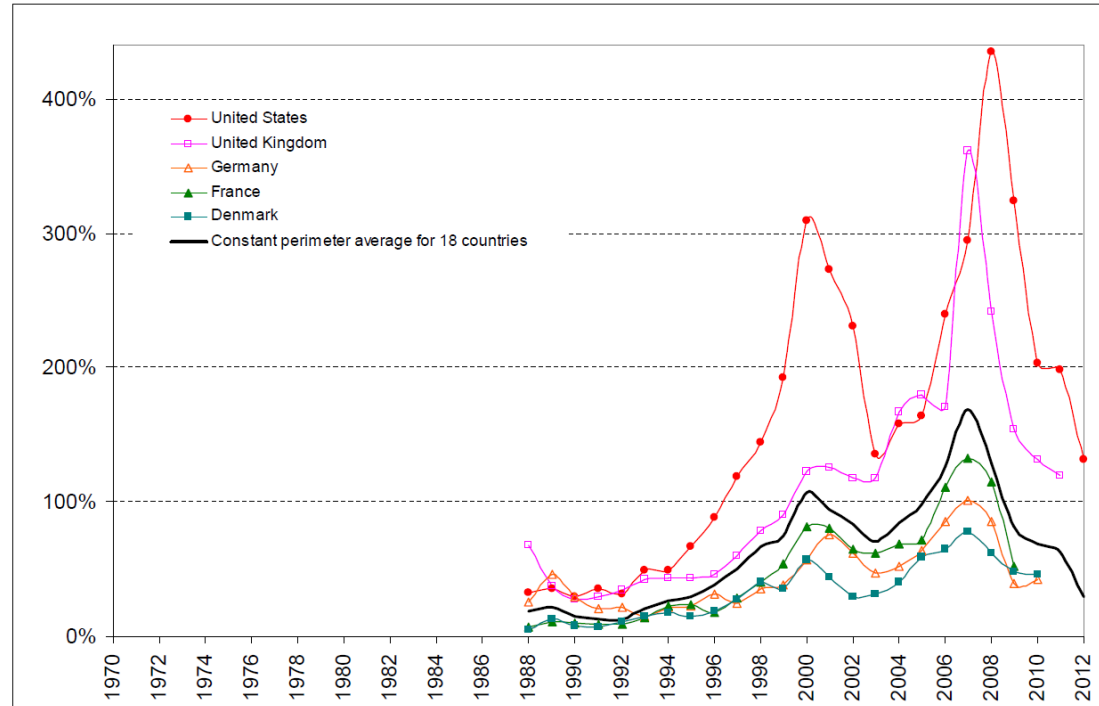
	Gini Index	D5/D1	D9/D1	D9/D5	Top 10% share	Top 1% share	Top 0.1% share	Top 0.01% share
GDP per capita (t-1)	-0.51***	0.62***	0.34**	0.13*	-0.21*	0.04	-0.02	0.02
Union rate (t-1)	-0.27***	-0.16**	-0.23***	-0.25***	-0.36***	-0.23***	-0.1**	-0.14***
Import rate (t-1)	-0.15***	0.41***	0.17*	-0.03	-0.11**	-0.13**	-0.15**	0.17*
Finance & insurance/GDP (t-1)	-0.04	-0.04	0.16**	0.18***	0.12***	0.23***	0.28***	0.41***
Adj. within R2	0.150	0.081	0.086	0.152	0.174	0.147	0.127	0.229
Nb. obs./ countries/ years	673/18/42	391/18/42	391/18/42	391/18/42	604/18/42	623/18/42	538/17/42	368/14/42

- Godechot, 2016, « Financialization is Marketization ! A Study on the Respective Impact of Various Dimensions of Financialization on the Increase in Global Inequality », Sociological Science, vol. 3, p. 495-519
- 1 standard-deviation (intra-country) of finance => 0.23 standard-deviation of top 0.1% share and 0.4 s.d. of top 0.01% share
- Financialization effect is higher for explaining inequality at the top of income distribution.

Which financialization matters the more?

Marketization indicators

- 1) Stock exchange traded volume
 - * 11 between 1990 and 2007
- 2) Credit on the asset side of financial firms' balance sheet (* 1.6)
- 3) Shares and investment funds on the asset side of financial firms' balance sheet (*3.2)



Financialization is marketization!

- Financialization of non-financial firms, traditional credit activity, even household indebtedness do not drive much inequality, especially surge in top of income distribution
- Financial market indicators do count

Table 4. Impact of financial sector securitization on income inequality

	Financ e /GDP	Gini Index	D5/D1	D9/D1	D9/D5	Top 10% share	Top 1% share	Top 0.1% share	Top 0.01% share
1 Volume of stocks traded to GDP/ GDP (t-1)	0.39***	0.1*	-0.06	0.18*	0.22***	0.24***	0.28***	0.3***	0.49***
Nb. obs.	356/18 /23	385/18 /23	308/18 /23	308/18 /23	308/18 /23	355/18 /23	355/18 /23	285/15 /23	206/12 /23
2 Loans in asset/ GDP (t-1)	0.42***	-0.07	-0.05	-0.06	-0.05	-0.14*	-0.06	0.18**	0.08
Shares and related equity assets / GDP (t-1)	0.12	0.31**	-0.08	0.15	0.26*	0.14*	0.17*	0.43***	0.61***
Nb. obs.	267/16 /23	287/16 /23	236/16 /23	236/16 /23	236/16 /23	260/16 /23	260/16 /23	225/14 /23	165/11 /23

Asymmetric effect of stock market activity

Table 3. The asymmetric impact of trading volume on inequality and financial earnings overrepresentation in top earnings share

	Top 1% share			Finance earnings' overrepresentation in top 1%		
	(1)	(2)	(3)	(4)	(5)	(6)
GDP per capita	0.16*** (0.05)	0.14*** (0.05)	0.17*** (0.05)	0.58*** (0.16)	0.58*** (0.16)	0.59*** (0.16)
Union rate	0.27*** (0.05)	0.24*** (0.05)	0.31*** (0.05)	0.18* (0.09)	0.14* (0.07)	0.35*** (0.09)
Importation rate	0.05 (0.07)	0.07 (0.07)	0.08 (0.07)	0.07 (0.12)	0.08 (0.11)	0.09 (0.11)
Volume of stocks traded/GDP	0.23** (0.10)	0.57*** (0.09)	0.21* (0.10)	0.68*** (0.23)	1.24*** (0.32)	0.82*** (0.22)
Volume of stocks traded/GDP × Years in (2001–2003 and 2008–2013)		−0.69*** (0.13)			−1.04*** (0.35)	
Cumulative sum of drops in volume of stocks traded/GDP			−0.13 (0.08)			−0.54*** (0.14)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of obs.	266	266	266	239	239	239
R ²	0.60	0.63	0.60	0.45	0.49	0.48
Number of groups: country	13	13	13	12	12	12

2. Financial labor market: an efficient market?

High wages : facts and question

- Stylized facts :
 - Pay is structurally high in finance
 - Pay is structurally unequal
- Stylized answers :
 - People are so smart!
 - They work so much!
 - It's just a matter of supply and demand on a market!
 - It's a matter of incentives!
- A reassuring meritocratic view?

Financial labor markets

- An efficient market-like labor market
 - High turn-over
 - Very active market makers
 - Head-hunters
 - Compensation surveys
 - Performance driven: bonus as an incentive
 - Human capital driven
 - High compensations

A model for efficient market believers?

- Human capital: Becker's human capital theory
- Bonus: principal and agent theory
- Sky rocketing wages: superstar theories
 - Gabaix, Landier. 2008. "Why Has CEO Pay Increased So Much ?", *QJE*
 - Célérier, Claire, and Boris Vallée. 2019. "Returns to talent and the finance wage premium." *The Review of Financial Studies*
- Intriguing anomalies and phenomenon

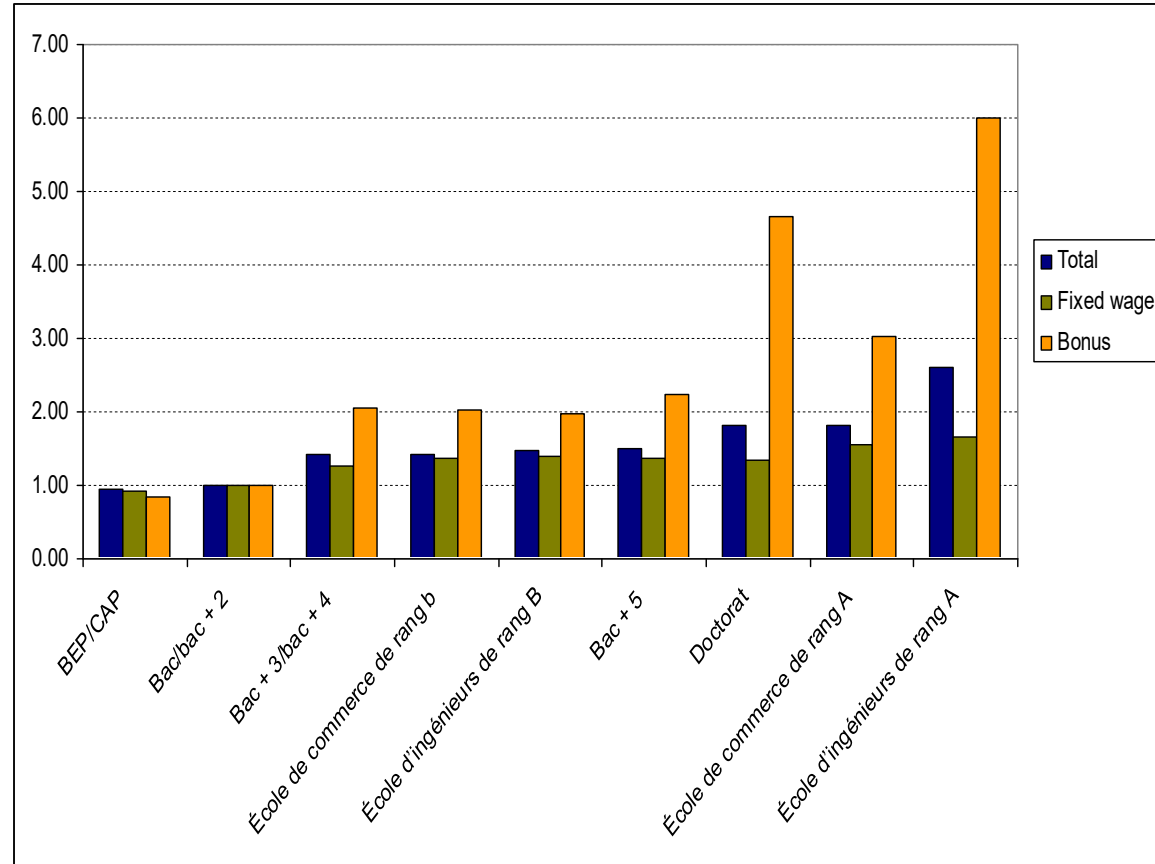
Human capital intensive. France

- French Labor Force Survey mid 2000s
- 48% of financial markets managers hold a master versus 27% of other banking managers

	Financial market managers and professionals	Other banking managers and professionals	Other private sector managers and professionals	Other managers and professionals	Managers and professionals (Cadres)
Bac and less	26%	35%	30%	17%	25%
Bac+2-Bac+4	26%	39%	35%	45%	39%
Bac + 5 and more	48%	27%	34%	39%	37%
All	100%	100%	100%	100%	100%
N	50	657	13 766	12 521	26 994

Human Capital ?

- Data from a major Bank 1998
 - OLS wage equation regression (n = 1803)
- Wages highly skewed on human capital
 - Rank A business school versus Bac-Bac+2
 - * 1.5 fixed wage
 - * 3 bonus
- Human capital does a very good job for explaining fixed wage. $R^2=51\%$
- A good job but no so perfect for bonuses. $R^2=22\%$



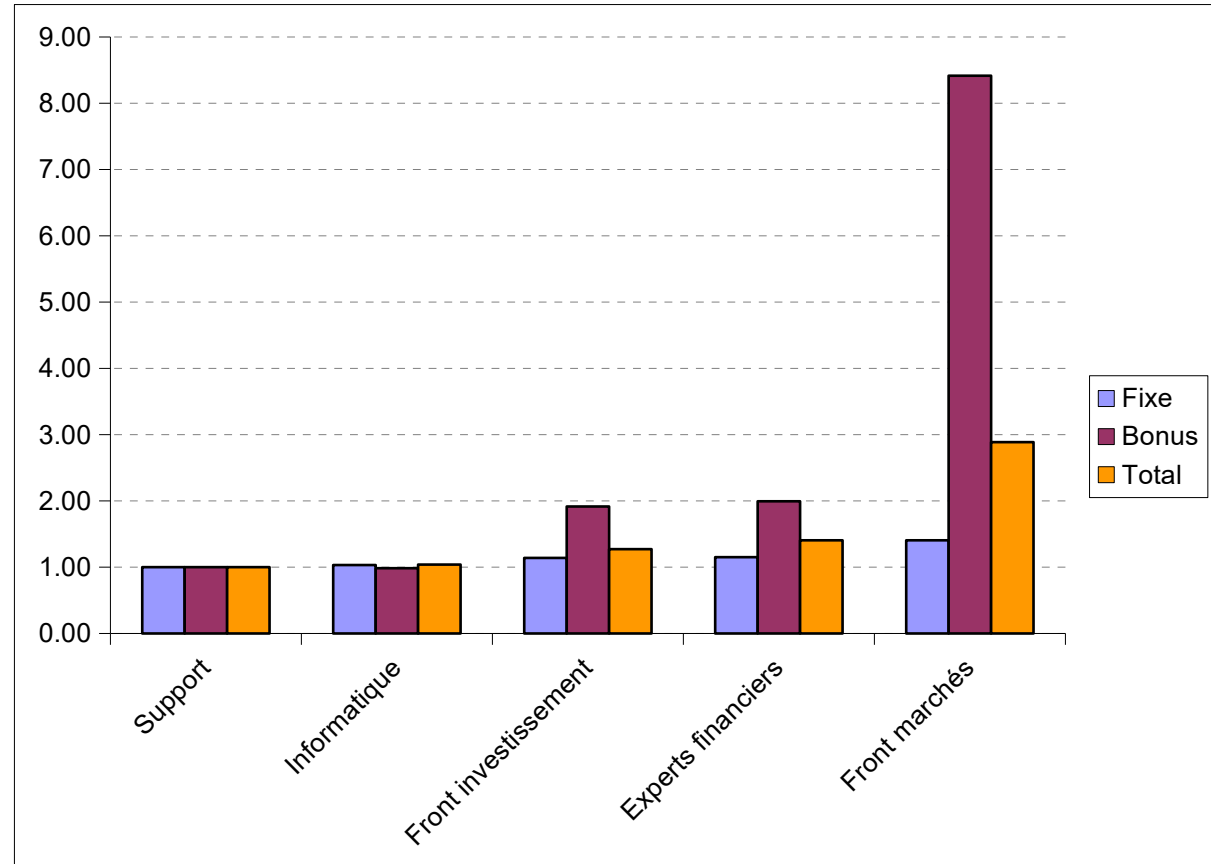
Answers remain clumsy.

- Why in finance and not elsewhere?
Why mainly in front-offices and not beyond?
 - High diplomas, work-alcoholic culture not only in front-offices
 - A labor market which stronger rate of increase and slower rate of decrease
 - Incentive, yes ! Optimal, no ! Incentives remain costly.
- Godechot, 2011, « Le capital humain et les incitations sont-ils les deux mamelles des salaires dans la finance ? », *Revue d'économie financière*, n°104, p. 145-164.

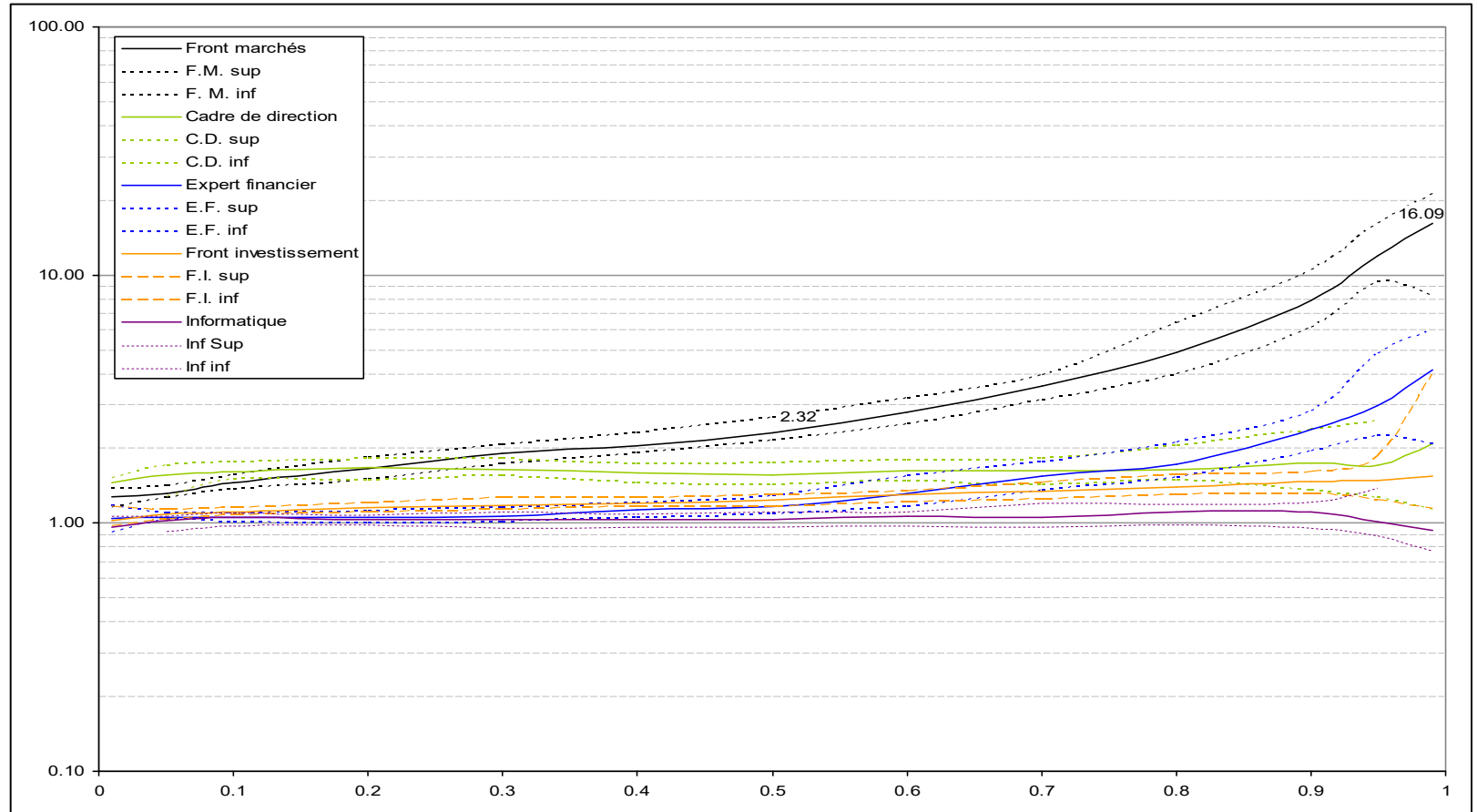
Table 1. Compensations in a major french bank in 1998 (euros 2005)

	Trader			Sales		
<i>Threshold</i>	<i>Fixed 98</i>	<i>Bonus 98</i>	<i>Total 98</i>	<i>Fixed 98</i>	<i>Bonus 98</i>	<i>Total 98</i>
Q1	48 835	25 703	82 591	50 548	29 986	85 110
Median	70 254	59 973	137 080	68 540	68 540	141 364
Mean	71 930	304 361	376 291	71 219	280 559	351 777
Top 5%	119 088	1 627 825	1 725 495	116 587	1 319 395	1 430 773
Head count	215	215	215	144	144	144
	<i>Back-office Manager</i>			<i>Risk control</i>		
Q1	41 602	5 997	48 344	42 784	5 141	48 220
Median	52 613	10 281	64 535	53 119	6 854	66 827
Mean	56 045	23 506	79 551	56 158	19 212	75 371
Top 5%	95 956	94 243	177 347	80 535	51 405	135 367
Head count	82	82	82	41	41	41

Huge pay differences between jobs even controlling for human capital



No penalty for being in high paying jobs

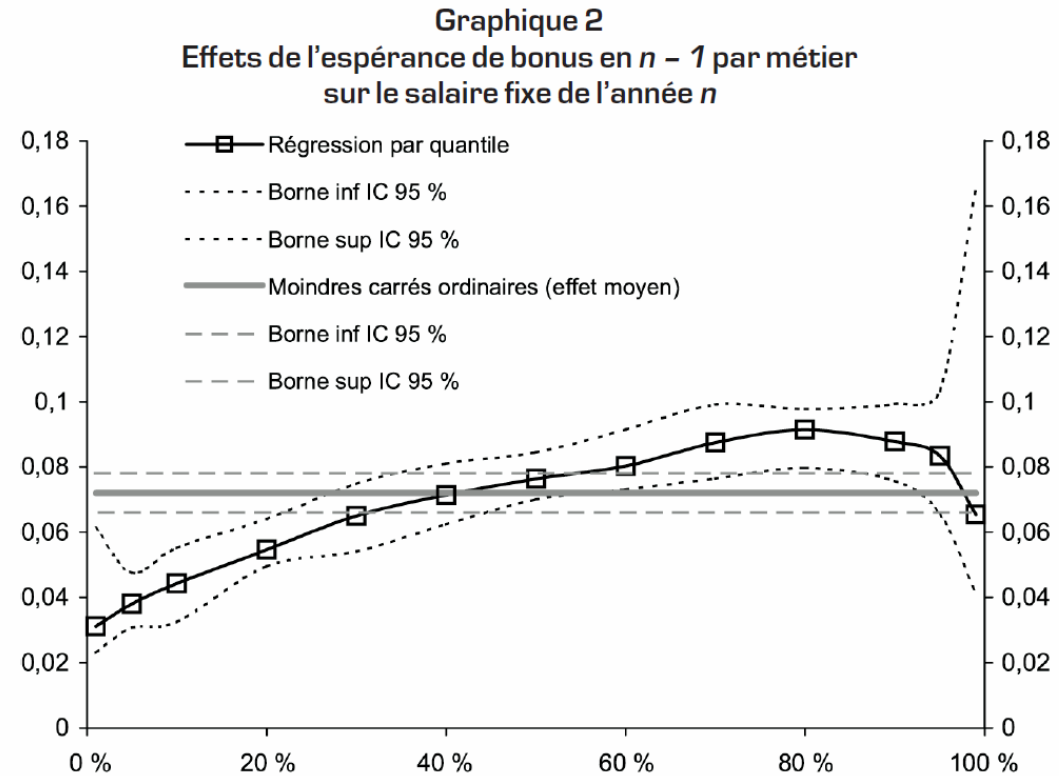


Incentives?

- Jobs differs by the level of links with observable profit
 - Jobs where impact is observable : you need incentives (high bonuses)
 - Jobs where you don't need incentives (low bonuses)
- How to get people indifferent between the two ?
 - By adapting the fixed wage.
- Prediction :
 - High bonuses & low fixed wages
 - Vs : Low bonuses & high fixed wages

Incentive dimension?

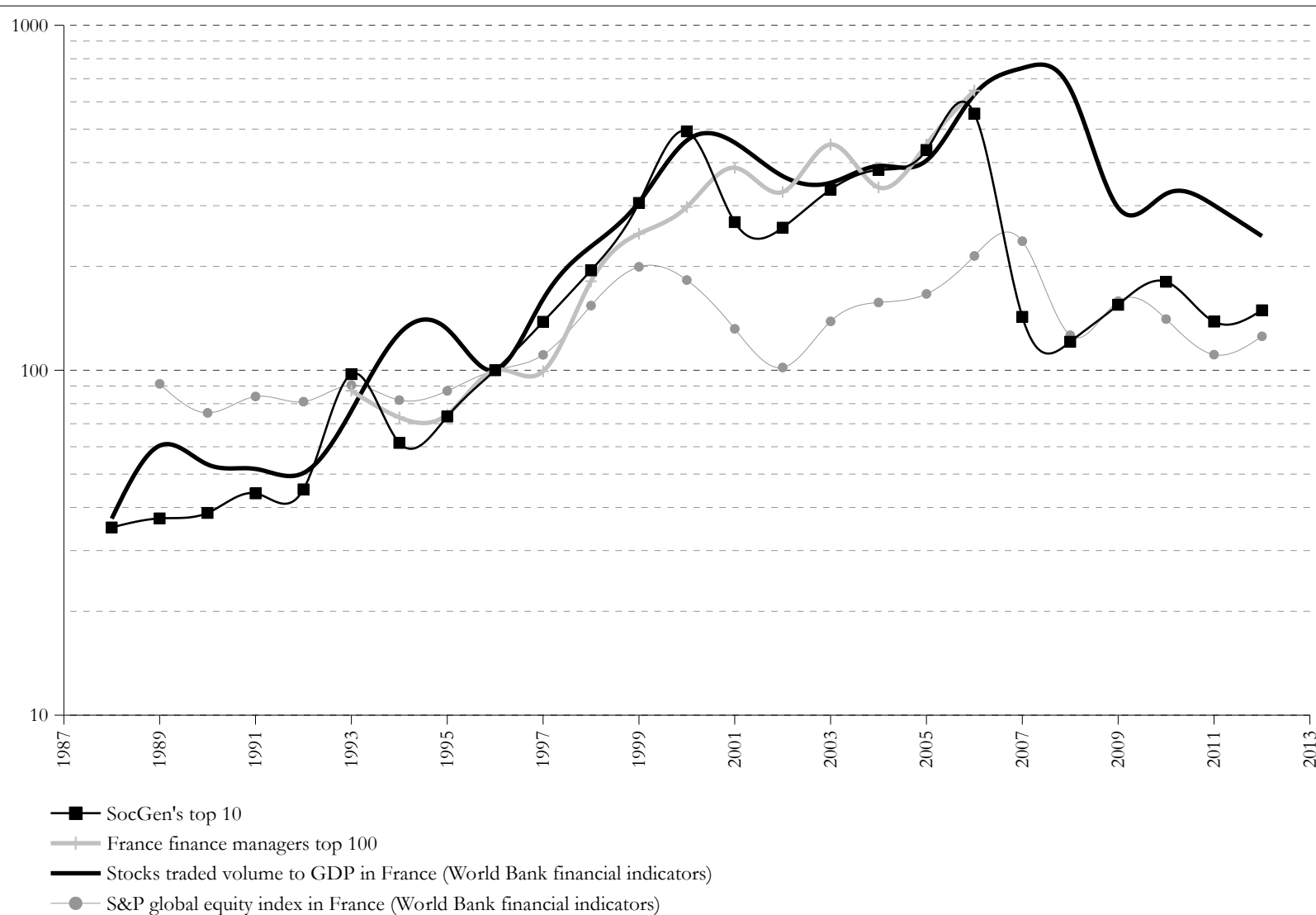
- Introduction in the regression of the average bonus in 1997 per job (50 jobs)
- The higher the bonus expectation, the higher the fixed wage
 - 1 sd bonus increases by 7% wages
 - Effect similar for bottom, median, and top of bonus distribution
- No penalty for being submitted to incentives
- No trade-off between, low wages and high bonus expectations



Incentives? (Informativity)

- Holmstrom (1979, “Moral Hazard and Observability”). Informativity in principle agent.
 - It is better to use indicators that reflect well the agents contribution
 - Principles should discount the part of the performance that is due to outside observable phenomenon
- Mullainathan, Bertrand, 2001, “Are CEOs Rewarded for Luck? The Ones Without Principals Are”.
 - Do CEO get the right incentives ?
 - No they are paid for luck

Reward for observable luck ?



Superstars?

Rosen, S. (1981). The economics of superstars. *The American economic review*, 845-858.

- Why do some stars win so much money
- Winner take all market
- A small difference in productivity between the first and the second is enough for getting the lion's share
- A phenomenon amplified by increasing returns.

CEO as Superstars

Gabaix, X., & Landier, A. (2008). Why has CEO pay increased so much?. *The Quarterly Journal of Economics*, 123(1), 49-100.

- Biggest firms hire best CEOs because they create more value
- Difference in productivity between the CEO of the biggest firm and that of 250th is small
 - Replacing the CEO of the 250th firm by that of the CEO of the biggest firm would increase the firm's capitalization by 0.016%
- But absolute impact on creation is important because of difference in terms of size of the firms
- Compensation difference important as the combination of small difference of productivity and strong difference in size
 - Difference in compensation of 530%

Superstars in Finance

Célérier, C. (2010). *Compensation in the Financial Sector: Are all Bankers Superstars?* Mimeo.

Célérier, C., & Vallée, B. (2019). Returns to talent and the finance wage premium. *The Review of Financial Studies*, 32(10), 4005-4040.

- Idea that can be found in many papers (Meunier, 2007, Kaplan, Rauh, 2010, Célérier, 2010)
- Matching mechanism
 - The best financial operative matched to the biggest portfolio
 - 2nd best -> 2nd biggest portfolio
 - Etc.
- Financial operative gets a supplementary bonus corresponding to the combination of differential of productivity and size difference
- Strong correlation of compensation with the size of portfolios

Limits of superstar theories

- An explanation that tend to justify wages as the result of natural hierarchy of talent
- Requires:
 - Knowledge of very small difference of productivity by employers
 - In a universe where difference of productivity questionable (chance or talent ?) according to EMH
 - Perfect mobility between jobs and sectors
 - If there's a boom in one sector, talented people of other sectors should migrate when the boom occurs.
- Top 10% of non financial managers didn't move more in finance during the boom period
 - Than the same group in the non-boom period
 - than the bottom of the distribution

The fate of 1996 top 10% of managers in 2001

	Evolution	Mean (sd)	N
Moving from non-finance to finance (5 years later)	1996 top 10%, managers working in non-finance in 1996	1.1% (0.105)	3178
	1996 bottom 90%, managers working in non-finance in 1996	1.1% (0.104)	29103
	1991 top 10%, managers working in non-finance in 1991	1.7% (0.129)	2641
Increase of pay between 1996 and 2001 for the 1996 top 10%	managers working in non-finance in 1996	13% (0.49)	3178
	managers working in finance in 1996	38% (0.93)	369

Note: Thanks to the panel, we can study here the population of managers (entertainment sector excluded) working both in year t and year $t+5$ in order to analyze individual evolution. We rank this population both in time t and $t+5$ and isolate the top 10% in t . Sources: Panel DADS (1976-2007).

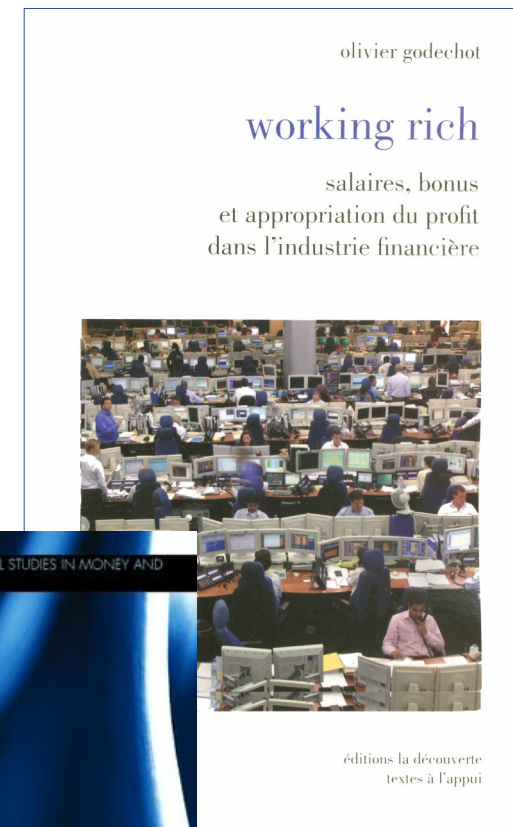
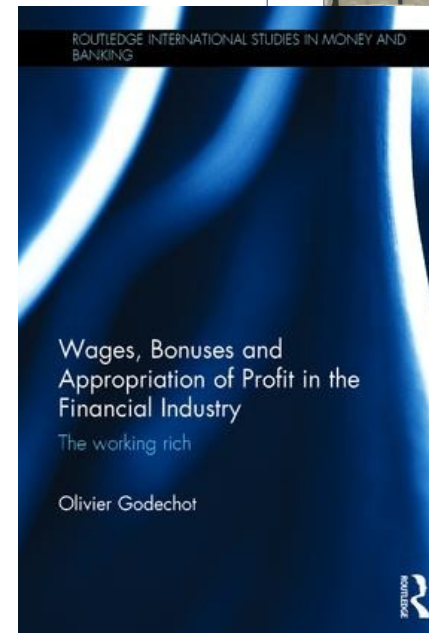
Not just a question of talent

- Oyer (2008). Study on Stanford's MBA
 - Probability of starting a career in finance depends on financial climate (random and exogenous).
 - Increase of 1 SD of S&P 500 (18%) increases the probability to work in finance by 14 to 16%
 - Working in finance depends a lot on the first job
 - 80 percentage point higher for those who started in finance
 - Wage depends a lot from the sector
 - Initial conditions (good year versus bad years) have a great impact on wages. *2 good year
 - Wage career does not depend only on talent but also on non individual initial conditions
 - No catch-up for unlucky promotions.

Superstars in Finance

- Correlation of volume and pay is true
- Is not necessarily the result of initial talent
 - Can be acquired “talent” (on the job)
- Is not necessarily the result of some assortative matching between talent and size of portfolios
 - Compensation routines
 - Hold-up threats
- Compatible with some forms of rents

3. An alternative approach based on informal property rights and holdups



Appropriation and hold-up

- Workers in finance can extract rents.
- How do they extract rent on labor markets ?
 - Framework inspired by Marx, Bourdieu, Boltanski & Chiapello, and Williamson
 - Marx / Bourdieu Linking the relation of exploitation/domination on property rights
 - Informal property rights on key assets of the firm (customers, knowledge, know-how, social capital)
 - Boltanski & Chiapello 1999
 - Acquiring legitimacy on fruits through property rights
 - If legitimacy is not established. Trials of force.
 - Williamson and the Hold-up mechanism.
 - Threatening of Moving the key assets they have appropriate

Creating legitimacy: informal property
rights and appropriation of assets

Informal property rights in the firm

- Division of labor attributes domains of action that can be considered as property rights
 - Financial activity strongly partitioned
 - Trader are granted a strictly delimited set of portfolio on a given perimeter
 - Characteristics
 - Latitude of action on the assets.
 - Freedom of disposal.
 - Protection and surveillance of the frontiers.
 - Durability.
 - Exclusivity.
 - Partial transferability.
 - Intentionality and responsibility of the holder
 - Similar to a property right. More an ancient regime one than a roman one

A transfer of rights...

- “**This is mine** [the portfolio, the models]. **It belongs to me**, because **everything existed before he arrived**. For now, this year, he conducts research . It's like me the first year I was doing research and **it belonged to the other guy**. The idea is that if he works well in research this year, that is to say, it really helps me, he finds important ideas on models, interesting stuff, the next year **I will give him a backyard** where he can do his model and I will help him to launch it. So we did not set where it would be, if it is an existing model that is going to die, a new idea or something a little in a different country. But we agreed on the concept that is the real reward of his success this year is not so much the bonus but the right to launch his own model next year. [...] It is quite strategic [to determine what needs to be allocated] but in fact as the markets are very dynamic , we can not predict a year in advance . You can have a number of commitments as an honest man , I will not fuck you because ... I will not **give you such an itty bitty thing** that there is no profitability”. (Trader, translated from French)

Making profit mine

- Profit as a masterless property
 - Labor contract does not transfer property right on the “fruits” of the work
- Rousseauist situation.
 - “The first man who, having fenced in a piece of land, said “This is mine””
 - Several ways of saying “This is mine” / “This is of me”. “I won / I made the firm win”
 - In those claims, a grammatical determination of the profit. Linking I / Me and a masterless profit.
 - Organization of activity in profit center, accounting favor this first link.
- Elementary logics of appropriation

Elementary logic of appropriation of profit

- Accession logic
 - Profits of MY portfolio are MY profits.
- Shared claims on the same profit
 - Engineers, traders, salespeople, heads of , operations
- More elementary forms of appropriation
 - First will
 - Will is potentially appropriating
 - Asymmetry between gains and losses. Gains are voluntary
 - First action
 - Lockian framework Work creates property in.
 - Head of rooms seen as “Exploiters”
 - But subordinate work is less creative of property rights
 - First idea
 - Intellectual property rights

Position in the organization and appropriation

- Useful ownership
 - Traders, salespersons.
- Eminent ownership
 - Heads of desks or of rooms. Concession of what they own.
 - “What I need is to have guys who know very well what I ask them”
- Authors and inventors
 - Engineers
 - Position a little distant from the profit.
 - Ambiguity of the will (solving problems or making profit).
- Lease of work
 - Middle and back office jobs.
 - Position always secondary to the irruption of profit.

Holdups: enforcing property rights on
profit

A case of hold-up

- 17 millions for a head of trading room and his deputy at Neptune Bank in early 2001.
- A contract
 - Resignation of the 2 for a German rival bank
 - 48 hours given to their bank to match the rival offer
 - Formula $8,5\% + 6,5\%$ of the bonus pool
 - On the eve of a major Securities Transaction
- A great year in 2000

A well done negotiation

- *Timing*
 - Exploiting the feeling of urgency linked to the Securities Transaction.
- *Choice of the bank*
 - Secret
 - Not involved yet in Equity Derivatives
 - Credibility.
- *Percentage*
 - Benefiting from the growth of money invested without being affected by the growth of headcount
 - Rate used in the formula would probably be applied on very different pools.
 - Remains acceptable for the bank (short term profit not diminished)
- *Overall context*
 - Very good economic conditions for the following year. But probable reversal.
 - Leveraging the frenzy of *last-movers*
 - Without taking the risk of going with *last-movers*

Moving the plant!

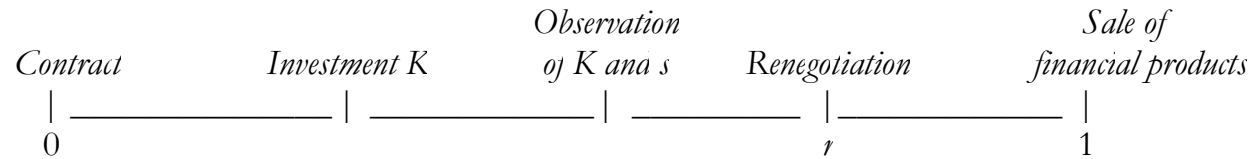
- Not just a sense of *kairos*.
- *Resigning together*
 - Resignation : signal of determination
 - Collective. Difficult to replace
 - Social Capital. Credible threat to take their whole team with them

The mechanics of hold-up

- Appropriation of the firm's key assets
 - The “talent” of the financial worker is not innate.
 - Progressive accumulation of “talent” through the accumulation of financial experience
 - Financial experience. Appropriation of key assets collectively produced
 - Knowledge
 - Know-how
 - Customer Relations
 - Team work
- From appropriation towards the test of strength
 - Legitimization : Forgetting the collective origin and claim for profit
 - Taking advantage of an external offer in order to renegotiate
 - Credible threat of moving part of key assets and part of the activity

Hold-up in a nutshell

- Contract between a firm and a salesman who is building links with clients to whom he is selling financial products



- Once he observes K and s , the sales can move
 - He brings $\gamma \cdot Activity(K,s)$ to a rival firm.
 - The firm keeps $\beta \cdot Activity(K,s)$

Renegotiation

- Renegotiation
 - If renegotiation fails
 - Worker (elsewhere) : $\gamma \cdot Activity + wage$
 - Firm : $\beta \cdot Activity$
 - Rational to renegotiate
 - Possible to model in an economist manner with a Nash Equilibrium.
 - Result
 - $Renegotiation\ wage = f(\gamma \cdot Activity, (1 - \beta) \cdot Activity, wage, transaction\ costs)$
+ + + -
- Renegotiation wage increases with
 - Volume of activity that is moved
 - Damage done to the firm's activity
 - Original wage
 - Bargaining power in the Nash Equilibrium
- It decreases with transaction cost

Types of collective moveable assets

- Physical capital
 - Computers
 - Software
 - Documentation
- Human capital
 - Knowledge (Traders, sales)
 - Know-how (traders)
 - Financial secrets (arbitrage techniques, etc.)
- Social capital
 - Client relationships (especially sales, M&A, Private equity)
 - Reputation (financial analysts, M&A)
 - Teams (head of...)

4. Some elements of statistical confirmation

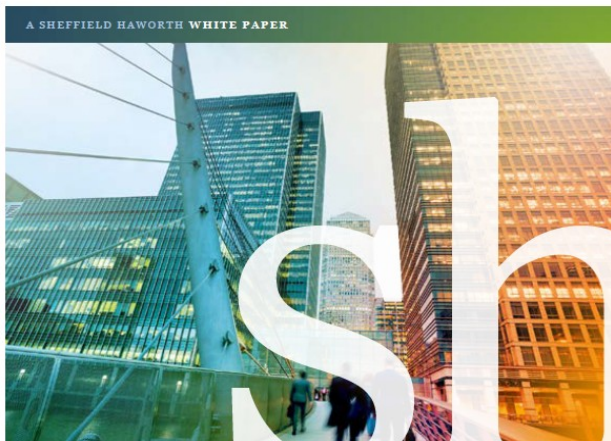
4. Some elements of statistical confirmation

Executive search firms advertise on lift outs

sheffield haworth

'Team Moves' For Investment Management Firms

Using Lift Outs for Rapid, Strategic Product Growth



“Many key teams that move often bring with them some of their existing, long-term institutional clients. When a team departs a firm, and there is no longer a capacity at that firm to continue to manage a client’s assets in a similar strategy, institutional clients are faced with a choice: Go out to bid for a new firm and relationship or follow their old relationship to a new home.”

- Traditional Methods for growth
 - Internal promotion
 - But value only through time
 - External talents
 - Firms
 - Cutting non-core parts
 - Individuals
 - Cultural merge
- Team moves as hybrid approach
 - “The Best Of Both Worlds”
 - Even for small firms

Team moves are rooted in networks

- “I had been with my previous boss for 10 years, 3 different firms.”
- “My boss left in January, after the bonus (...) And I quit after I got my bonus even though I didn’t have anything, I was completely nuts. But I knew in my head that I didn’t want to stay there without him, and I just left, for nothing. Eventually I got a job, he went to Bank B and he got me a job offer.”
- “I had worked with some of these people for quite a long time. Claudio A, which is my number 2, I had first met him, I had tried to hire him in Bank B in 2000. I had interviewed him for Bank B in 2000. I was in Frankfurt but he didn’t want to come to Frankfurt. I came to London in 2002, and I interviewed him again and hired him at Bank C in 2002, and then left, and then I called him 5 years later when I got to Bank D, and said: ‘hey do you want to come?’ and he came. There was a guy Vito B. who was the brother of Pietro B, that’s how I got Pietro as well. So Vito was with us at Bank C and I hired him at Bank D, and then I hired his brother, and then I took his brother to Bank E.”
(Italian Head of Trading Team moving 17 from Bank D to Bank E)

name	COMPANY	STARTFIRM	ENDFIRM	COMPANYB	STARTFIRMB	ENDFIRMB	COMPANYC	STARTFIRMC	ENDFIRMC
Mrs Alice Caroline Marie du Hamel de Fougeroux	Credit Agricole Corporate and Investment Bank	7-Nov-05	15-Nov-06	CIBC World Markets Plc	11-Dec-06	17-Mar-08	RBC Europe Limited	8-Jul-08	31-Dec-13
Mr Dominic Brian Luke Magee	Credit Agricole Corporate and Investment Bank	25-Mar-04	31-Mar-06	CIBC World Markets Plc	13-Oct-06	18-Apr-08			
Mr David Keith Godbee	Credit Agricole Corporate and Investment Bank	4-Apr-05	13-Nov-06	CIBC World Markets Plc	23-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	11-Mar-11
Mr Edward John Rastall Dickinson	Credit Agricole Corporate and Investment Bank	4-Mar-05	13-Nov-06	CIBC World Markets Plc	23-Nov-06	9-Mar-08	RBC Europe Limited	7-Apr-08	31-Dec-13
Mr John Graham Williams	Credit Agricole Corporate and Investment Bank	1-Dec-01	4-Dec-06	CIBC World Markets Plc	15-Dec-06	4-Feb-08	RBC Europe Limited	18-Mar-08	11-Mar-11
Mr Nicholas Alexander Atkinson	Credit Agricole Corporate and Investment Bank	1-Dec-01	30-Nov-06	CIBC World Markets Plc	11-Dec-06	4-Feb-08	RBC Europe Limited	11-Mar-08	11-Mar-11
Mr Nicholas Andrew Carmichael	Credit Agricole Corporate and Investment Bank	1-Dec-01	15-Nov-06	CIBC World Markets Plc	23-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	20-Jul-09
Mr Alan Someck				CIBC World Markets Plc	4-Aug-06	10-Mar-08	RBC Europe Limited	15-Apr-08	31-Dec-13
Mr David Michael Gilbey				CIBC World Markets Plc	3-Aug-06	7-Mar-08	RBC Europe Limited	29-Apr-08	31-Dec-13
Mr James Lobban				CIBC World Markets Plc	13-Nov-06	7-Mar-08	RBC Europe Limited	31-Mar-08	31-Dec-13
Mr Louis Philippe L'Heureux				CIBC World Markets Plc	3-Nov-06	4-Feb-08	RBC Europe Limited	15-Apr-08	31-Dec-13
Mr Paul Dennis Brady				CIBC World Markets Plc	31-Jan-07	4-Feb-08	RBC Europe Limited	11-Mar-08	31-Dec-13

Identifying team moves in Paris region (2)

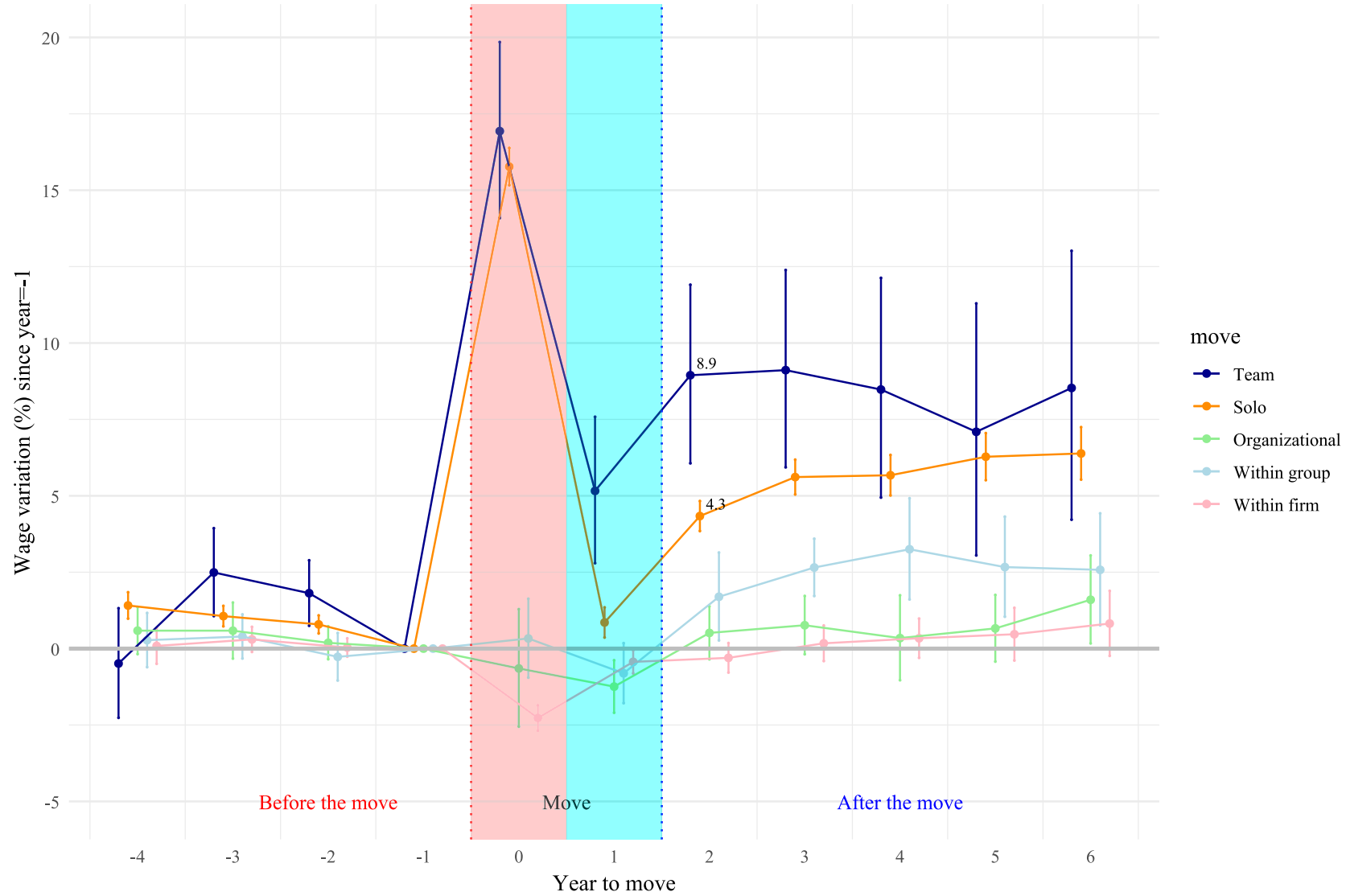
All Moves per year	All workers		Within same 2-digit sector		Within same 2-digit sector and full year in t-1 and t+2	
	Nb. Obs	Percent	Nb. Obs	Percent	Nb. Obs	Percent
0. Immobile	9,010,132	80.9%	8,884,477	87.3%	3,924,413	92.6%
1. Move to ≠ estab within firm	896,347	8.0%	784,378	7.7%	205,378	4.8%
2. Move to ≠ firm within group	250,421	2.2%	112,787	1.1%	24,501	0.6%
3. Outsourcing, backsourcing, mergers	222,727	2.0%	136,874	1.3%	34,524	0.8%
4. Solo Move	737,086	6.6%	250,959	2.5%	47,473	1.1%
5. Team Move	20,025	0.2%	8,730	0.1%	1,689	0.0%
Total	11,136,738	100.0%	10,178,205	100.0%	4,237,978	100.0%
Share 5/(4+5)		2.6%		3.4%		3.4%

Modeling: Local Projection Difference-in-Differences (Dube et al. 2025)

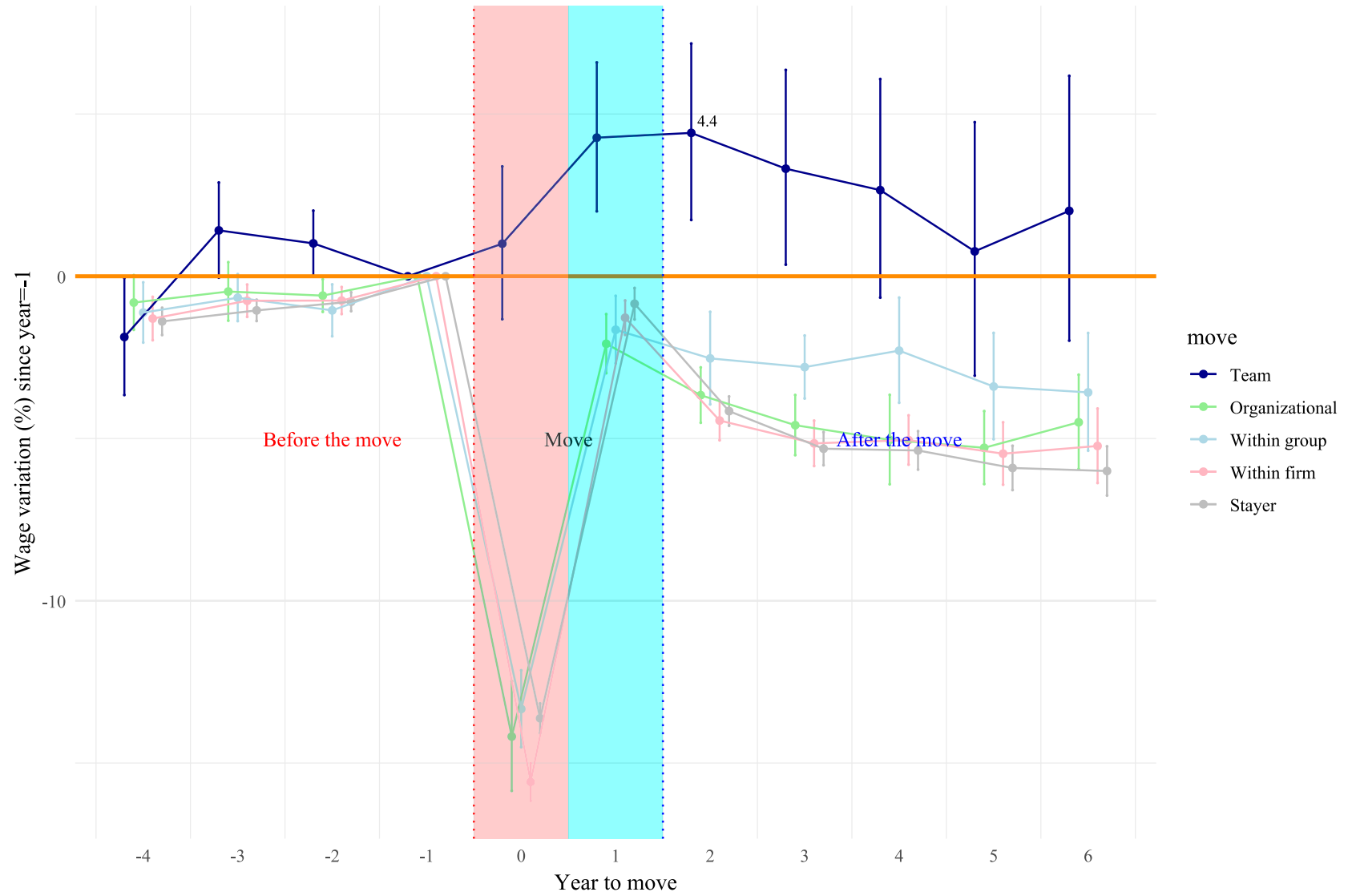
$$\Delta_{t-1}^{t+h} \log(hwage_i) = \underbrace{Move_{m,t,i}}_{\text{Move dummy variables}} + \underbrace{year_{t-1}}_{\text{year FE}} + \underbrace{\langle \beta_k X_{k,i,t-1} \rangle}_{\text{Pretreatment control variables}} + u_{i,h}$$

- Treatment years: $h=2$ to $h=6$;
- Placebo years: $h=-4$ to $h=-2$.
- Special cases:
 - $h=0$: departure year (always incomplete).
 - $h=1$: arrival year for some (sometimes incomplete)
- “Clean counterfactuals”: People who moved between $t-5$ and $t-1$ are excluded from the analysis

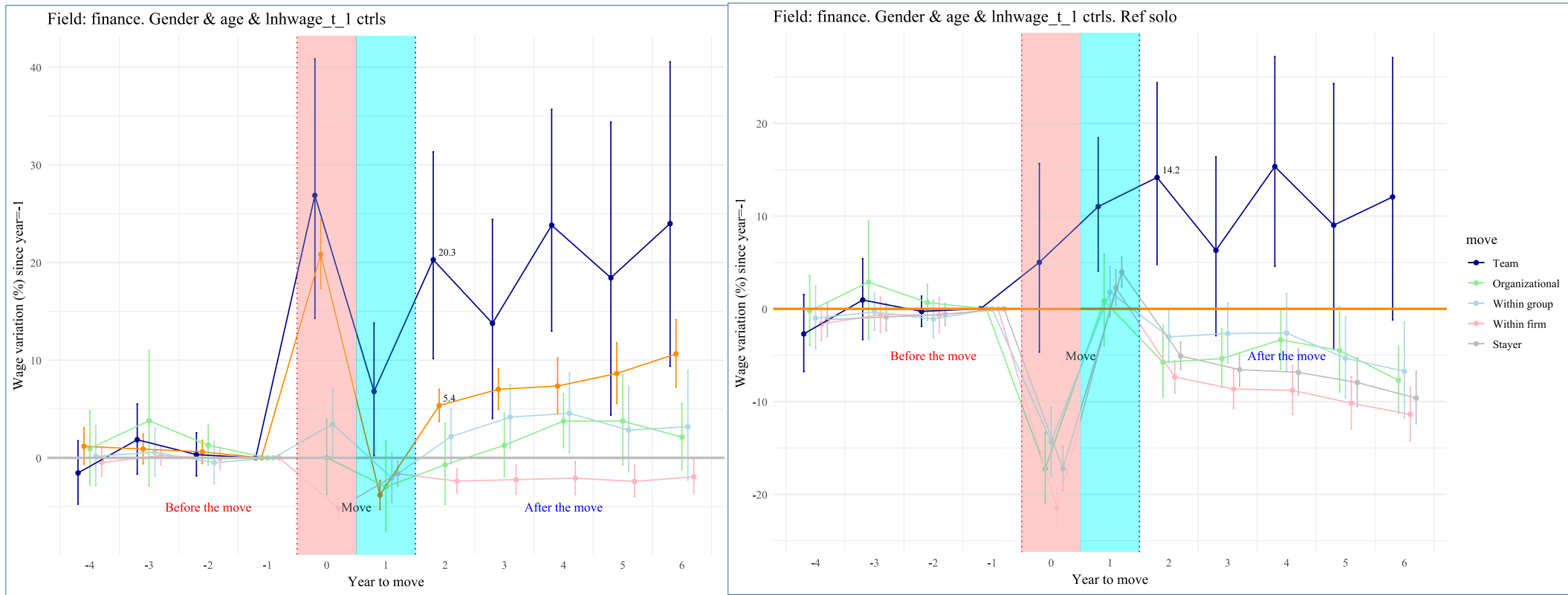
Field: all. Gender & age & lnhwage_t_1 ctrls. & ind2 FE



Field: all. Gender & age & lnhwage_t_1 ctrls. & ind2 FE. Ref solo

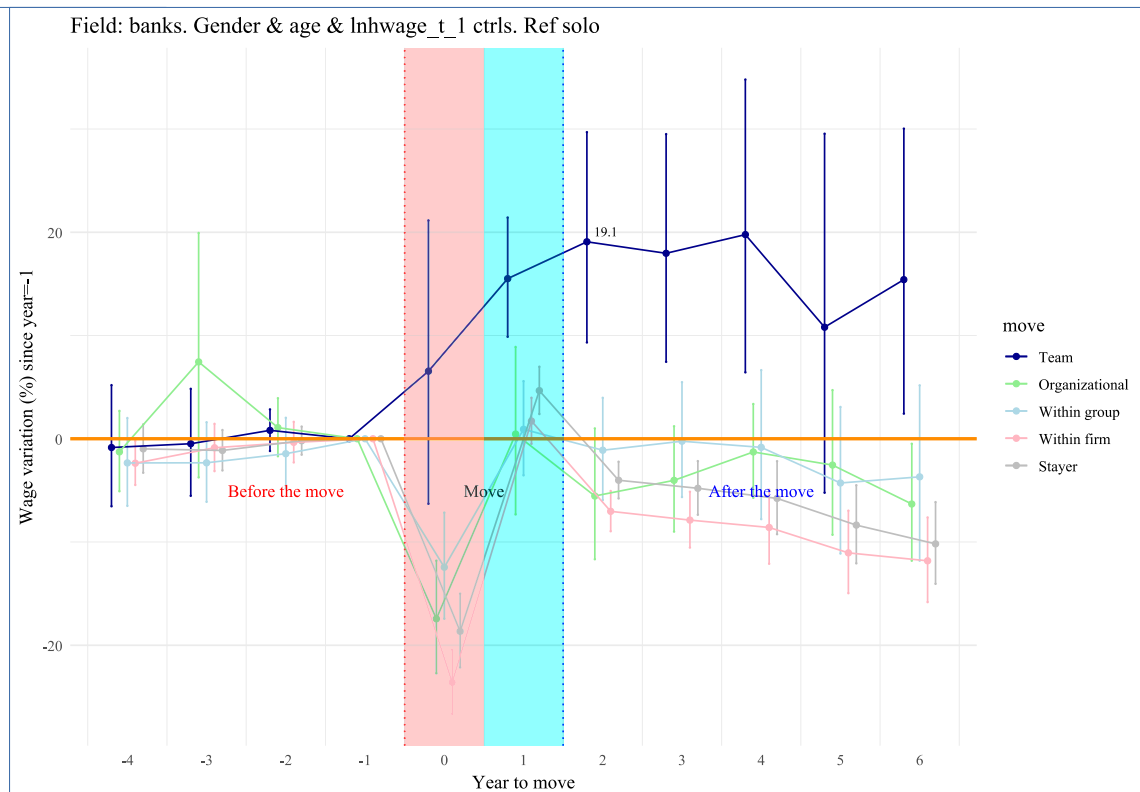
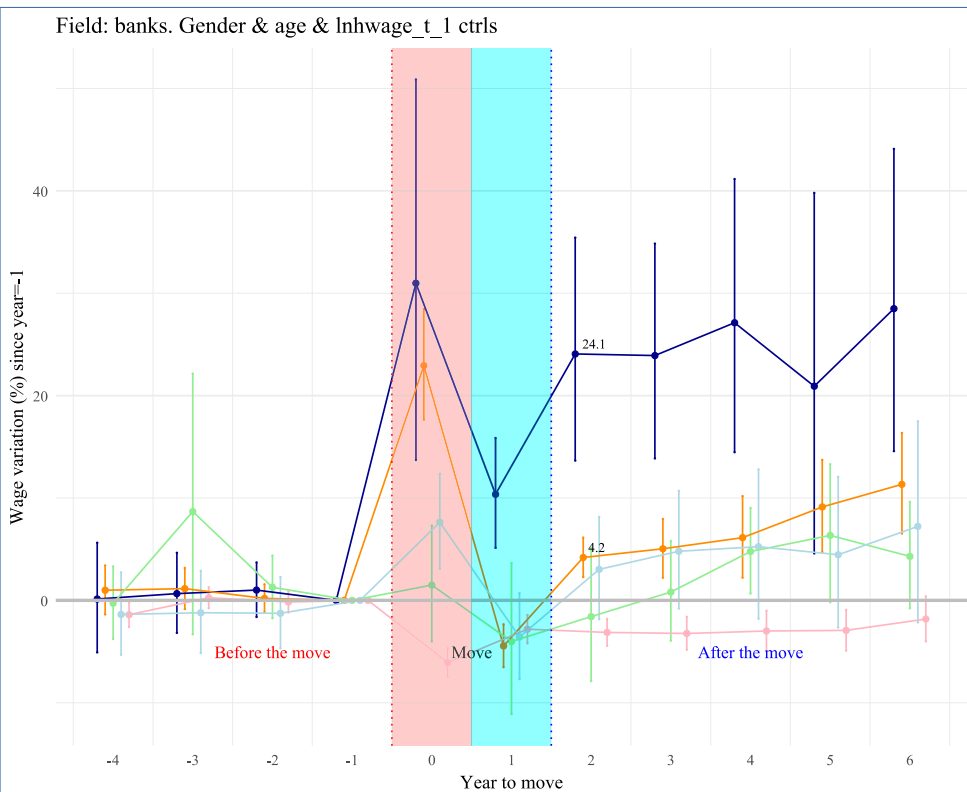


Finance sector



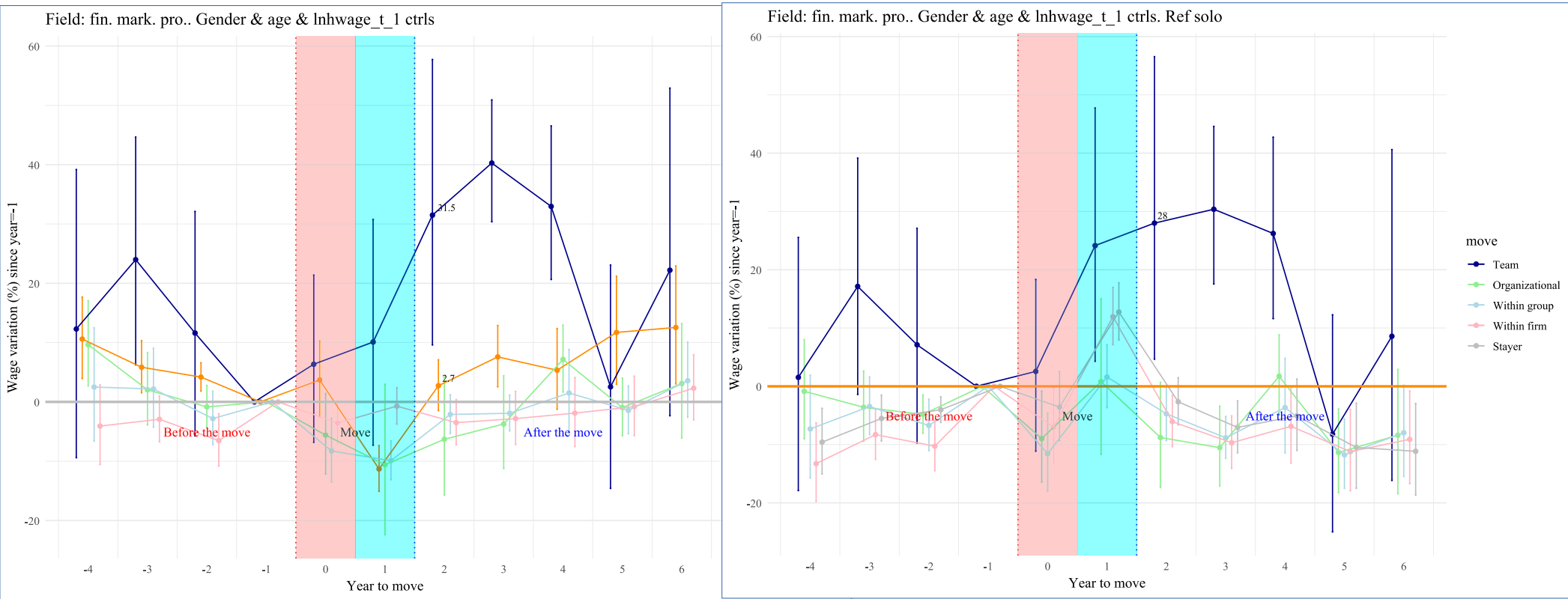
Warning: Team movers: n=165

Banks (naf = 6419Z)



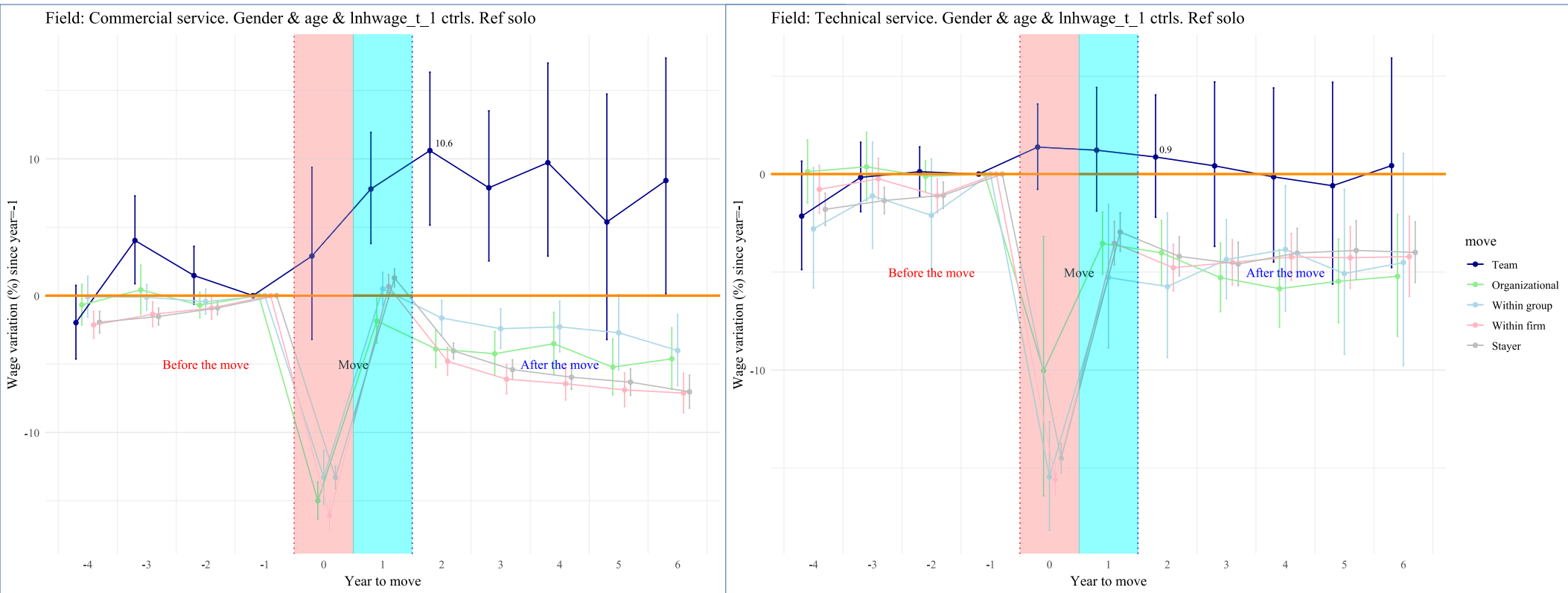
Warning: Team movers: n=126

Financial market professionals (pcs = 376a)



Warning: Team movers: n=37

Commercial vs Technical service



The hold-up problem is difficult to solve

- No clear conscience of the problem
 - Business first, HR second
 - Management (who wants to keep its power) may not be incented to limit the hold-up problem
- Non compete clauses
 - Limited enforceability.
 - France : job, time & space, limitations
- Differed bonus
 - Juridical Risk
 - Limited impact.

Firms try to protect themselves

- Differed Bonuses : 8%
- Non Compete clauses : 13%
- Long notice of departure : 10%
- Au least one the three : 27%
- The more you are in charge of a combination of moveable assets and of collaboration ties the more you are subject to retainment devices (especially differed bonuses)

Model specification	Variables	Differed bonuses	Non compete clauses	Long notice of departure	At least one type of retainment device	Number of types of retainment device
a)	Collaboration ties index	0.41 ** (0.15)	0.078 (0.15)	0.35 * (0.15)	0.23 * (0.11)	0.093 ** (0.032)
b)	Moveable asset index	0.39 * (0.16)	-0.10 (0.16)	0.33 * (0.15)	0.18 (0.11)	0.066 * (0.032)
c)	Collaboration ties index	0.34 * (0.16)	0.10 (0.15)	0.29 * (0.15)	0.20 * (0.12)	0.083 * (0.033)
	Moveable asset index	0.31 * (0.16)	-0.12 (0.16)	0.26 * (0.16)	0.14 (0.12)	0.048 (0.033)
d)	Combined index (a+b)	0.51 *** (0.16)	0.16 (0.24)	0.44 * (0.15)	0.27* (0.12)	0.10** (0.03)
N		441	441	441	441	441
Controls		Yes	Yes	Yes	Yes	Yes

But protections fail

- 63% of employees renegotiate in order to withdraw those retainments, 42% with success, 21% without success.
- Combined index favors successful renegotiation
- Moveable assets and collaboration ties far from bringing difficulties are easing mobility.

Independent variable→	Net impact of combined moveable assets index (Odds ratio)
Dependent variables ↓	
Deferred bonuses	×1.7 ***
Non-compete clauses	×0.99
Long notice of departure	×1.6 ***
At least one type of retention device	×1.3**
Retention device successfully removed	×1.4**
Retention device successfully removed for those subjected to it	×1.2

Conclusive thoughts

Bourdieu's view of domination

- Broadening the notion of capital that one can find in Marx.
 - Cultural Capital ; Social capital ; etc.
- Capital in the field and domination
 - Competition in the field :
 - Between people with more capital and less capital
 - And between those who have a specific form of capital and those who have a general form of capital
 - Domination relation
 - Those with more capital get higher returns and impose things to those with less capital
 - Imperfect competition mechanism : the dominant set the prices.

Completing Bourdieu

- A more precise view of the accumulation process.
 - Capitalization is not straightforward.
 - People have to conquer and be granted by others some kind of property rights
 - Activity highly symbolic and relational
- Different mechanism of domination
 - Hold-up and removing assets is a mechanism that is different than oligopolistic competition

Boltanski & Chiapello's reformulation of exploitation

Boltanski, L. & Chiapello, E., (2005). *The new spirit of capitalism*.

- General theory of exploitation as a reverse of theory of justice.
 - General formulae : “the misfortune of the little people makes for the good fortune of the great men”
 - Inversion of a the redistributive formulae of the sphere of justice : “Fortune of the great men makes the fortune of the little people”
 - Systematic. At distance. Accountable. Elements of mystery
 - May rely on legal forms of property (marxist exploitation), legal status (bureaucratic exploitation) but also here on some elements that are orthogonal to property : mobility.
 - Exploitation of the immobile by the mobile. *The immobility of the little makes the mobility of the great.*
 - Is orthogonal with some kind of property...
- Completing Boltanski & Chiappello
 - Yes, for the traditional immobile form of property. No for the immobile form of property.
 - Power of the great is greater if she moves more than her person.

Conclusion : a subversion of capitalism ?

- Financial industry : transgression of the borders of the firm.
 - Accumulation of assets within the firm
 - Expropriation of the firm and taking away the assets in other firms or in hedge funds.
- An anti-capitalist strategy which has a capitalist flavor. Internal entrepreneurs act like capitalists.
- Part of a movement of creative destruction. Capitalism is renewed by former workers that have captured part of the capitalist activity.

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Appendices

Ascribed & achieved categorical domination

Elements of discussion

SASE, June 29th 2024

Olivier Godechot

H E D G E D
O U T



Inequality and Insecurity
on Wall Street

MEGAN TOBIAS NEELY

Positionality

- Hedged Out
 - 2007-2010 & 2013-2015
 - US
 - Hedge funds
 - Categorical inequalities
 - US female white author
- Working Rich
 - 1997-2002
 - France & UK
 - Investment banking
 - Resource appropriation
 - French male white author

Finance did and didn't evolve that much

- 2007-2008 GFC. Volker rule
 - Investment banks → boring and bureaucratic
- HF: “Land of the Free & home of the brave”
 - HF, land of big, fun & free money
 - Work: Free from bureaucracy, rules & constraints
 - An “egalitarian” partnership structure
 - Abolishing salariat utopia

HF: Apparent meritocracy

- Smartness
- Hard work
- Achievements
- Market

Unsatisfying conventional answers

- Female preference for more family oriented positions
 - Female higher risk aversion
 - Selection: Female lower orientation specialization in technical skills
- Hedged out show these conventional answers unsatisfying

Hedged out arguments

- Trustworthiness
 - Embodying dominant role (upper class white male) → convincing (for investors, partners, colleagues)
- Flat structure
 - Unprofessional structure
- “Meritocratic”
 - Naturalization of difference in outcomes as a true difference in productivity

A within work process

- Strong prejudices on categorical qualities
 - Channeling to lower value jobs, sectors, customers, mentors
- Sorting and unequal networks
 - “Bathroom conversations”
 - “Client dates” → Female “qualities” (a.k.a. sexual attractiveness) can be a handicap
- Beyond selection & discrimination: “causality of the probable” (Bourdieu, 1973)

Combining H.O. & W.R. arguments

- Difference in within finance resource (contacts, key skills, team coordination) accumulation
- “Meritocratic” view is right and wrong
 - Facially correct: Market value (a.k.a merit) of women/men, white/minorities different
 - Wrong: as a result of gradual process of unequal accumulation

Two questions

- Patrimonial domination?
- “Gendered, racialized, classed process”?

Patrimonial domination?

- Weber. Type of domination based on familial exclusive ownership/transmission of power
- HF often (before GFC) spin-offed short-lived parasitic firms
 - “Familial”: clannish, yes, but more pirate-like than patriarch-heir structures
 - Emerging patrimonialism? (Soros, Tiger Cubs)
- Patrimonial structures sometimes transmit power to daughters (Queens Elizabeth, Victoria)

“Gendered, racialized and classed”

- Similarity of the mechanisms of categorical domination
- Similarity in intensity
- Alignment of these mechanisms

Classed

- Selection of HF workers in global upper(-middle) class (or PMC – or let's say top 10/1 %)
- But very different from coming from the “capitalist class”
- Respective role/weight of capitalist heirs (à la Trump) & of those parasitic spin-off investment bankers

Gendered

- Finance champion of gender inequality
 - Roth (2006): -40% for women controlling for diploma. Godechot (2004): -37% in leading investment bank
- Retain more than reward
 - “Women don’t ask” (Babcock, Laschever, 2004) and its masculine exploitation
- Variability of gendered barriers & norms in time & space
 - Incredible improvements compared to previous periods (Roth, 2006)
 - “Hedgemenonic” masculinity is quite subtle and polished (compared to pits’ / East end boys’ masculinity)
 - Women can also play with gendered joke relationships

Racialized

- Importance of ethnic niches
 - With very financiers (“Libanese/Maroccan polytechnicians”)
 - My impression for French banks: Strong gender gaps, very little visible racism
- Racial distinctions are country specific & minorities difference in legitimacy
 - What (and where) is the most relevant ethno/cultural/racial distinction? White & the rest?

Alignment

- Godechot, Safi, Soener (2021). Gender gap and migrant gap negatively correlated
- Finance sector: high gender gap / small migrant gap.
- Conflicting inclusion

Conflicting inclusion case

“Matthew spoke with a commanding presence typical of finance’s elite circles, yet colleagues called him “arrogant.” Matthew attributed this to the perceived incongruity of having an elite upbringing as a Black man. His colleagues also reacted differently when Matthew upheld traders’ masculine, and evidently white, norms for aggression and competitiveness: two white women reported him as “threatening.”

A thrilling book!