Labour, Financialization, and Rent in the Construction Industry: Towards a Hybrid Framework of Accumulation

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Introduction

One of the areas of inquiry that has long been overlooked in critical studies of housing and urban development is the question of production, particularly as it pertains to the construction industry. In his article entitled "Residential Accumulation: A Political Economy Framework", Moreno Zacarés (2023) provides a thought-provoking contribution to the subject through a mid-level conceptualisation of the residential accumulation process and the various stages of housing provision: from the production of housing to its financing and circulation, and to its use as part of the broader sphere of social reproduction.

At the centre of Moreno Zacarés' framework for a political economic analysis of housing provision is the tension between what he describes as the *deflationary*, cost-cutting logic of capitalist production, and the *inflationary* logic of rentierism. As elaborated in his equally compelling article, the "Euphoria of the Rentier" (2021), Moreno Zacarés suggests that these two forms of accumulation constitute fundamentally opposing logics: the competitive producer of capitalist goods pushes prices downwards, while the rentier uses their "hoarding power" to inflate asset values. Building on Christophers' (2020) work on the rentierization of the U.K. economy, Moreno Zacarés recognises that a rentier is never simply a rentier, and likewise, that a capitalist producer can also be engaged in practices of rent-extraction. This can be seen in the "hybrid logics" of the developer and land dealer, both of whom participate in strategies of cost-reduction and price speculation.

Recognising their inherent entanglement, Moreno Zacarés nevertheless separates these two logics of accumulation to elucidate the ways in which they might be working in fundamental contradiction with each other. In doing so, he argues that rentierism acts as a hindrance to productive dynamism, accelerating the long-term decline of capitalist profitability. Moreno Zacarés' assumption is that capitalism can remain relatively stable as a system if, and only, productive dynamism can grow in tandem with rent inflation. The problem, as Moreno Zacarés observes, is that these forms of accumulation are uncoupled in housing, as demand is not linked to wages. Another instance of this uncoupling can be observed in the oversupply of mortgage debt. As Kohl (2018) points out, the expansion of private credit markets helps explain why more mortgages are originated than homes constructed in certain types of growth regimes.

In this commentary, I build and expand on Moreno Zacarés' article in this issue by exploring in more depth the blurred and hybrid nature of property accumulation. My argument is that it may be more accurate to conceptualize the production and exchange of housing, and property more generally, as evolving in a process of *co-determination*. I suggest that it is precisely in these moments of hybridity that we can begin to unravel in greater depth the power relations that are emerging as a result of this transformed landscape of accumulation. To develop this argument, I review some of the critical

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scholarship on the construction industry with the aim of understanding how transformations in labour relations are entangled with the logics of finance and rent.

The rest of this commentary proceeds in two parts. First, I review discussions on the way in which financialization extends the logics of risk and liquidity in the construction process. Although the focus of this section is on the commercial construction industry, there are important overlaps with the residential sector as will become apparent. Second, I show how the restructuring of contractual relations in the residential construction industry has supported the intensification of rentierism, not simply in the process of house-price extraction as argued by Moreno Zacarés, but critically, in the production process itself.

The financialization of construction labour

If, as Moreno Zacarés acknowledges, the deflationary dynamic of capitalist production and the monopolistic and inflationary logic of rent extraction constitute "social processes that are normally entangled together", in this section I argue that the financialization of construction labour has created new forms of hybridity in the accumulation process.

Innovations in the contractual relationships governing finance and labour (Cooper, 2015) are central to understanding the mutual co-constitution of the realms of exchange and production. Building on the assumption that labour operates increasingly as a kind of capital[1] (Bryan, Martin, and Rafferty, 2009), Bryan et al. (2017) unravel some of the ways in which construction labour is priced as a form of risk. Focusing on the Australian commercial construction industry, the authors show how the logics of risk and liquidity operate at various stages of production and identify three important transformations that have occurred over the course of the last 30 years (Bryan et al., 2017).

First, the securitization of real estate finance has turned property into an asset class, putting it in direct competition against other asset classes such as stocks and corporate bonds on a "risk-return adjusted basis" (Bryan et al., 2017: 504; Toner and Coates, 2006). Second, construction companies are no longer involved simply in the production of property. Instead, as per the Australian case, construction companies—which emerged initially a set of regional institutions—are now increasingly operating as multinational firms, taking on the functions of investment banking, property development, asset management, and "risk trading", mirroring broader transformations in the corporate structure of non-financial firms (Bryan et al., 2017: 506). Under financialization, the distinction between the financing, production, and consumption of real estate is becoming more and more uncertain (Bryan et al., 2017; see also Romainville, 2017).

At the heart of this blurring and hybridisation lies a change in the relationship between labour, finance, and insurance. If the central paradox of accumulation identified by Moreno Zacarés is that the production of housing "pivots around, and is ultimately animated by, the prospect of house-rent extraction", this drive to inflate the price of property assets more generally cannot be separated from the rise of uninsured and non-standard labour contracts accelerated as Cooper (2015) argues, by the dissolution of the post-Fordist monetary consensus, and we might add, the Keynesian construction state (Kohl and Spielau, 2022). The shifting of risk onto sub-contractors and uninsured workers is central to this re-configuration of social relations within the construction industry.

Bryan et al. (2017) identify for example a change from a cost-plus contractual system in which the contractor is paid for all the expenses of a project plus a pre-agreed profit, to one in which construction companies are made to bear a wide array of perceived financial risks, from changes in the weather, to strikes, and supply-chain disruptions. Over time, contractors have learned to leverage their specialised knowledge of the building process in order to dump liabilities on sub-contractors or clients through the use of burdensome contracts (Bryan et al., 2017). Contractors at the bottom of the chain are then effectively left with few options but to undervalue and discount construction work and to exploit legal loopholes (Bryan et al., 2017: 509). For Bryan et al., (2017), this expansion of subcontracting is not simply a short-term competitive strategy to reduce costs but part of a “deeper competitive process” as labour becomes an input in the construction of securitised (property) assets (Toner and Coates, 2006: 106, as cited in Bryan et al., 2017).

I want to suggest here that financialization, at least in its latest instantiation, complicates the conceptual framework put forward by Moreno Zacarés. The dynamic of ‘productive’ capitalism’ is actively shaped by exchange-side dynamics through the emergence of tradeable property-backed debt instruments (Bryan et al., 2017), and the rise of non-standard, uninsured work (Cooper, 2015).

Misclassifying workers and other transformations in contractual relations

Legal innovations have played a critical role in reconfiguring the relationship between house-rent inflation and intensified forms of labour exploitation. As labour scholars in the U.S. have shown, changes to the tax law were instrumental in segmenting, splintering, and bifurcating the construction labor force (Theodore, 2015), and in dissolving union power in the residential sector (Erlich, 2020). Erlich (2020) for example traces the rise of worker ‘misclassification’ to the *1978 Revenue Act,* which formally enshrined in law the practice of hiring workers as independent contractors in order to reduce tax liabilities. The restructuring of the tax code was linked in large part to the lobbying efforts of the construction industry and its large corporate clients, who by 1968 had formed a group called *Construction Users Anti-Inflation Roundtable*, later renamed the *Business Roundtable*, the now prominent lobby group of American company CEOs (Erlich, 2020).

No less significant is the role of racialization and the restructuring of border regimes in facilitating a process of risk-shifting in the U.S. residential construction industry (Erlich, 2020; Torres et al., 2013). The *1986 Immigration Reform and Control Act* (IRCA) border contained a provision to prevent employers from “knowingly” taking advantage of the undocumented status of employees, hastening misclassification as contractors doubled down on the hiring of workers as independent contractors (Erlich, 2020). The proliferation of misclassification and illicit, off-the books cash compensation in the residential construction sector necessitated in turn further legal innovations, which found expression first in a new industry of lawyers and consultants hired to advise contractors on how to reduce costs, and second, in an intricate system of smugglers and brokers tasked with recruiting workers from the U.S.-Mexico border (Erlich, 2020).

The construction sector, as Moreno Zacarés and Erlich (2020) point out, is regularly described as having one of the lowest ‘productivity gains’ of any industry. In part, this is because the production of housing is relatively fixed in space: it is difficult to move the building of homes to achieve cost efficiency. Therefore, capitalists have continued relying on a local labour force (Erlich, 2020), while competition within housebuilding is organized around the “exploitation of a low-paid workforce willing to work at a fast pace” (Moreno Zacarés, 2023).

Yet, if the sector is characterized by a dearth of technological innovations, the construction sector has acted as an important precursor for the restructuring of labour relations and for the ‘gig’ economy more broadly (Erlich, 2020). As Erlich incisively argues (2020) the construction industry was impacted to a much lesser degree by the managerial and technological innovations that took place in the 1980s and 1990s (Erlich, 2020). Indeed, the *Business Roundtable’s* lobbying effort was much simpler in its ambition: the goal was not to achieve any feat in technological innovation, but to establish “the primacy of the owner in the construction food chain” (Erlich, 2020: 1208).

The transformation in contractual relations in the construction sector has also intersected in significant ways with the re-organisation of the family as an economic and social institution under capitalism. As Moreno Zacarés points out, the intergenerational transfer of wealth is a central feature of what he describes as the decoupling of productive dynamism from rentierism. But the family arguably does a little more work here. In their study of small family commercial construction firms in Spain and Italy, Vetta and Palomera (2020) argue that subcontracting is fundamentally entangled with the expansion of credit and the extension of rent-extracting practices. Multinational contractors in Spain and Greece, who occupy a relatively privileged position with respect to state institutions, can generate profit increasingly through financial means—by buying and trading assets for example—precisely because they are separated from the process of production by way of a system of subcontracting.

With intensified rent-extraction, which Vetta and Palomera understand as an attribute of financialization and as a strategy of non-productive accumulation, subcontracting is not simply a way to outsource labour but “a relation of value distribution, an unequal form of value appropriation” (Vetta and Palomera, 2020: 899). The expansion of subcontracting is also tied to household debt and the realm of social reproduction, as family assets are used as collateral for business loans and family members act as guarantors for loans, or ‘social collaterals’ (Vetta and Palomera, 2020: 890).

It must be noted, of course, that these contractual transformations are not new. Instead, it might be more helpful to think of this evolving contractual environment as a historically specific and contingent expression of the changing relationship between capital and labour in the construction industry (Vetta and Palomera, 2020). In her seminal book *Building Capitalism* Linda Clarke ([1992] 2012) traces the shift from feudalism to industrial capitalism in the production of housing in London. Clarke (2012) masterfully shows how the expansion of wage labour enabled a transition from an artisanal system organised around a master craftsman to one centred around the new figure of the contractor. Under this new system, the contractor would hire wage labourers to complete projects for a lump sum of profit. Importantly, this transition also marks a shift away from a system organised around the control of land rent—the artisanal system was sustained in part by the motivation to collect and increase leasing income—to one underpinned by development profit and the construction of homes as commodities (Clarke, 2012: 167).

Finally, I want to suggest that if the financialization and rentierization of property and housing has necessitated a parallel transformation in labour relations (Christophers, 2019; Strauss, 2021), a framework for residential accumulation as outlined by Moreno Zacarés could also benefit from a discussion of the monopsony power of construction firms. Drawing on the work of Kalecki, Christophers (2019) reminds us that the ability of the capitalist to drive down the price of the labour is a function of their ‘monopsony’ power—in other words, the capitalist’s buying power over workers, and the power to accrue a bigger share of income in relation to workers. The construction industry is a case in point.

As the history of construction labour shows, the monopsony power of developers and head contractors necessitates forcing down the price of labour and increasing the price of housing as a commodity. This forcing down of the price of labour occurs through processes of bifurcation, splintering, segmentation, informality, and worker atomization (Erlich, 2020). From the perspective of monopsony power, the head contractor may also act as a kind of ‘hoarder’ not dissimilar to the way in which landowners speculate on the price of land, or the way in which developers engage in practices of ‘land banking’ (Moreno Zacarés, 2023).

Conclusion

In devising a framework for housing provision under capitalism, it is tempting to think about the production, exchange, financing, and use of housing as a relatively discrete set of processes unfolding in linear fashion. For heuristic purposes, Moreno Zacarés has produced such an analysis, at the same time as recognising some of the many ways in which the logics of accumulation and the stages of housing provision are necessarily entangled. Yet the literature on the political economy of construction labour suggests that it might be more helpful to think about the production and rentierization of property as a more relational process of co-determination.

Formulating a mid-level typology of residential accumulation, as proposed by Moreno Zacarés (2023), requires that we engage more deeply with the hybrid nature of accumulation. I argued in this short commentary that we need to take seriously the weavings and interstices of the different logics of accumulation. This task is essential for grasping more fully the social relations underpinning the dominance of rentierism in contemporary capitalism.

Drawing on the work of critical political economy scholars, I sketched out some of the ways in which the logics of finance and rent have transformed social relations in construction work, as property and labour are increasingly treated as attributes of tradeable financials assets (Bryan et al., 2017). The expansion of credit in the realm of social reproduction has also intersected in significant ways with construction work, as illustrated in the cases of Spain and Greece where homes are used as collateral for small family construction firms (Vetta and Palomera, 2020). Foreshadowing the extension of non-standard labour (Cooper, 2015) in all segments of the economy, I argued that transformations in contractual relations in the construction industry have played a key role in mediating the relationship between rent extraction and labour exploitation.

In sum, if relations of production are ultimately organised around the extraction of house-rents, as argued by Moreno Zacarés, it bears emphasis that this relationship does not follow a neat or linear trajectory. Rather, production, as I explored in the case of construction labour, is actively shaped by the logics of finance, and rent. This entanglement between labour, finance, and rent further blurs the line separating production and exchange, and the ‘real’ from the ‘speculative’.

Disclosure Statement

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Note

1. Bryan, Martin, and Rafferty (2009) build and expand on Marxist conceptions of labour-as-capital. If labour operates both as a form of commodity capital (this refers to workers’ labour power) and as a kind of variable capital (or the act of putting labour power into action in the process of production), financialization changes this matrix in two ways, Bryan et al. argue (2009). First, securitization intensifies the exploitation of labour in production, as it increases competition between different forms of capital. Second, the extension of credit into the realm of the household transforms social reproduction into a source of surplus value extraction through the capture of interest payments (Bryan et al., 2009).

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