

**The Labour Institutions of the London Financial Markets
Before and After 27th October 1986**

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Introduction

On 27th October 1986 a number of radical reforms were implemented in the London financial markets, a series of events which came to be known collectively as “Big Bang”. The reforms included the abolition of fixed commissions on share transactions, the ending of the distinction between stock jobbers and stock brokers, changes to the rules preventing foreign ownership of securities firms operating on the London Stock Exchange, and a gradual move from open-outcry to electronic screen-based trading. In the years following Big Bang a series of mergers and acquisitions led to the consolidation of the securities industry into a small number of firms predominately owned by large foreign banks.

The reforms were accompanied by a similarly radical change in employment practices in the London financial markets, resulting in a breakdown in the informal labour institutions which had previously regulated employment arrangements. Relatively small closely-held partnerships, where working arrangements were embedded in social networks, were replaced by large universal banks in which employment relationships are primarily governed by formal employment and incentive contracts characterised by a reliance on a cash nexus.

Similar changes occurred in working practices in the New York financial markets following the gradual revocation of the Glass-Steagall Act of 1933 after 1987, eventually leading to its ultimate repeal in the Gramm-Leach-Bliley Act of 1999.

It is postulated that many of the current problems with “Bankers’ Pay” have their origins in the dismantling of the formal and informal institutions which regulated employment practices in London and New York prior to 1986-1987. The present research programme investigates this proposition, focusing in particular on the London financial markets and drawing extensively upon historical data.

Theoretical context

For a long time economists have recognised that the neoclassical theory of labour does not provide an adequate framework for explaining phenomena in the majority of labour markets. Theories of human capital (Becker, 1964), internal labour markets (Doeringer & Piore, 1971), principals and agents (Jensen & Meckling, 1976), tournaments (Lazear & Rosen, 1981), efficiency-wages (Akerlof, 1982), signalling (Spence, 1994), search (Stigler, 1962)

and identity (Akerlof & Kranton, 2000) have fundamentally modified the economic explanation of labour market phenomena. Solow has described labour markets as “social institutions” (Solow, 1990). He writes:

“Sometimes it seems to me that a more sociological way of understanding behavior in labor markets might be suitable. Social institutions define acceptable and unacceptable modes of behavior in weighty contexts like the labor market. Norms of behaviour can be modelled as constraints on decisions. They affect behaviour whenever they bind. From this point of view, the trouble with the everyday textbook labour analysis is that it takes account only of technological and budget constraints and ignores the constraints arising from social normal.” (Solow, 1990 p23)

This paper seeks to identify the formal and informal institutions which regulated the labour markets in the London financial sector before Big Bang, and examines what has happened to these institutions over the last 25 years. It also develops a model of the employment arrangements found in partnerships and closely-held companies operating in the financial sector, drawing in particular upon theories of internal labour markets, tournaments and identity.

Research design

The paper draws its methodological approach by combining the ideas of Braudel (1969 |1980) and Greif (2006). It argues: first that “history matters”, that an understanding of the employment practices operating today in the London financial markets requires that those practices be placed in a historical context; secondly, that the objective of the historical analysis is to identify the formal and informal institutions which have historically regulated these labour markets and to see how they have developed over time; thirdly, that an analytical framework must be developed to help explain the historical data. Research is to be carried out using historical techniques, such as archival search, as well as interviews with past and present actors.

Concluding remarks

This programme of research is at an early stage. The researcher would welcome the opportunity to discuss the background, the theoretical framework and the research design with other academics.

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