Over the last couple of decades there has been a huge swelling in the importance of the financial sector in the world economy. Investors now demand the same elevated returns in all economic sectors – including food and agriculture. As a result, even manufacturing and service corporations have been "financialised". The dominant financial logic places little value on real production, productivity or jobs. This is extremely harmful to the vast majority of the world's population, and it has enormous implications for the billions of people involved in food production.

What "financialisation" means for food workers

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Peter Rossman is Communications Director of the IUF (*see* page 17). This is a shortened version of a presentation given at ILO/GLU International Conference on Financialisation of Capital: Deterioration of Working Conditions – TISS, Mumbai, 22–24 February 2009.

The "financialisation" of the global economy is today both real and meaningful. There has been a significant growth in the specific weight of finance, whether measured as a share of GDP or as a rising share of overall profits. The banks have increasingly turned away from financing corporate investment themselves to doing so by directly tapping into wage earners' revenue through mortgage, credit card and other forms of consumer debt. The swelling of the financial sector has been accompanied by sluggish growth in output and employment, a stagnating or declining share of wages in the national income, and widening inequality. Crises have become more frequent and more severe. The global financial system increasingly resembles a giant Ponzi scheme,[1] based on continuous asset inflation and the need for continuous injections of new cash to finance the payouts.

One direct consequence of this financialisation for workers in manufacturing and services has been the demand for these sectors to deliver rates of return equal to those that were formerly obtained only in global financial markets. In 2006, Deutsche Bank chief Josef Ackermann declared that investors should aim for a 20 per cent return. In 2007, at the last pre-crisis shareholders' meeting, the keynote theme of his address was, literally, "25 per cent is not enough". In fact, it was claimed that the big private equity funds were delivering annual returns of the order of 30 per cent and more. There are, however, only two ways that profits like this can be regularly generated: through high leverage (that is, debt); and/or by cranking up the rate of exploitation.

Indeed, loading up on debt has been one vehicle for generating super returns. Between fourth quarter 2004 and fourth quarter 2008, the

1 A Ponzi scheme is a type of illegal pyramid scheme named after Charles Ponzi, who in 1921 duped thousands of New England residents in the USA by telling them he could provide a 40 per cent return on their investments in 40 days. Ponzi was deluged with funds, taking US$1 million in one three-hour period! The promised returns were clearly unsustainable. Though some early investors were paid off, most lost their money when the whole scheme eventually collapsed.

companies in the S&P 500[2] paid out US$900 billion in dividends to their shareholders and spent US$1.7 trillion buying back their own shares. This means that US$2.6 trillion were paid out to shareholders on earnings of US$2.4 trillion. And this leaves to one side the enormous amounts of leveraged buyout debt generated during the credit boom, which saw US$1 trillion spent by private equity funds buying companies between summer 2006 and summer 2007 for the sole purpose of buying out the existing shareholders, loading the companies with more debt to finance dividend payments to shareholders, and then selling them on. And it must be remembered that high levels of debt are not simply a means of increasing profits: they amplify volatility, and transfer risk from investors to workers. As a consequence, workers in virtually all sectors are harmed by rapidly changing ownership, permanent restructuring and targets for rates of return (profit), as they are based on a financial logic that places little or no value on real production, productivity or jobs.

Stock markets today directly reward companies which eliminate productive capacity and destroy jobs. Layoffs and closures feed a financial market that thrives on shifting wealth away from productive investment, which in the food sector has steadily declined as a percentage of corporate resources. At Kraft, for example, the world's second largest food corporation, capital expenditure in 2008 was barely 3 per cent of operating revenue – about half the norm of 20 years ago. Even investment in research and development (R&D) has tended to decline as a percentage of cash flow. R&D is increasingly outsourced, either to universities, or, in the case of Nestlé, through a proprietary hedge fund on the prowl for start-ups. If "downsize and distribute" became a trend in the 1990s, when the phrase was coined, it later became a steamroller, particularly in the years following the dot.com and stock market crashes of 2000–2002.

In the European Union, food processing is the largest employer in the manufacturing sector, and it adds more value to its raw materials than any other industry. In the growth years 2000–2005 (the last for which I have figures, but the trend has intensified), over 15 per cent of jobs were eliminated in this industry – ahead of textiles, and behind only agriculture. These jobs were not lost to foreign imports: they were lost to pressure to pay out more to shareholders.

2 Standard & Poor's 500 is an index of 500 large publicly-held companies that trade on the two largest US stock markets. It is considered a bellwether for the US economy

Photo: IUF

PG Tips' famous monkey joins the Casual-T campaign

“Dream come true” for workers in Pakistan

Unilever pushed its “Path to Growth” to extremes in Pakistan. The company claimed to give work to more than 7,000 people, directly or indirectly, but of these only 323 were employed by Unilever on permanent contracts. Lipton is one of Unilever’s “billion dollar brands” – the two dozen brand products that generate 75 per cent of corporate revenue. Unilever’s Lipton tea factory in Khanewal used to employ directly only 22 workers, but another 723 workers were hired through six contract labour agencies.

These precarious workers were legally excluded from joining a union of Unilever workers and from participating in a collective bargaining relationship with Unilever as their real employer. They were, in principle, allowed by law to form a trade union and negotiate with their employer, but their employer was the labour hire agency, not Unilever. These workers received one-third the wage of the permanent workers, had no employment security, no benefits and no pension.

Until 31 August 2008, Unilever had a second Lipton factory, in Karachi. That plant employed 122 permanent workers, and 450 casuals. But that was too many permanent workers for Unilever, so the plant was abruptly closed and production transferred to a former warehouse nearby – with 100 per cent outsourced, temporary staff.

In early 2009 the workers at the Khanewal plant launched a series of local and national actions in support of their struggle for permanent, direct employment. The IUF organised an international “Casual-T” campaign to support their cause. Unilever’s “No work, no pay” system became a powerful symbol of the denial of fundamental trade union rights through massive casualisation. In November 2009 the campaign won a major victory.[1] Under the terms of the settlement, Unilever agreed to create 200 additional direct, permanent jobs, retroactive to 15 October 2009, with job selection to be based on seniority, and priority given to the members of the Khanewal workers’ Action Committee, which led the struggle locally. The selection and employment process will be jointly monitored and implemented by the IUF and Unilever at national level.

The Khanewal workers’ Action Committee warmly thanked the many trade unionists and human rights defenders around the world who had supported their struggle and whose support they considered crucial. Action Committee chairman Siddiq Aassi said: “I have been working at Unilever Khanewal for more than 20 years but never imagined I would one day enter the factory as a permanent worker.” “It was dream for us to get permanent jobs”, said Mukhtar Ahmed, Action Committee secretary. Shahzad Saleem, Action Committee joint secretary, added: “Nobody in the factory and even in Khanewal can belive it. [When we began the struggle], people told us we would just hit a rock and be crushed.”

1 See http://cms.iuf.org/?q=node/76

Increased profits and sales were not achieved through productivity-enhancing technological change, which in recent years has barely affected the production process as such, as corporations focus on delivering instant cash to shareholders rather than investing in productive capacity. The companies simply squeezed more out of less. Mergers, acquisitions, and financially mandated reductions in “head count” meant that medium-sized facilities were closed and production centralised in fewer units transporting products over longer distances, deepening and widening the industry’s already substantial carbon footprint.

Those companies now employ fewer and fewer workers to produce their branded products. Outsourcing and casualisation have become key tools for enhancing exploitation in the quest for super-profits. Precarious work[3] not only allows employers to achieve massive reductions in the wages bill, but also has a chilling effect on the bargaining power of the workers who remain directly employed. The organising task for unions now goes beyond winning global recognition, organising and gaining bargaining rights from transnational employers. It also involves uniting into a single bargaining power those directly employed by the company and the growing numbers of precarious workers producing within the same TNC systems.

In 2000, Unilever, the world’s third largest food company, launched a “Path to Growth” strategy aimed at funnelling €16 billion to shareholders in 2000–2004 and €30 billion in 2005–2010. In 2000, when Path to Growth was launched, the company employed 300,000 workers. Today it has a workforce of 148,000. In the first three years of the Path to Growth, net profit increased by 166 per cent. New worldwide job cuts were announced in July 2007, simultaneously with a 16 per cent increase in second-quarter profits. When

3 Precarious work is a term used to describe non-standard employment which is poorly paid, insecure, unprotected, and cannot support a household.

World Food Day 2009: This crisis is an opportunity to roll back the rising tide of world hunger

The following statement was adopted by trade unions representing food workers from Japan, South Korea, Hong Kong, Thailand, the Philippines, Malaysia, Indonesia, Fiji, Pakistan, India and Sweden at the IUF–Asia/Pacific Food & Beverages Sector meeting, held on 15 October 2009 in Bangkok, Thailand.

The shock of sky-rocketing food prices in 2007 and 2008, which led to food riots around the world and in our region, exposes the failure of the current global food system. More than one billion people are now in the grip of hunger and the food crisis confirms that many of us are, in fact, food insecure.

Although food prices have fallen as a result of the October 2008 global financial meltdown and the current deep recession, the ranks of the hungry have not diminished and the underlying system requires immediate change.

However, the present crisis offers an opportunity for a fresh approach to policy making.

In March this year, the ILO at a Geneva tripartite workshop addressing the global food crisis responded to IUF criticism regarding the long absence of labour in global policy-making related to food security. The ILO tripartite workshop, among other things, recommended that unions to be involved in international and national plans to deliver food security for all. The workshop also recommended that that the ILO work in partnership with the UN High Level Task Force (UN HLTF) on the Food Security Crisis to ensure that decent work, and in particular decent work in agriculture, is treated as an integral part of the global response.

The IUF has also welcomed the UN's Special Rapporteur on the Right to Food, Professor Olivier de Schutter, who has recognised that labour rights are crucial for finding solutions to the food crisis, in particular for strengthening the purchasing power of the poor. He has correctly pointed out: *"we may not be able to legislate against hunger. But because hunger and malnutrition stem from discrimination and disempowerment of the poor, strengthening the legal entitlements of these victims is a first and vital step towards real change."*

We hold that universal recognition of the "Right to Food" is necessary but not enough. In 1996, the World Food Summit in Rome reaffirmed the right to food for all – yet this changed nothing. The situation is worse today.

Without a clear capacity for workers to access the right to food, there is little possibility of the global problem of hunger fundamentally changing.

This is why governments or companies that suppress workers from organising independent trade unions to protect their rights and interests, contribute to the entrenchment of world hunger.

The crucial link between unemployment, low wages, job insecurity, lack of bargaining rights and hunger must be recognised. Talk by donor agencies of simply increasing food production is utterly misdirected. We live in a global economic system where powerful corporations whose interests are profit-driven and self-serving determine how most of the world's food is produced and consumed.

Trade liberalisation in food commodities allows powerful transnational agri-food companies to destroy the livelihoods of millions.

The large-scale cross border land grabs of late, following the realisation that "free trade" is not a reliable basis for food security, should be stopped as an unsustainable response which can only exacerbate the problem of hunger.

We consider the most critical observation and recommendation made by Professor Olivier de Schutter to be: *"the expansion of global supply chain only shall work in favor of human development if this does not pressure States to lower their social and environmental standards in order to become "competitive" states, attractive to foreign investors and buyers. All too often at the end of agri-food supply chain, agricultural workers do not receive a wage enabling them a decent livelihood. The ILO estimates that the waged work force in agriculture is made up of 700 million women and men producing the food we eat but who are often unable to afford it. This is unacceptable."*

We welcome his recommendation to the UN Commission on Sustainable Development that we need to regulate TNCs to ensure that they contribute to sustainable development.

Similarly, we need regulation to reverse the expansion of precarious forms of employment.

If a "contract worker" (employed through a labour hire agency) in a food factory in the developing world, owned by one of the world's largest food companies, earns less than enough to feed a family two meals a day, how can there be any justice or possibility of food security for workers in agriculture? The expansion of contract work in the world today is creating millions of food insecure families.

IUF–A/P is committed to stepping up the campaign for Job Security and Food Rights for all in the region.

For members of the IUF in Asia/Pacific and for workers in IUF sectors generally, hunger is a daily reality stalking their lives.

Successfully achieving food security in the long term, ultimately, can only be done through food rights and food workers' unions.

20,000 additional job cuts in Europe were decreed in 2008, Unilever claimed this "shake-up" would generate €1.5 billion in cost savings that would deliver even greater "shareholder value". When he retired at the end of 2004, the CEO who initiated this programme received a £17 million golden handshake.

The "Path to Growth" saw not only profits, executive compensation, and "shareholder value" grow at the expense of jobs: outsourcing and casualisation grew as well. A Unilever presentation to investors in 2003 includes a slide entitled "Improving asset efficiency, releasing cash", where increased outsourcing of production from an average 15 per cent to "25 per cent plus" is listed as an "achievement". Yet, as was demonstrated by the resolution in October 2009 of a long and difficult conflict over the rights of precarious workers at Unilever's tea factory in Khanewal in Pakistan, determined and organised workers can be victorious in their struggle against the system (see box).

The path to growth that transfers additional billions annually to investors involves not only absolute reductions in the number of permanent jobs, but also growth in the number of non-union workplaces and disposable jobs. The Unilever dynamic is at work in all the companies confronting the IUF and unions around the world, rolling back collective bargaining gains which took decades to achieve. The fate of agricultural workers, a large percentage of the nearly 1 billion women and men who are now chronically hungry and malnourished, is increasingly linked to movements on commodity exchanges thousands of kilometres from the farms and plantations on which they work. This is the reality of financialisation.

In the current crisis, defending jobs and working conditions is, for unions, the first order of the day. Yet workplace action alone is clearly no defence against the ravages of a global financial meltdown, just as it could not defend against the system's daily workings. Regulation and political action are clearly needed, but what kind of regulation? Lending has to resume, but lending for what? So that employers can return to the day of the 20 per cent return and continue to buy back their shares, speed up, downsize and outsource jobs while cutting investment? Lending for growth, but what kind of growth? The growth that leads Unilever Pakistan to rely on agency labour for 98 per cent of its tea packing in a nation of tea drinkers? The growth which leaves farm-workers without clean water for drinking or washing up in some of the richest countries of the world?

If, to answer Deutsche Bank's Herr Ackermann, we know that a 25 per cent return on investment is neither environmentally nor socially sustainable, how much is enough? Singling out, for example, derivative markets or private equity or hedge funds detaches them from the wider environment in which they are embedded. The institutional investors who dominate world capital flows form a single investment pool – what matters is the global return, not the nature of the investment.

When we talk about restoring the flow of investment from finance to the real economy, this can obscure the extent to which the real economy's individual corporate units are themselves thoroughly financialised. How real is real when a company like Porsche last year earned seven times more from exercising derivative contracts than it did from car sales? The Financial Times recently asked, rhetorically, "Is Porsche a Carmaker or a Hedge Fund?" The answer is that it is both, and the same applies, for example, to Cargill, the world's largest grain trader and primary products processor, as well as to numerous other industry leaders.

Our regulatory response to the current crisis and our political agenda depend on the questions we ask. Regulation is an ongoing task, since regulations and taxes are the mother of financial innovation. It is a social project, not an act of legislation. In the final analysis, the fundamental issue we face is how to organise unparalleled accumulated global wealth so that it starts feeding the hungry and providing potable water to the millions who have no access to it, as well as restoring vanishing topsoil, halting and reversing climate change and putting the right to work – decent work at a living wage – at the centre of the rights we demand.

GOING FURTHER

Peter Rossman's presentation on climate change is available at:
http:///
http://www.iuf.org/buyoutwatch/