# TRENDS IN CAPITAL OWNERSHIP AND INCOME

*PENSION FUNDS IN THE NEOLIBERAL COMPROMISE*

## Preliminary Draft

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# 1 - Introduction

The new trends asserted during the last decades of the 20th century and the early 2000s are commonly referred to as defining a new phase of capitalism, denoted as *neoliberalism*. In various studies, we interpreted this new social order as the outcome of the reassertion of the power, income, and wealth of ruling classes, after a period a relative setback during the decades of the Keynesian compromise.[1] (The analysis here is limited to the United States.)

In many senses, the emergence of neoliberalism added to the legibility of capitalist social relationships in contemporary capitalism. A comparison with the social and power relationships of the first decades following World War II, suggests that, after 20 years of neoliberalism, capitalist relations of production rule the world even more rigorously. A new discipline was imposed to workers and management; capital incomes — dividends and interest — were dramatically increased. After a period in which nominal interest rates remained practically equal to inflation rates during the 1970s, the 1979 coup of Paul Volcker imposed high real interest rates to the benefit of lenders. Larger flows of dividends were gradually paid to shareholders, and the stock market skyrocketed up to the bubble of the second half of the 1990s. To these traits must be added the new imperial violence, in particular the opening of commercial frontiers and the free mobility of capital at the level of the global economy.

However evident these trends may be, other aspects of contemporary capitalism contribute to blur class frontiers. A first element, which has often been discussed in the left literature, is the diffusion of capital ownership in broader segments of the population. This is performed through various institutional devices such as mutual and pension funds. Does "pension fund capitalism" alter significantly the class patterns of capitalism? Does the gradual extension of pension funds open avenues for a post-capitalist social order: pension fund socialism?

A central element is that parallel developments are taking place at the other end of the social spectrum, also adding to the confusion of traditional social categories. Growing components of high incomes take the form of salaries or other channels evocative of the compensation of "labor" rather than ownership and control. Concerning salaries, everyone is aware of the astounding remuneration of companies' CEO, but a wider hierarchy of high wages is also at issue. A less familiar process is the importance of entrepreneurship income as an income source for the richest fractions of the population. The phrase "working rich" has been coined to denote the groups who benefit from these huge incomes flows. Do we live, therefore, in a society where workers share the reward of capitalist owners, and upper classes are compensated for their toil? But the pattern of growing inequalities fully contradicts such a fairy tale. The rich get richer, and the ownership of capital is at issue. Section 2 simultaneously documents and refutes the confusion created at the top of the social hierarchy by the transformation of capitalism during the latter decades of the 20th century.

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1. The title of our book "Capital Resurgent" refers to this new capitalist hubris: G. Duménil, D. Lévy, *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard: Harvard University Press (2004).

There are, however, other components to the growing pattern of social inequality. Below the top of the income hierarchy, most of the population lives from wages. But these groups are far from homogeneous, and wage inequality has been growing consistently. In addition to comparatively rising wages, these upper-middle classes did benefit to some extent from capital income, in particular through the indirect holding of securities within various categories of funds such as pension funds. Section 3 documents these new social patterns.

That the transformations of capitalism during the latter decades of the 20th century did obviously not offset class relations does not deny, in any manner, the importance of change. Section 4 provides an interpretation of the new course of capitalism, considered in historical perspective. Both the diffusion of pension funds and the new channels through which higher incomes are realized are described as components of the new phase of capitalism, neoliberalism. The "people" Keynesianism of the first decades following World War II — a broad social compromise — began to unravel in the 1970s, paving the way for neoliberalism. Thus, the neoliberal social order — in which class relations remain as strong as ever — is also the expression of a social compromise, but in a distinct configuration, in which the cohesion of upper classes has been strengthened while more distance was taken from lower classes. Not only the very top of the social hierarchy "benefited" from the new income trends, also the broader category of "upper salaried classes".

Section 5 summarizes the main thesis in this paper: Neoliberalism was the vector of the assertion of a new framework of social relations, that of a "two-tier capitalism". This configuration is the institutional expression of the new compromise between ruling classes and upper salaried classes. Growing wage inequality was already widening the gap between these groups and the rest of the population before neoliberalism was asserted. Neoliberalism was successful in the establishment of a new social compromise which lured these middle classes into the new social dynamics, though in a subordinate position: the second, lower, tier of this two-tier capitalism. The future of this social trajectory appears problematic.

## 2 - Working capitalists?

This section is devoted to what can be denoted as "capitalist classes". The investigation begins with the hierarchy of incomes and their composition in 2001 (section 2.1). The comparative size of salaries and entrepreneurial income, for very high income, is puzzling. The consideration of the historical profile of these incomes (since World War I) is telling, but raises more questions than it provides answers (section 2.2). The pattern observed in 2001 is quite specific of the late 20th century. A first difficulty can be set aside: the rise of entrepreneurial income for the top of the income hierarchy should not be misinterpreted (section 2.3). It hides truly capitalist mechanisms. Then, the section moves to the historical trends of wealth (section 2.4). Surprisingly enough, the rise of income inequality was not paralleled by rising wealth inequality trends. A last section is devoted to the top of the top (section 2.5). There, things are unambiguous.

## 2.1 Making money in 2001

This section discusses the proportions of the various sources of income (wages, capital income...) for groups of households differing by their gross income, for the year 2001.[2] The data is presented in tables 1 and 2. In this latter table, capital gains are also included. A first category of income, in the first column, is made of salaries, wages and various types of pensions (for short *wages*); the second column aggregates various categories of income related to the ownership of securities, real estate or intellectual property, such as interest, dividends, royalties, and rent (*capital income*); the third column is devoted to partnership income and the income of S-corporations[3] (*partnership income*); a last column accounts for other categories of income.[4] Capital gains are displayed in table 2 in the column to the right of *partnership income*.

The first lines in these tables are devoted to households with annual gross income of less than 200,000 dollars. They account for the great mass of the population: 98% of households. Abstracting from capital gains, as in table 1, it appears that wages account for 90.7% of the income of these groups; capital income reaches 4.8% and partnership income, 1%. The inclusion of capital gains does not significantly modify this distribution since the percentage, as in table 2, is only 1.2%. These observations confirm the well-known fact that the bulk of the income of most of the population is made of wages and pensions for retirees.

Consider now the composition of the income of the remaining 2% whose tax return is above 200,000 dollars (2,018,372 households). Setting aside capital gains, their income is made for 64.1% of wages, 13.6% of capital income, and 16.7% of partnership income. Thus, despite the growing importance of capital income close to 14%, it is interesting to note that wages still account for nearly two thirds of the income of this group. One can also observe that partnership income (1.2% above) reaches 16.7% for this category of upper incomes. (The consideration of capital gains sharply diminishes all these percentages since, in 2001, they accounted for 17.6% of the income of these groups, as shown in table 2.)

The comparative importance of wages remains a feature of even more well-off fractions of the population: closer to the top of the pyramid. Consider tax payers with returns above 500,000 dollars. They account for 0.426% of all households, less than half a percentage point. These groups still receive 56% of their income as wages; capital income accounts for 17%, but this amount remains inferior to partnership income, which reaches 22.6%. As could be expected, one can observe in table 2, that capital gains represented 25.3% of the income of this group. The relative importance of wages is still obvious for households whose income is above $5 million. Capital gains were huge for this group.

2. In this paper, we sometimes refer to households, tax returns, or individuals, depending on the data considered. The hierarchy of inequality is not significantly altered by these differences. One can compare, for example, tables IE-6 (Measures of Household Income Inequality) and IE-2 (Measures of Individual Earnings Inequality for Full-Time Workers) in U.S. Bureau of the Census, Historical Income Inequality Tables, Washington, http://www.census.gov/hhes/income/histinc/ineqtoc.html (2004).

3. These two types of institutions have in common that they do not pay profit taxes; incomes are directly included in the tax returns of the participants.

4. The major component in the miscellaneous category is Sole proprietor income. Among these proprietors, one can distinguish "traditional" components (in construction; retail trade...), and "newer" components (Professional, scientific, and technical services; Health care and social assistance...). In this paper, we abstract from these groups though they represent 18 million people, since the amounts of income at issue are small and this income is rather evenly distributed among income brackets (with some concentration at the bottom). See table 7.

Table 1 - Composition of income (%), 2001
Excluding capital gains

| Value of gross income | **% of returns** | *Total* | *Wages* | *Capital income* | *Partner-ship income* | *Other incomes* |
|---|---|---|---|---|---|---|
| under $200,000 | **98.01** | 100.0 | 90.7 | 4.8 | 1.0 | 3.5 |
| $200,000 or more | **1.99** | 100.0 | 64.1 | 13.6 | 16.7 | 5.6 |
| $500,000 or more | **0.426** | 100.0 | 56.0 | 17.0 | 22.6 | 4.4 |
| $5,000,000 or more | **0.015** | 100.0 | 50.9 | 22.6 | 22.4 | 4.1 |
| All returns | **100.0** | | | | | |

*Total = Total net income without capital gains*
*Wages = Salaries and wages + pensions*
*Capital income = Interest + Dividends + Rent + Royalties + Estate and trust*
*Partnership income = Partnership and S-Corporation income*
*In "Other incomes", the major component is Sole proprietor income*
*Income = Net Income - Loss*

Source: IRS, Individual Tax Statistics - Data by Size of Income. Table 1.4: 2001 Individual Income Tax, All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income
http://www.irs.gov/pub/irs-soi/01in14ar.xls

Table 2 - Composition of income (%), 2001
Including capital gains

| Value of gross income | **% of returns** | *Total* | *Wages* | *Capital income* | *Partner-ship income* | *Capital gains* | *Other incomes* |
|---|---|---|---|---|---|---|---|
| under $200,000 | **98.01** | 100.0 | 89.6 | 4.7 | 1.0 | 1.2 | 3.4 |
| $200,000 or more | **1.99** | 100.0 | 52.8 | 11.2 | 13.7 | 17.6 | 4.6 |
| $500,000 or more | **0.426** | 100.0 | 41.8 | 12.7 | 16.9 | 25.3 | 3.3 |
| $5,000,000 or more | **0.015** | 100.0 | 28.8 | 12.7 | 12.7 | 43.5 | 2.3 |
| All returns | **100.0** | | | | | | |

*Total = Total net income with capital gains*

Source: See table 1.

An overall observation is, therefore, that the income of the better-off fraction of households corresponds, to a large extent, to wages and partnership income, suggesting a participation in production or management rather than passive ownership. For the second upper category considered above (the top 0.426%), and abstracting from capital gains, the total of wages and partnership reaches 78.6% of the income of the group! If the ideology of pension funds can be interpreted as we are "all capitalists", the structure of income suggests that rich households can claim being "all workers".

## 2.2 From coupon-clipping to "management"

It is possible to place the above observations in historical perspective. This section is devoted to the secular trends of income distribution at the top of the income pyramid. Data come from a study which reconstructed series from World War I onward, using IRS tax returns.[5]

*2.2.1 Income at the top*

Figure 1 shows the profile of the fraction of the total household income received by the top 0.01% with highest tax returns, since World War I. In 2000, the average annual income of each of the 13,447 individuals who composed this category was 12,984,220 dollars.[6] The category of households considered here is even narrower than the group with returns above 500,000 dollars in the previous section (now 1 over 10,000 instead of 0.421% that is 1 over 237). It is close to the upper bracket in the previous section, which accounted for 0.015% of households.

Again, the various sources of income are: capital income (dividends, interest and rents), partnership income[7], wage income[8], and capital gains. One curve takes account of capital gains, the other does not. Figure 2 shows the same information for each component of income taken separately, other than capital gains. Thus, the lower curve (——) in figure 1 is the sum of the three shown in figure 2.

In the data used in this investigation, pensions paid by pension funds to retirees are also aggregated to wages; correspondingly, interest and dividends earned by funds are not treated as part of the income of the households contributing to the funds. The effect of inflation on incomes is not taken into account; for example, capital gains during the 1970s are, to a large extent or totally, fictitious, since inflation devalued the portfolios of shares; the same is true of interest, since interest bearing securities were also loosing purchasing power.

The composition of income in 2000 is similar to the one observed in the previous section at the top of the income pyramid: 64% for wages, 25% for partnership income, and 11% for capital income.

The new element here is the variation of this income pattern over time. An examination of figures 1 and 2 suggests a periodization in three stages for the entire period since World War I:

1. Before World War II, the concentration of income was very strong (figure 1); most of the income of the richest fraction of households was made of capital income (figure 2). (In the average from 1916 to 1940, capital income and capital gains, taken together, accounted for 74% of the total income the group.)

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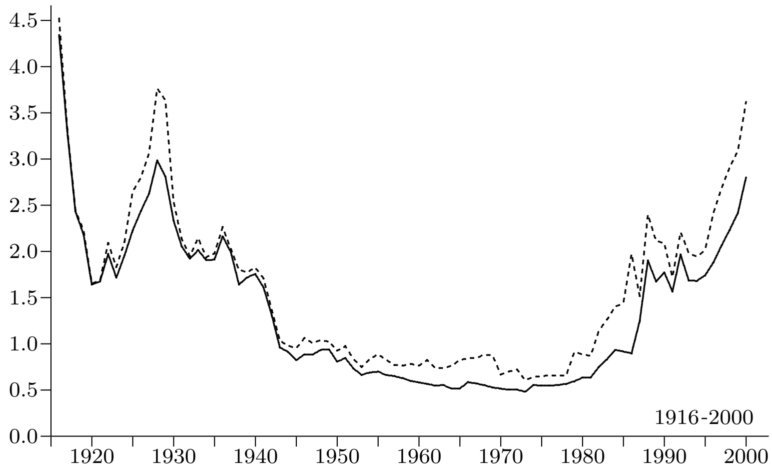
5. T. Piketty, E. Saez, "Income Inequality in the United States, 1913-1998", *The Quarterly Journal of Economics*, CXVIII (2003), p. 1-39.
6. T. Piketty, E. Saez, *ibid.*, table 1.
7. That the authors denote as "entrepreneurial income". It is profits from S-Corporations plus profits from Partnerships plus profits from Sole proprietorship businesses (Schedule C income) plus Farm income.
8. Wages income is defined as wages and salaries and pensions (and includes bonuses, stock-option exercises, etc.). Employer contributions for government social insurance and for employee pension and insurance funds are excluded.

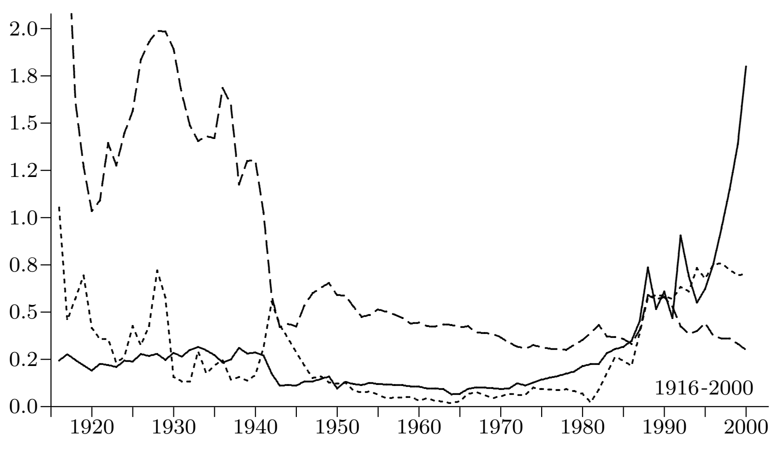
Figure 1 The top 0.01% income share in total household income: all income components, including or excluding capital gains




Without capital gains: (——)
With capital gains: (-----)

Source: W. Kopczuk, E. Saez (2004), http://elsa.berkeley.edu/~saez/TabEstate.xls

Figure 2 The top 0.01% income share in total household income for each component of income other than capital gains




Capital Income: (— —)
Partnership Income: (-----)
Salaries: (——)

Source: As above.

2. During World War II, one observes a spectacular reduction in the percentage of total household income that these upper groups received earlier, without any sign of recovery before the early 1980s (figure 1). During these intermediate decades, the concentration of capital income continued to unravel (figure 2). (Abstracting from the devaluation of financial assets by inflation, which was obviously very large during the 1970s and made things even worse.) Although this transformation is dwarfed in the figure by other even more spectacular movements, one can also notice that the percentage of total household wages accruing to this fraction of the population (an indirect index of wage inequality, assuming that the number of wage-earners in the group was not correlatively diminished) was divided by a factor of two through World War II.[9]

3. During the two latter decades of the 20th century, inequality was re-established (figure 1). This restoration of the privileges of households with the largest incomes took a completely new form (figure 2). Abstracting from the ephemeral rise of capital income in the late 1980s and early 1990s, the concentration of wages and partnership income increased tremendously. At the end of the period, the top 0.01% income group concentrated 11.2% of total household entrepreneurship income and 1.6% of total wages. "Wages" skyrocketed during the second half of the 1990s, reflecting both their upward trend and the large distribution of stock shares.

It is interesting to note that the profile observed for the United States is also apparent, to a lesser extent, in the United Kingdom and in Canada, but not in France, the Netherlands, or Switzerland.[10]

### *2.2.2 Where to draw the frontier?*

The profile depicted in figures 1 and 2 is striking. Abstracting from the fall of the share of total household income received by the top 0.01% after World War II, two traits must be emphasized: (1) the decline during the first post-WWII decades, and (2) the sharp recovery since 1980. Recall that 0.01% refers to approximately 10,000 households out of 100 million. One may wonder which other groups were actually involved in these fluctuations.

Figure 3 shows the fractions of total household income received by various fractiles[11],

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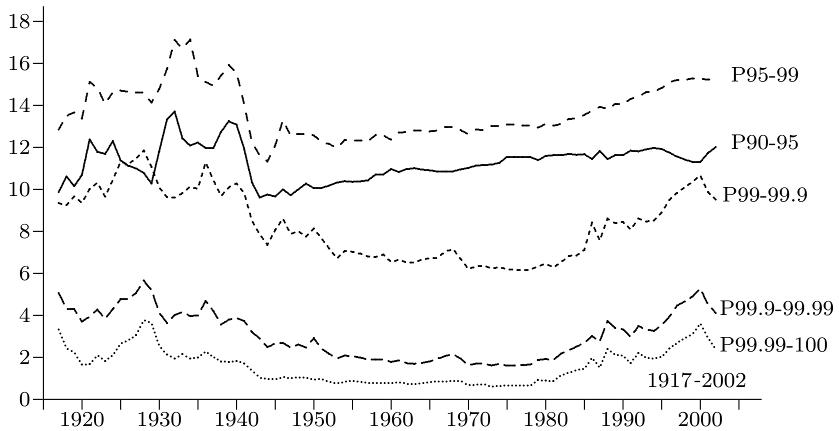
9. Thomas Piketty and Emmanuel Saez (*ibid.*) make the following commentary: "The National War Labor Board, established in January 1942 and dissolved in 1945, was responsible for approving all wage changes and made any wage increase illegal without its approval. Exceptions to controls were more frequently granted to employees receiving low wages. Lewellen [Executive Compensation in Large Industrial Corporations, New York: NBER, 1968] has studied the evolution of executive compensation from 1940 to 1963, and his results show strikingly that executive salaries were frozen in nominal terms from 1941 to 1945 consistent with the sharp drop in top wage shares that we find. The surprising fact, however, is that top wage shares did not recover after the war. A partial and short-lived recovery can be seen for all groups, except the very top. But the shares never recover more than one-third of the loss incurred during World War II." [p. 29-30].

10. See E. Saez, Income and Wealth Concentration in a Historical and International Perspective, UC Berkeley and NBER, Paper prepared for the Berkeley Symposium Distribution of Income, and Public Policy (2004), and E. Wolff, *International Perspectives on Household Wealth*, Aldershot: Edward Elgar (2004).

11. This paper uses the terms "quintile", "decile", and "fractile", or "percentile". A population is considered; individuals are ranked according to a certain quantitative criterion, for example income; then, five equal groups are formed: the first 20% with lower income, the following 20%, higher in the hierarchy, and so on. A quintile is referred to as a bracket, for example 0-20 meaning the bottom (or first) quintile, 20-40 meaning the second quintile, or 80-100 meaning the top quintile. If the population is divided in 10 equal groups instead of 5, one refers to decile. The term "fractile", or equivalently "percentile", generalizes the notion to any fraction.

Figure 3 Shares of total household income received by various fractiles




Source: T. Piketty, E. Saez (2003),
http://elsa.berkeley.edu/~saez/TabFigs2002web.xls, table A2

without overlapping: 90-95, 95-99, 99-99.9, 99.9-99.99, and 99.99-100 (the same 0.01% as above). Clearly, the typical pattern of large income, with the two features recalled above, belongs to all groups above 99%. The share of income accruing to the two lower fractiles in the figure, 90-95, 95-99, grew consistently since World War II after the sharp fall at the end of the war. There is always some arbitrariness in cutting into a continuum, but it seems appropriate to distinguish two groups: (1) the top 1%; and (2) the fractile 90-99. (We will depict later the fate of the lower category, 0-90.)

One can also notice in figure 3, the difference between the 90-95 and 95-99 fractiles. A divergence appears from the mid-1980s, as the upper of these two fractiles increases its share to the mid-1990s, but the ample fluctuations observed for the top groups are not evident. This suggests that distinct mechanisms are at work. Actually, as we already noticed, the income of these two fractiles is mostly made of wages with limited capital income and capital gains.

The composition of the income of the top 1% is similar to that of the 0.01% shown in figure 2, and this explains the common profile. This group is not small: about 1 million of households. In 2000, its average income was $14 million. Before World War II, it received 16.5% of total household income (average 1917-1940); this percentage fell to 10.9% during the first postwar decade (average 1946-1955) and 8.4% in 1973; it culminated at 19.9% in 2001.

## 2.3 Partners in what and when?

As in section 2.1, the size of partnership income appears large for top fractiles. In addition, the previous section reveals a sharp rise of this category of income in the late 1980s. Below, we first investigate the industries in which partnerships are engaged, and then the 1986-1987 leap forward. Recall that the tables on "partnership" in IRS tables also include S-corporations but not sole proprietors contrary to the historical series above. For upper fractiles, these differences are negligible.

### *2.3.1 Partners in finance*

The importance of partnership income in the total income of the better-off fractions of the population is puzzling. In 2001, the income of the top 0.426% was made of 25.3% of partnership income, to be compared to 17% for capital income (section 2.1). This section discusses what kind of partnerships are at issue.

It is possible, using IRS data, to decompose partnership income by industry. This is done in table 3. The table provides the number of partners, the total assets, the partners' capital account (assets minus debt), and the total net income. This later variable is the sum of three components, displayed in the next three lines: income resulting from the "activity" in which the partnership is engaged, portfolio income, and rental income. The same information is given in table 4, but figures are expressed as percentages of the total of each line.

The two first columns are devoted, respectively, to all industries, and all industries except FIRE (Finance, Insurance, and Real Estate). FIRE is decomposed in three industries: (1) Real Estate, (2) "Core" Partnership Finance (engaged in contracts such as "hedging", transactions on securities on various markets, and the management of portfolios of securities[12], and (1) Other Finance. Data for these industries are shown in the last columns of the tables.

A first observation is that partnership predominantly relates to ownership and financial activity. Of the $8,428 billion of total assets, only 2,085 correspond to industries other than FIRE; of the $3,593 billion of Partners' capital accounts, only 884 correspond to industries other than FIRE; in both instance about 24%. Core finance alone represents 59.2% of total Partners' capital accounts. This industry makes 33.7% of the total net income, and 57.8% of total Portfolio income distributed to partners.[13] Unfortunately, it is not possible to document the share of the holdings and income in each industry for income or wealth fractiles.

It must be emphasized that the overall size of this partnership financial industry is very large. The $2,126 billion of Partners' capital accounts amount to 23% of the total net worth of nonfarm nonfinancial corporations[14] and 104% of the net worth of financial corporations (a financial sector which exclude government institutions and mutual and pension funds).[15]

### *2.3.2 Partnership: The 1986-1987 leap forward*

The comparative importance of partnership income in the income of the top income categories is less puzzling once the demonstration has been made that a large fraction of this income corresponds to financial activities. This section discusses another surprising finding: the sudden leap forward in this type of income in 1986 and 1987, as shown in

12. Core Finance is made of two industries of NAICF: (1) 523, *Securities, commodity contracts, and other financial investment and related activity*; and (2) 525, *Funds, Trusts, and other Financial Vehicles*.
13. As could be expected, Real estate garners 95.7% of Rental real estate income.
14. Flow of Funds (Federal Reserve), table B.102.
15. This "restricted finance" is defined precisely in G. Duménil, D. Lévy, "The Real and Financial Components of Profitability (USA 1948-2000)", *Review of Radical Political Economy*, 36 (2004), p. 82-110.

Table 3 - Partnership Income
and its decomposition by industry (billions of dollars), in 2001

| | *All industries* | *All Ind. except FIRE* | *Real Estate* | *Core Finance* | *Other Finance* |
|---|---|---|---|---|---|
| Number of partners (thousands) | 14,232 | 4,657 | 6,444 | 3,019 | 112 |
| Total assets | 8,428 | 2,085 | 2,069 | 4,114 | 161 |
| Partners' capital accounts | 3,593 | 884 | 522 | 2,126 | 60 |
| Total net income | 310 | 129 | 70 | 105 | 6.9 |
| *Net income from trade or business* | 114 | 93 | -0.1 | 16 | 5.3 |
| *Portfolio income distributed to partners* | 153 | 34 | 29 | 88 | 1.7 |
| *Rental real estate income* | 43 | 1.4 | 41 | 0.5 | -0.1 |

Table 4 - Same Data (%),

| | *All industries* | *All Ind. except FIRE* | *Real Estate* | *Core Finance* | *Other Finance* |
|---|---|---|---|---|---|
| Number of partners | 100.0 | 32.7 | 45.3 | 21.2 | 0.8 |
| Total assets | 100.0 | 24.7 | 24.5 | 48.8 | 1.9 |
| Partners' capital accounts | 100.0 | 24.6 | 14.5 | 59.2 | 1.7 |
| Total net income | 100.0 | 41.5 | 22.6 | 33.7 | 2.2 |
| *Net income from trade or business* | 100.0 | 81.8 | -0.1 | 13.6 | 4.6 |
| *Portfolio income distributed to partners* | 100.0 | 22.2 | 18.9 | 57.8 | 1.1 |
| *Rental real estate income* | 100.0 | 3.2 | 95.7 | 1.3 | -0.1 |

*FIRE: Finance, Insurance, and Real Estate,* or *Real Estate, Core Finance, and Other Finance*
*Net income: Income less deficit*
*Finance: Finance and Insurance*
*Real estate: Real estate and rental and leasing*
*Rental real estate income: Rental real estate income plus Net income from other rental activity*
*Portfolio income distributed to partners: Portfolio income distributed directly to partners*

Source: IRS, Partnership Statistics - Industry Data,
http://www.irs.gov/taxstats/article/0,,id=97127,00.html, Year 2001, Tables 1 and 3.

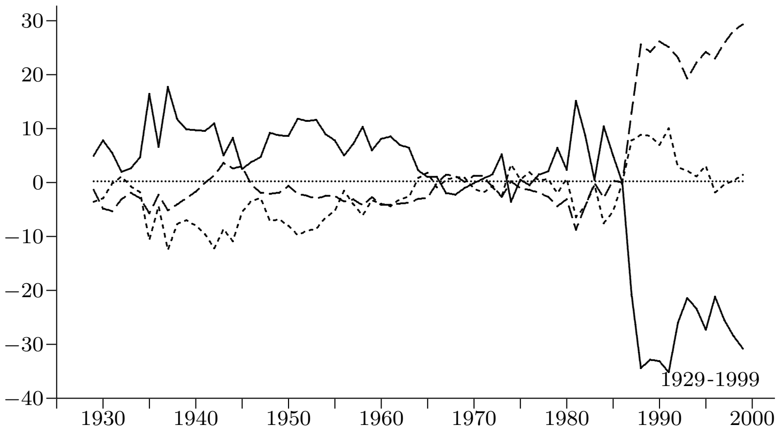
figure 4. It is clear that a sudden transformation occurred in 1987. The result was a rush of the top fractiles into partnership.

This dramatic transformation of the content and distribution of partnership income is documented in figure 4. Three separated income fractiles are considered: 0-90, 90-99.5, and 99.5-100, that is the 90% lower income category, the top half percent, and the intermediate category. The variable is the percentage of total partnership income received by each fractile, but each series has been normalized to 0 in 1986. The figure clearly outlines the contours of the break between 1986 and 1987. Between 1986 and 1999 the 0-90 fractile lost

31%, while the top 0.5% fractile gained 29% of the total partnership income.[16] Note that the previous pattern remained stable from 1929 to 1986.

The above observation clearly indicates that a large transfer occurred in the mid-1980s, when the fractions of the population pertaining to top income brackets became involved in partnership. A fraction of their wealth was transferred to this sector. The result was outstanding, as partnership income accounted for an increasing share of their income and contributed extensively to the restoration of income inequality. In other words, this source of income grew considerably faster than the income of other categories of the population (as shown in figure 2).

Figure 4 Percentage of total household partnership income received by each fractile (deviation from 1986)




P0-90: (——)
P90-99.5: (-----)
P99.5-100: (— —)

Each series has been normalized to 0 in 1986. The percentages in 1986 were: 45.4% for the fractile 0-90; 38.3% for 90-99.5; and 16.3% for 99.5-100. The sudden fall of the curve (——) means, for example, that the share of partnership income accruing the 0-90 fractile fell from 45.4% in 1986 to 12% in 1988.
Source: T. Piketty, E. Saez (2003),
http://elsa.berkeley.edu/~saez/TabFigs2002web.xls, table A7; NIPA (BEA)

This sudden growth was the manifestation of a shift from one type of organization to another: C-corporations to S-corporations (that are treated jointly with partnership). This shift was motivated by the Tax Reform Act of 1986, whose purpose was a reduction of taxes on high incomes. The mechanisms and consequences are discussed in a paper by Emmanuel Saez.[17]

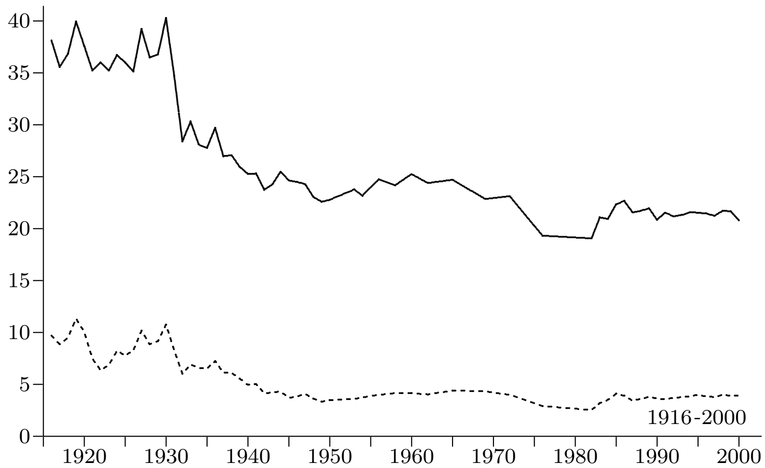
16. The top 0.01% income fractile garnered 1% of total partnership income in the 1970s, and 5.3% in 1986; in 1999 this percentage reached 11.2%.
17. E. Saez, Reported Incomes and Marginal Tax Rates, 1960-2000: Evidence and Policy Implications, NBER, Working Paper, #10273, forthcoming in *Tax Policy and the Economy*, J. Poterba (ed.), 2004, Cambridge: The MIT Press (2004).

This paper provides the following explanation in a footnote: "A C-corporation faces the corporate tax on its profits. Profits are then taxed again at the individual level if paid out as dividends. If profits are retained in the corporation, they must generate capital gains that are taxed at the individual level but in general more favorably than dividends, when they are realized. Profits from S-corporations (or partnerships and sole proprietors) are taxed directly and solely at the individual level. Distribution from S-corporations to individual owners generate no additional tax." [p. 8]. Further on: "In the early 1980s, the top 0.01% incomes were facing extremely high marginal tax rates of about 80% on average (while tax rates on long-term capital gains were around 25%). Thus, dividends were a very disadvantaged form of income for the rich..." [p. 28].

## 2.4 Secular wealth equalization

Figure 5 shows the percentage of total household wealth held by the 0.01% and 1% richest fractions of households.[18] (In 2000, the wealth of the individual at the bottom of the richest 1% amounted to 1,172,896; the wealth of the individual at the bottom of the 0.01% fractile was 24,415,150 dollars (the average wealth 20,187 individuals which compose the top 0.01% was $63,564,151).[19])

Figure 5 The top 0.01% and 1% shares of total household wealth




Top 1%: (——)
Top 0.01%: (-----)

Source: W. Kopczuk, E. Saez (2004),
http://elsa.berkeley.edu/~saez/TabEstate.xls, table B1

18. W. Kopczuk, E. Saez, Top Wealth Shares in the United States, 1916-2000: Evidence from Estate Tax Returns, NBER, Working Paper, #10399 (2004).
19. W. Kopczuk, E. Saez (2004),
http://elsa.berkeley.edu/~saez/TabEstate.xls, table 1.

This figure illustrates the dramatic decline of the concentration of wealth during the Great Depression (instead of World War II, as in the case of income), both for the 0.01% and 1%. This fall continued, more gradually, until the end of World War II. From an average of 37.0% held by the 1% richest fraction of households between 1916 and 1930, the percentage was reduced to 24.7% in 1945 (respectively 8.9% and 3.7% for the 0.01%). A new diminution occurred in the 1970s. (Still with the limitation that the effect of inflation is not considered.) Then a partial recovery occurred, below the percentage of the 1960s. Thus, the comparative income distribution of the better-off fractions of households was restored, but not their comparative wealth.[20]

The various components of the wealth of these groups remained more stable along time than could have been expected, with the exception of the relative decline in the holding of bonds after World War II. The components of the total wealth of the 1% percentile are only available since World War II. For this reason, we consider the upper 0.5% wealth percentile, somehow intermediary between the two fractiles in the figure. For this group, stock shares accounted for about half (46%) of their wealth throughout the period (1916-2000); bonds, for 29%; and physical wealth, for 21%; the debt was 9% (plus miscellaneous assets, 13%). This historical stability does not deny the occurrence of significant fluctuations. For example, the share of stocks shares in total wealth of this group peaked at 63% in the mid-1960s, fell to 35% in 1982 (30% in 1990), and gradually recovered during the 1990s to 48% in 1998 (44% in 2000).[21]

## 2.5 On top of the top

This section discusses both the income and wealth of an even narrower faction of the population, top CEOs, or the 400 or 100 families.

### *2.5.1 On top of the "wage" pyramid*

One aspect of the new trends of income distribution at the top of top of the income pyramid, which is often described, is the hike of the pay of CEOs. CEO pay statistics are computed from the top 100 CEOs (in term of total pay) from Forbes survey of 800 CEOs from 1970 to 2003.[22] Figure 6 illustrates the rise of the pay of various CEOs, according to their rank in the scale of remunerations. This pay is expressed as a ratio to the average salary. The pays of CEOs of various ranking grew more or less at the same rate. In 1971, the pay of the tenth CEO amounted to 47 times the average salary; it grew to 2,381 times in 1999.

Besides the rise of CEOs pay, their composition is also at issue. A very clear break occurred in the late 1970s. In 1977, the distribution of shares (as stock options or under other forms) still amounted to "only" 20% of the total pay of CEOs. In 1979, this percentage suddenly rose to 40.5% (while the rise of salaries was in no way slowed down). In 1999,

20. E. Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S.", *in* E. Wolff (ed.), *International Perspectives on Household Wealth*, Aldershot: Edward Elgar, 2004, p. XXX -XXX: "The inequality of net worth leveled off even though income inequality continued to rise over this period." p. XXX.
21. Similar patterns are shown in A. Kennickell, A Rolling Tide: Changes in the Distribution of Wealth in the U.S., 1989-2001, Board of Governors of the Federal Reserve System, Working paper (2003) and E. Wolff, *Top Heavy*, New York: The New Press (1996), with small differences.
22. T. Piketty, E. Saez, "Income Inequality", *op. cit.* note 5.

Figure 6 Pay of CEOs of various rankings (ratio to the average salary of all wage-earners)


Total pay rank 10: (——)
Total pay rank 50: (-----)
Total pay rank 100: (— —)
Total pay average 100: (-–-–)

The three first curves show the rise of the pay of CEOs according to their rank in the hierarchy of remunerations: 10th, 50th and 100th. The other curve (-–-–) corresponds to the average pay of the 100 CEOs with higher remunerations. Note that 1,000 means 1,000 times the average salary.
Source: T. Piketty, E. Saez (2003),
http://elsa.berkeley.edu/~saez/TabFigs2002web.xls, table B4

Figure 7 The shares of total household wealth held by the 400 and 100 richest households


Top .0002% (top 404 in 2000): (——)
Top .00005% (top 101 in 2000): (-----)

Source: W. Kopczuk, E. Saez (2004),
http://elsa.berkeley.edu/~saez/TabEstate.xls, table C2

salaries represented 9.7% of the total pay of CEOs. (Note the salary of the tenth CEO was above $10 million.) Stock options accounted for 58.5% of the pay and other shares 31.8%.[23]

This rise of top "remunerations" was so concentrated at the top of the hierarchy, and was so accentuated, that it seems difficult to interpret it as the reward of growing managerial skills — or a rising "marginal productivity", in neoclassical lingo, measured by the hike of stock prices! What is at issue is a privileged device to channel surplus toward ruling classes.

*2.5.2 The top 100 richest households*

Sources of data concerning wealth shares, other than those used earlier, suggest that the absence of recovery in the percentage of total household wealth held by the richest fraction of the population is not a completely general feature. A concentration of wealth did occur at the very summit of the social stratification. This phenomenon is well illustrated by the Forbes measures of the share of total household wealth held by the richest U.S. families. This is shown in figure 7.

The first curve plots the percentage of total household wealth held by the top 404 richest Americans. We are dealing here with the top 0.0002%, that is 50 times less than, 0.01%, the smaller category considered earlier.[24] One can observe that, while these families held 1% of total household wealth in 1983, the percentage was about 3% in 2003, after a peak at 3.7% in 2000.

It is interesting to compare this profile to that of two components of this group: the top 101 richest and the fraction ranked between 102 and 404. Although the fraction of total household wealth held by the second component (between 102 and 404) grew from 0.5% in 1982 to slightly more than 1% in 2002, that is doubled, the top 100 jumped from 0.5% to 1.9% a multiplication by slightly less than 4. Overall, the rise was very sharp during the second half of the 1990s.

# 3 - Upper salaried classes

Although it is never possible to determine where the "top of the income pyramid" finishes precisely, it is interesting to investigate what configurations and trajectories can be identified below the 1% fraction of the population with larger incomes. The main thesis, in this section, is that significant diverging evolutions occurred among lower income fractiles.

Section 3.1 delineates the contours of a fraction o upper salaried classes, whose income evolved more favorably than that of lower categories, as a widening gap was gradually opened among wage-earners. The two other sections discuss to what extent these groups hold capital and benefit from capital income and gains (sections 3.2 and 3.3).

23. T. Piketty, E. Saez, *ibid.*, Table B4.

24. Still the individuals who compose the group of the 0.01% richest are well off. In 2000, the average wealth of the 20,187 individuals who compose this category was 63,564,151 dollars (Saez, table 1).

### 3.1 Below the top

The largest of all upper groups considered in the data sets used in section 2.3 is the top 10%.[25] Thus, it is possible to separate the fractile 0-90, and to compare it to various upper fractiles, as already suggested in figure 3.

Figure 8 summarizes these observations. It shows the percentages of total household income accruing to only three fractiles, with no overlapping: 0-90, 90-99, and 99-100. All series have been normalized to 0 for 1950 in order to emphasize postwar trends.

An introductory remark can be made concerning the landslide during World War II. One can observe the comparative rise of the share of income received by the fractile 0-90, a gain of 10%, paralleled by the decline of both the 90-99 and the top 1% fractile. Of course, the individuals composing the top 1% were far more affected since they lost a total of about 5% of total household income like the following 9% in the income pyramid, while they are 9 times less numerous. It is interesting to notice this "common", though unequal, fate of the two components of the top 10% in the new pattern of income after World War II. Upper groups were comparatively affected to the advantage of the 90% lower fraction of the population.

In a sense, a similar, symmetrical, movement occurred after World War II, a form of "recovery" for these groups victims of this readjustment. The profile over time was, however, quite distinct for the two upper fractiles. The figure again shows the profile already mentioned for the top 1%: the comparative decline during the first three postwar decades and the rise from 1980 onward. The steady progression of the 90-99 fractile since World War II, up to the end the 20th century, is again apparent (with the two fractiles, 90-95 and 95-99 of figure 3, considered here jointly). Given the composition of the income of this group, one can conclude that wages are mostly at issue in this recovery. The fate of the 0-90 fractile, shown for the first time in this figure, is dramatic, with a sharp decline of its share of household income: a lost of 12% of household income to the benefit of upper groups.

The same source allows for an investigation of wage inequality, instead of total household income. Figure 9 breaks down the total amount of wages paid to households for the same three fractiles. The three curves show the share of wages received by each fractile. For legibility, all series have also been normalized to 0 in 1950.

Considering only the postwar decades, and abstracting from the fact that the share of household wages paid to the 90-99 grew slightly before 1960 to the expense of the two other categories, the major observation is the sudden divergence after 1970. The fractile 0-90 lost 13 percentage points in thirty years. The decline was very steady, and no break is observed in the early 1980s. Correspondingly, the two other fractions increased their share by about 6% each. Obviously, one must again keep in mind that the number of individuals in the top 1% fractile is 9 times inferior to that of the individuals in the 90-99 fractile. Their average gain was, therefore, quite larger (9 times larger).

This observation is in line with earlier findings. It points to a very significant transformation of income patterns since the 1970s: the growing wage inequality. It concerned larger fractions of the population and added to the recovery of the share of household income of the upper 1% after 1980, but began earlier.

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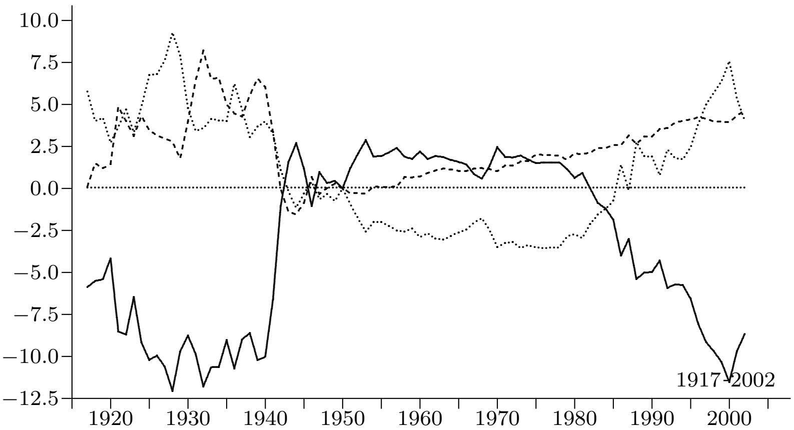
25. T. Piketty, E. Saez, "Income Inequality", *op. cit.* note 23 and W. Kopczuk, E. Saez, Top Wealth Shares, *op. cit.* note 18.

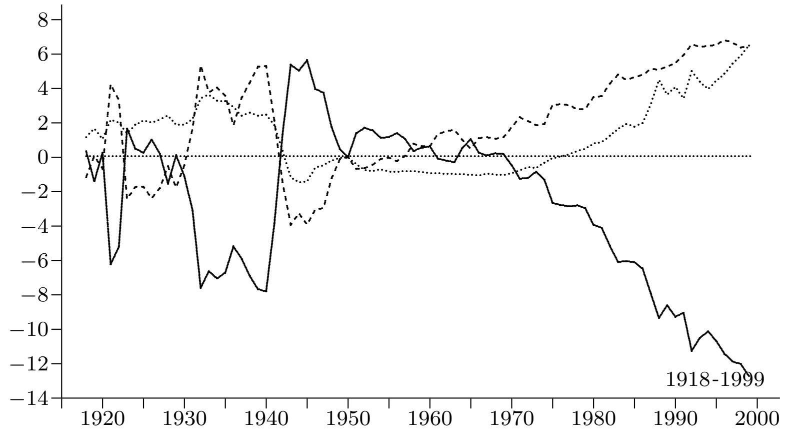
Figure 8 Income shares of total household income, including capital gains, received by three fractiles (deviation from 1950)




P0-90: (——)
P90-99: (-----)
P99-100: (·········)

All series have been normalized to 0 in 1950. In 1950, the percentages were 65.4% for the fractile 0-90; 22.6% for 90-99; and 12.0% for 99-100.
Source: T. Piketty, E. Saez (2003),
http://elsa.berkeley.edu/~saez/TabFigs2002web.xls, table A2.

Figure 9 Shares of total household wages received by three fractiles (deviation from 1950)




P0-90: (——)
P90-99: (-----)
P99-100: (·········)

All series have been normalized to 0 in 1950. In 1950, the percentages were 73.9% for the fractile 0-90; 21.0% for 90-99; and 5.1% for 99-100.
Source: As above.

Figure 10 Average real income for four fractiles, including capital gains (1979=1)


P0-90: (——)
P90-99: (— —)
P99-99.99: (-----)
P99.99-100: (-–-–)

All series in 2001 dollars have been normalized to 1 in 1979. In 1979 the values were: 27,532 for the fractile 0-90; 100,579 for 90-99; 308,290 for 99-99.99; and 3,387,913 for 99.99-100.
Source: T. Piketty, E. Saez (2003),
http://elsa.berkeley.edu/~saez/TabFigs2002web.xls, table A5.

Figure 11 Income inequality: Income limits by percentile (1979=1)


The curves show the income in constant 2000 dollars of individuals at the upper limit of each percentile. All series have been normalized to 1 in 1979. In 1979, the values were: 9,227 for the 10th; 15,836 for the 20th; 37,192 for the 50th; 65,742 for the 80th; 85,248 for the 90th; and 107,243 for the 95th.
Source: U.S. Bureau of the Census, 2004; Table IE-4: Household Income Limits by Percentile.

Another view of the same rising inequality is given in figure 10 for the period 1970-2002. Four fractiles are distinguished with no overlapping: 0-90, 90-99, 99-99.99, and 99.99-100 (the two latter groups compose the top 1%). The series are the average income in constant dollars for each fractile, but all series have been normalized to 1 in 1979.[26] Something of the kind could be expected from an examination of figure 8, but the observation in the figure that the real income of the fractile 0-90 (90% of the population) actually stagnated since 1979 is amazing. For the top 0.01% fractile, real income was multiplied by about 4. Recall that we are considering here income before income tax. After paying taxes, the growth must have been even larger (section 4.3.2).

It is unfortunately impossible to use series consistent with the above to discuss the transformation over time of income distribution for the components of the 0-90 fractiles. The Survey of Consumer Finance (an inquiry based on the replies of individuals, particularly questionable for high incomes) provides some information since 1967.

Six percentiles are considered in figure 11. The curves show the income in constant dollars of individual receiving incomes equal to the upper boundary of the percentile. For example, the curve denoted as 95 shows the income of an individual whose income locates him/her exactly in between the two upper percentiles, 90-95 and 95-100. All series have been normalized to 1 in 1979.

The Census data is not totally consistent with the above, since even the groups which progressed less since 1979, made gains amounting to about 10% instead of a stagnation for the fractile 0-90 in IRS data on figure 10. Note that such a progression in 25 years remains very limited and, therefore, the difference is not that large.

This source is valuable, since it provides information on the large masses of the population. The curves for the individuals at the top of the three lower percentiles indicate a common, comparatively slow, growth rate of incomes. Beginning in 1979, the difference with the two upper series, on top of 90 or 95, is striking. While the income of individuals on top of the lower groups grew by 14% (16% for the 10th, 13% for the 20th and 50th), those on top of the upper groups grew about 34% (27% for the 80th, 33% for the 90th, and 40% for the 95th), that is more than the double. This comparative faster rise remained very limited before 1979. Note that the more favorable fate of higher incomes was "proportional" to the level reached, upper incomes growing even faster (or less slowly). Abstracting from top incomes, a breach was gradually opened between two fractions of the population, to the comparative advantage of upper layers.

A comparison of figures 10 and 11 suggests that the components of the 0-90 fractile were not treated evenly in this growing income inequality, with the main burden placed on the lower half of the wage spectrum.

## 3.2 "Middle" capitalists?

This section is devoted to the holding of securities by categories below the top of the income pyramid. We first document the diffusion of financial holding in the population, whatever the amount and, then, show that this diffusion was paralleled by a rising concentration in the holding of shares. A last section is devoted to assets within pension funds and retirement accounts.

26. Series are deflated using the Consumer price index.

Table 5 - Percentage of households having stock holdings, direct or indirect[1] (%)

| | *1989* | *1992* | *1995* | *1998* | *2001* |
|---|---|---|---|---|---|
| All households | 31.6 | 36.7 | 40.4 | 48.9 | 51.9 |
| *Percentile of income* | | | | | |
| 0-20 | - | 7.3 | 6.5 | 10.0 | 12.4 |
| 20-40 | - | 20.2 | 24.7 | 30.8 | 33.5 |
| 40-60 | - | 33.6 | 41.5 | 50.2 | 52.1 |
| 60-80 | - | 51.1 | 54.3 | 69.3 | 75.7 |
| 80-90 | - | 65.7 | 69.7 | 77.9 | 82.0 |
| 90-100 | - | 77.0 | 80.0 | 90.4 | 89.6 |

[1] *Indirect holdings are those in mutual funds, retirement accounts, and other managed assets*
*- : Not available*

Table 6 - Median value of the portfolio among families holding shares (directly and indirectly) divided by the median value of the top decile

| | *1992* | *1995* | *1998* | *2001* |
|---|---|---|---|---|
| *Family characteristic* | | | | |
| All families | 22.1 | 24.4 | 18.6 | 13.8 |
| *Percentile of income* | | | | |
| 0-20 | 16.8 | 6.2 | 3.7 | 2.8 |
| 20-40 | 8.3 | 10.5 | 7.4 | 3.0 |
| 40-60 | 10.5 | 10.4 | 8.9 | 6.1 |
| 60-80 | 17.2 | 21.1 | 13.9 | 11.5 |
| 80-90 | 29.4 | 41.7 | 33.4 | 26.1 |
| 90-100 | 100.0 | 100.0 | 100.0 | 100.0 |

Source of the two tables: A.M. Aizcorbe, A.B. Kennickell, K.B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances", *Federal Reserve Bulletin*, 89 (2003), p. 1-32.

### *3.2.1 Everyone's a capitalist?*

As is well known, a significant tendency toward the diffusion of financial assets manifested itself during the last decades of the 20th century. This was, in particular, true during the 1990s. Table 5 shows the percentage of households in the United States holding stock shares, whatever the amount.[27] Between 1989 and 2001, this percentage grew from about 32% to 52%. The table also indicates that such a diffusion occurred even for households

27. A.M. Aizcorbe, A.B. Kennickell, K.B. Moore, *ibid.*.

belonging to the lowest income quintile, 0-20, although the percentage remains low: 12% of the households of this first quintile held stock shares in 2001, to be compared to nearly 90% for the upper decile, 90-100.

Overall, and abstracting from the complexity of financial mechanisms, one can contend that the proportion of households holding securities grew from about one third in 1989 to one half in the early 2000s.

*3.2.2 The concentration in the holding of shares and its growth*

The diffusion of the holding of shares among households (held directly or indirectly) is a fact. One must, however, keep in mind the limited size of these holdings. Using the same division in income fractiles as above, one finds that the average portfolio of shares amounted, in 2001, to 7,000 dollars for the quintile 0-20. The portfolio of the higher income decile reached, for the same year, 247,700 dollars. Table 6 shows the holdings for each percentile as a percentage of those of the upper decile, 90-100, for the years 1992, 1995, 1998, and 2001 (as in table 5).

The last column, for 2001, reveals a significant concentration of the holding of stock shares. The portfolio of the quintile 60-80 only amounted to 11.5% of the top decile; the decile 80-90, to 26.1%. Another interesting observation is that the concentration of holdings increased for all fractiles between 1992 and 2001. (The percentage for the first quintile in 1992 is puzzling.) So, in 1992, the portfolio of the second quintile, 20-40, amounted to 8.3% of that of the upper decile; in 2001, it had been reduced to 3.0%; and a similar diminution appears for the other quintiles.

*3.2.3 Holding securities in pension funds and retirement accounts*

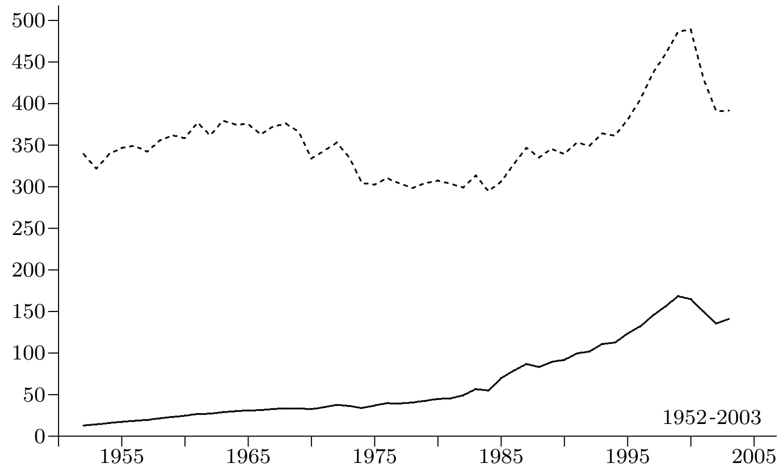
The accumulation of wealth within pension funds or other retirement accounts has often been described. Figure 12 shows the profile of these assets since the 1950s, as a percentage of the disposable income of households. The ratio grew from 13% in 1952 to more than 140% in 2003, with some acceleration in the mid-1980s. The figure also illustrates the devaluation of assets in pension funds after the fall of the stock market, although contributions were still made.

The second, upper, curve in the figure shows the evolution of the total financial assets of households, held directly or indirectly. It is, parenthetically, interesting to note that no upward trend is apparent. The fluctuations of this variable reflect those of the stock market, with the fall during the structural crisis of the 1970s, the peak in the bubble, and the ensuing decline. Considering only assets other than stock shares, the percentage remained stable, amounting to 249% of disposable income. Shares represented, in the average over the entire period, 107% of disposable income, with large fluctuations.

The centralization of assets in financial institutions, such as pension funds or mutual funds, defines another important trend, also evident in figure 12. In 2003, the financial assets of households held within pension funds and retirement accounts represented 36% of their total financial assets, when they were negligible after World War II.

Figure 13 illustrates the same concentration process for stock shares. It shows the total amounts of stock shares held by households, directly and indirectly, still as a percentage of their disposable income. The second curve accounts for the fraction held indirectly, that is within financial institutions. This fraction rose steadily from World War II and,

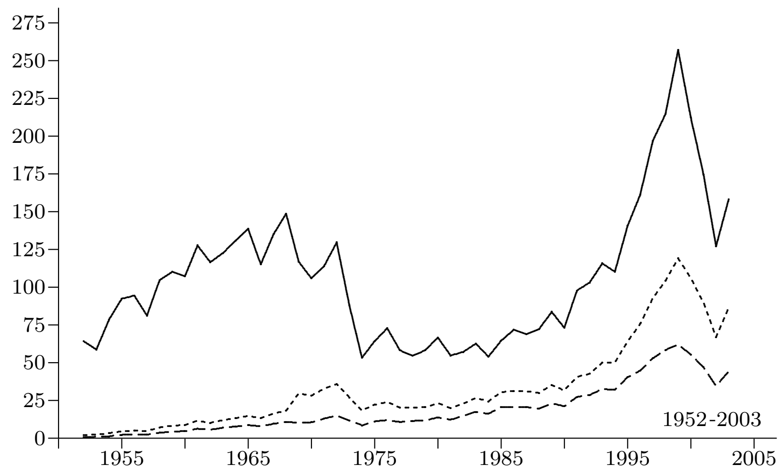
Figure 12 Total assets held by households in pension funds and retirement accounts, total financial assets held by households (%)




Pension Fund Reserves + Individual Retirement Accounts: (——)
Financial assets: (-----)

Series are expressed as a percentage of the disposable income of households.
Source: Flow of Funds (Federal Reserve)

Figure 13 Total stock shares held by households either directly or indirectly (%)




Total: (——)
Indirectly held: (-----)
Indirectly held at private pension funds and government retirement funds: (— —)

Series are expressed as a percentage of the disposable income of households.
Source: Flow of Funds (Federal Reserve)

in the early 2000s, reached about half of the total. Stock shares held in pension funds are a fraction of the above, about the half of shares indirectly held, and one fourth of the total.[28] Note that shares held in partnerships are not considered in this figure. This data is not available in Flow of Funds statistics. Figure 13 also gives a dramatic view of the devaluation of the portfolio of shares held by households after the bursting of the bubble. The value of stock shares indirectly held by households culminated above 100% of their disposable income in 1999, and then fell to 67% in 2002 (at 86% in 2003).

As noted above for the total financial assets of households, there is no trend in the total amount of stock shares that they hold relatively to their disposable income. The fluctuations observed are those of the stock market. Given the still low ratio of return on shares, one can surmise that the last observations in the figure remain high.

Besides pension funds, gradually broader fractions of the population held securities indirectly within other funds or retirement accounts. In 1980, 5.7% of households owned mutual funds; in 2003, the percentage was 47.9%.[29] The same is true of the holding of retirement accounts. In 1989, the percentage of households holding such accounts was 35.4%; in 2001, it was 52.2%.[30]

## 3.3 Upper salaried classes: direct and indirect capital income

Capital income, including capital gains, accounts for a quite limited share of the total income of most households. As shown in section 2.1 table 2, this share does not exceed 6% for the bottom 0-98% income fractile. One must, however, keep in mind that IRS statistics include pensions within household wages, while funds only receive capital income and make capital gains.

The two following sections are devoted, respectively, to the income directly received by upper salaried classes, and to pension benefits.

### *3.3.1 Direct capital income*

In table 2, all returns below 200,000 dollars are aggregated in a single category. Table 7 provides the same information, for each return bracket.

An examination of the components of income for each return bracket shows that lower brackets reveal comparatively more significant fractions of capital income. One possible interpretation could be that these figures refer to specific groups of "poor" retirees. Moving

28. In Flow of Funds accounts, Individual Retirement Accounts (IRAs), are not included in Pension Funds reserves, "except for those at life insurance companies. Figures for depositories (lines 2 through 4) include Keogh accounts. Variable annuities in IRAs are in the life insurance sector (line 5) and are excluded from the mutual fund sector (line 7)". Figures for 2000 are as follows (table L.225.i; billions of dollars). The total held is 2,629.0 (line 1), with the following components at: Commercial banking 157.0 (2); Saving institutions 56.4 (3); Credit unions 36.7 (4); Life insurance companies 245.5 (5); Money market mutual funds 141.0 (6); Mutual funds 1048.0 (7); Other self-directed accounts 944.4 (8). One can compare these amounts to the total of 7511.1 held for the same year in Private pension funds and Government retirements funds.

29. Investment Company Institute: http://www.financialservicesfacts.org/financial2/savings/ah/

30. Census: http://www.census.gov/prod/1/gen/95statab/finance.pdf
Table n89 Financial assets held by families, by type of assets: 1989 and 1992, p. 517.
Concerning the shift from Defined Benefit plans to Defined Contribution, see E. Wolff, The Unraveling of the American Pension System, 1983-2001, xxx, xxx (2004) and A. Munnell, J. Lee, K. Meme, An Update on Pension Data, Center for Retirement Research, Boston College, #20 (2004).

Table 7 - Composition of income (%), 2001
Including capital gains

| Value of gross income: | **% of returns** | *Total* | *Wages* | *Capital income* | *Partner income* | *Capital gains* | *Other incomes* |
|---|---|---|---|---|---|---|---|
| $1 under $5,000 | **9.78** | 100.0 | 95.2 | 8.1 | -0.3 | -1.3 | -1.7 |
| $5,000 under $10,000 | **9.59** | 100.0 | 85.8 | 6.4 | 0.1 | -0.3 | 8.0 |
| $10,000 under $15,000 | **9.24** | 100.0 | 87.5 | 6.6 | 0.4 | -0.1 | 5.6 |
| $15,000 under $20,000 | **8.91** | 100.0 | 89.5 | 6.0 | 0.6 | 0.1 | 3.9 |
| $20,000 under $25,000 | **7.74** | 100.0 | 91.3 | 4.4 | 0.5 | 0.2 | 3.6 |
| $25,000 under $30,000 | **6.65** | 100.0 | 92.9 | 3.7 | 0.4 | 0.2 | 2.7 |
| $30,000 under $40,000 | **10.75** | 100.0 | 92.5 | 3.8 | 0.5 | 0.2 | 2.9 |
| $40,000 under $50,000 | **8.24** | 100.0 | 92.5 | 4.0 | 0.5 | 0.4 | 2.6 |
| $50,000 under $75,000 | **13.63** | 100.0 | 91.7 | 4.0 | 0.8 | 0.7 | 2.8 |
| $75,000 under $100,000 | **6.91** | 100.0 | 90.4 | 4.4 | 1.1 | 1.0 | 3.1 |
| $100,000 under $200,000 | **6.57** | 100.0 | 84.1 | 6.0 | 2.9 | 2.7 | 4.3 |
| $200,000 under $500,000 | **1.57** | 100.0 | 67.9 | 9.1 | 7.1 | 9.4 | 6.5 |
| $500,000 under $1,000,000 | **0.276** | 100.0 | 54.4 | 11.5 | 12.5 | 17.1 | 4.5 |
| $1,000,000 under $1,500,000 | **0.066** | 100.0 | 46.3 | 13.0 | 16.2 | 20.4 | 4.0 |
| $1,500,000 under $2,000,000 | **0.028** | 100.0 | 42.1 | 13.9 | 20.1 | 20.9 | 3.1 |
| $2,000,000 under $5,000,000 | **0.040** | 100.0 | 40.1 | 14.0 | 24.1 | 19.3 | 2.5 |
| $5,000,000 under $10,000,000 | **0.010** | 100.0 | 36.1 | 14.0 | 31.0 | 16.5 | 2.5 |
| $10,000,000 or more | **0.005** | 100.0 | 25.3 | 12.1 | 49.5 | 10.8 | 2.2 |
| under $200,000 | **98.01** | 100.0 | 89.6 | 4.7 | 1.2 | 1.0 | 3.4 |
| $200,000 or more | **1.99** | 100.0 | 52.8 | 11.2 | 17.6 | 13.7 | 4.6 |
| All returns | **100.00** | | | | | | |

*See definitions and sources in tables 1 and 2.*

Source: See table 1.

upward toward larger tax returns, one can notice that capital income (even including capital gains) contributes to less than 5% of total income, up to the bracket 75,000-100,000, for which the percentage reaches 5.4%. The next bracket, reaches 8.7%. For all these groups, partnership income remains very small.

Then, beginning with the bracket 200,000-500,000, the composition of income changes considerably. Capital income and capital gains account for 18.5% of total income. Partnership income leaps to 7%. But one must notice that we are now entering into the top 2% of the income hierarchy, as noted in section 2.1.

Although the exact frontiers apparent in each data source, for distinct variables, are not exactly identical, coherent patterns are revealed. Capital income and gains account for a quite limited fraction of the income of wage-earners which compose, for example, the 90-99 fractile of the income pyramid.

*3.3.2 Indirect capital income: pensions*

Given the significant amounts of securities accumulated in pension funds and other retirement accounts, and the limited share of capital income that upper salaried classes receive, it seems obvious that they mostly benefit from capital income and gains through their pension funds and retirement accounts.

It is first important to emphasize that, in spite of the sums accumulated in pension funds and retirement accounts, these assets, at least to date, contributed to a limited extent to the income of retired households. This is shown in table 8 which decomposes the income of people over 65 years by major sources of income[31]: social security, asset income, private and government pension funds, public assistance and other sources. The period covered is 1958-2000.

Table 8 - Shares of aggregate income of households aged 65 and older, 1958-2000

| | *1958* | *1967* | *1976* | *1980* | *1988* | *1990* | *1998* | *2000* |
|---|---|---|---|---|---|---|---|---|
| *Income Source* | | | | | | | | |
| Social Security | 22 | 26 | 39 | 39 | 38 | 36 | 38 | 38 |
| Asset Income | 23 | 25 | 18 | 22 | 25 | 25 | 20 | 18 |
| Earnings | 37 | 30 | 23 | 19 | 17 | 18 | 21 | 23 |
| Private Pensions | 5 | 5 | 7 | 7 | 8 | 9 | 10 | 9 |
| Government Pensions | 9 | 9 | 6 | 7 | 9 | 9 | 9 | 9 |
| Public Assistance | 5 | 3 | 2 | 1 | 1 | 1 | 1 | 1 |
| Other | 0 | 2 | 5 | 5 | 2 | 2 | 2 | 2 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source : A. Munnell, J. Lee, K. Meme, *ibid.*, table 2.

Table 9 - Pensions as a percent of income
by income quintile (%)

| *Total* | 0-20 | 20-40 | 40-60 | 60-80 | 80-100 |
|---|---|---|---|---|---|
| *18%* | 3% | 7% | 17% | 28% | 29% |

Source A. Munnell, J. Lee, K. Meme, *ibid.*, figure 12;
calculation from the Current Population Survey (2000)

Thus, it must be emphasized that, in 2000, pension funds accounted for 19% of the income of people aged 65 and older (about half and half for private and government funds

31. This table is reproduced from A. Munnell, J. Lee, K. Meme, *ibid.*.

respectively). This share rose, but only slightly. Social Security amounted to 38%, that is more than the double of the previous figure, and this percentage remained stable since 1976.

As can be expected, upper income fractiles benefit more than the rest of the population of the pensions paid by pension funds. The same study breaks down the total 18%, the fraction of income of people aged 65 and above, received from (public and private) pension funds, by income quintiles. The result is shown in table 9. A preliminary remark is that the percentage never reaches 30%, even for the upper quintile. It is interesting to notice that such pensions account for 17% of the income of the third quintile, 40-60. This clearly shows that pension funds stretch the benefit of capital accumulation, income, and gains to fractions of the population who, when active, received very little capital income.

# 4 - The economics and politics of neoliberalism in historical perspective

The neoliberal phase, since the early 1980s, can only be understood when placed in historical perspective. This is the purpose of this section. Beginning with the huge transformation which occurred after World War II (section 4.2), in the wake of the Great Depression and the New Deal, the section gradually moves toward a more detailed discussion of the main features of neoliberalism (section 4.3). The development of pension funds is assessed as a component in the "neoliberal compromise" through which the power of ruling classes is asserted (section 4.4). A first section briefly introduces a set of basic principles in the periodization of capitalism.

## 4.1 Periodizing capitalism

We discussed in other works the overall periodization of U.S. capitalism since the Civil War.[32] At issue, are the changing patterns of relations of production and productive forces, class struggle, the historical tendencies of the profit rate and technological change, as well as other institutional innovations. This is the perspective adopted below. It is useful to recall here the following general principles:

1. Two categories of phenomena, or levels of analysis, must be distinguished: (1) the transformation of relations of production (such as the institutional forms in which the ownership of production means is expressed, for example family ownership vs large corporations backed by financial institutions); (2) large (class) power configurations such as the Keynesian compromise or neoliberalism.

2. The succession of periods, several decades long, of decline and rise of the profit rate, in combination with structural crises, also defines rather clear phases in the history of

32. G. Duménil, D. Lévy, *Capital Resurgent, op. cit.* note 1; *Économie marxiste du capitalisme*, Paris: La Découverte, Coll. "Repères" (2003); "Periodizing Capitalism. Technology, Institutions, and Relations of Production", *in* R. Albritton, M. Itoh, R. Westra, A. Zuege (eds.), *Phases of Capitalist Development: Booms, Crises, and Globalization*, London: Palgrave, 2001, p. 141-162, ch. 9.

capitalism. Like structural crises, wars also mark obvious breaks. Such events interact with the above mechanisms, defining the contours of a complex historical trajectory.

3. This framework of analysis is useful in the formulation of *interpretations*, rather than in the definition of a straightforward unique *periodization*. Like most analysts, we refer to traditional breaks, for example: (1) prior to World War II; (2) between the war and the assertion of neoliberalism; (3) neoliberalism. Then, each of these periods must be characterized in relation to the sets of phenomena recalled above. For example, World War II marks the assertion of the Keynesian compromise; this second period ends in the structural crisis of the 1970s; neoliberalism coincided with a new upward trend of the profit rate, a new class compromise; etc.

## 4.2 The World War II "social-quake" and the unstable pattern of the Keynesian compromise

This section briefly recalls the major features of U.S. capitalism as it emerged from World War II. Then, the issue of the gradual unravelling of this social order is addressed.

### *4.2.1 After World War II: a new world?*

Why did capitalism emerge from World War II in a configuration so distinct from that prevailing prior to the war? As is well known, various categories of phenomena are at issue. The shock of the Great Depression was terrible, threatening the future of capitalism economically and politically; the New Deal questioned the basic mechanisms of functioning of capitalism, from the straightforward intervention of the states in basic market and monetary mechanisms to the compromise found during the war, which "concentrated" state intervention on macro policy (in line with John Maynard Keynes' remarkable analysis of the main weaknesses of capitalism); the labor movement was on the rise, while USSR had not only survived the war, but asserted itself as a major international power.

Ruling classes were constrained to accept a new social compromise, which meant a radical transformation of their earlier social position. The sudden assertion of the new social compromise is unambiguously reflected in the profile of income in figure 1 (as in figure 5 for the concentration of wealth). Income inequality was sharply diminished as capital income was drastically reduced.

Thus, in the wake of World War II, capitalists lost a large share of their income. This was not due to a sudden fall of the profit rate. Quite the contrary, the profitability of capital was exceptionally large after the war. Where did profits go? Unambiguously, profits (in the broad sense of the term: total income minus the compensation of labor) went, on the one hand, to the state through taxation and, on the other, remained within corporations. This marked a break.

The features of this period have been often described. Domestically, they combined new elements and mechanisms already part of the New Deal: the control of monetary and financial mechanisms; a management of corporations rather autonomous from the interest of shareholders (few dividends were distributed) and conducive to investment; a commitment to macro policy, both monetary and budget policies; a growing system of social protection, beginning with the institution of Social Security by Franklin Delano Roosevelt to finance retirements. Etc.

The new international order was defined at Bretton Woods in 1944. International flows of capital were regulated; rates of exchange were fixed, though adjustable recurrently. International credit institutions were created, notably the International Monetary Fund and the World Bank.

Managerial personnel was at the center of the “Keynesian” compromise, both within corporations and within the state apparatus. Within corporations, managers organized firms along rather sectional lines; within national state institutions or international institutions, officials implemented policies stimulating investment, growth, and social protection. This compromise was rather widely opened toward the fractions of the population with lower income, the lower strata of wage-earners, and resulted in diminished inequality.

But the owners of the means of production had not been eliminated, only their income reduced and their financial institutions placed under control. The phrase “financial repression” was coined to account for the setback of capitalists and financial institutions in the exercise of their domination. Maybe the phrase “financial containment” would be more appropriate. In this context, finance must not be understood as a specific industry, but as (1) a class whose income mostly derives from the holding of financial assets, and (2) the financial institutions in which the interests of this class are embodied.

*4.2.2 Growing threats*

In the assessment of these historical transformations, it is interesting to return to the issue of wage inequality. During the 1950s, not only had capital income been cut drastically, but also wage inequality had been reduced. This feature of “people” Keynesianism vanished gradually, as wage inequality rose consistently to the 1990s. When the new neoliberal order emerged at the transition between the 1970s and 1980s, wage inequality had already reached new heights: not only the astounding hike of the wage of CEOs but a widening gap between a rather broad category of upper wages and the wage of the bulk of wage earners.

Internationally, the Bretton Woods System began to unravel in the wake of the dollar crisis at the beginning of the 1970s. Currencies began to float, and the limits to the free mobility of capital were gradually lifted beginning from the 1970s. A new, deregulated, financial system was gaining momentum with the development of euromarkets and eurobanking.

The final blow to the Keynesian compromise was the inability of ruling elites to check adequately the deepening of the structural crisis of the 1970s. In the wake of the gradual slide of the profit rate after World War II, which mirrored the deterioration of the conditions of technical change, accumulation rates and the growth rates of output diminished, a large wave of structural unemployment developed, and rates of inflation initiated a process of cumulative rise.

At the end of his mandate, Jimmy Carter named Paul Volcker at the head of the Federal Reserve. Volcker, backed by financial interests, decided to increase interest rates to any level supposedly required to curb inflation. This is what we called the “1979 coup”, with severe consequences in countries of the center and devastating effects in countries of the periphery heavily indebted. But this “coup” only represented one emblematic component of the assertion of neoliberalism, whose other facets have been recalled above.

## 4.3 Making money whatsoever: traditional and new channels

In the analysis of neoliberalism, it is important to distinguish ends and means. Price stability or the free international mobility of capital are means, ways of achieving a single end: the restoration of the income and wealth of the richest classes. Obviously, capital income is at the center of this endeavor but, as we already remarked, new channels are also involved.

First, this section recalls the main channels by which capital income was restored (section 4.3.1). The effect of taxation is then discussed (section 4.3.2). Finally, the issue of very high wages is addressed (section 4.3.3).

### *4.3.1 Capital first*

The first striking achievement in neoliberalism was the restoration of capital income and capital gains. Various mechanisms are at issue[33]:

1. *The rise of interest rates.* The 1979 coup meant a sudden rise of real interest rates (nominal interest rates minus inflation rate). Real long-term rates, for example, used to fluctuate between 2% and 3% during the 1960s and early 1970s. They became negative during the 1970s, as inflation rate was larger than nominal interest rates. At the beginning of the 1980s, they suddenly leapt to 8% and later fluctuated around 5%.

2. *Lavish flows of dividends.* During the 1970s, nonfinancial corporations used, after paying taxes and interest, to distribute about 40% of their remaining profits as dividends. Beginning in the early 1980s, this percentage rose gradually to nearly 100%, a figure that was actually reached during the recession of 2001.

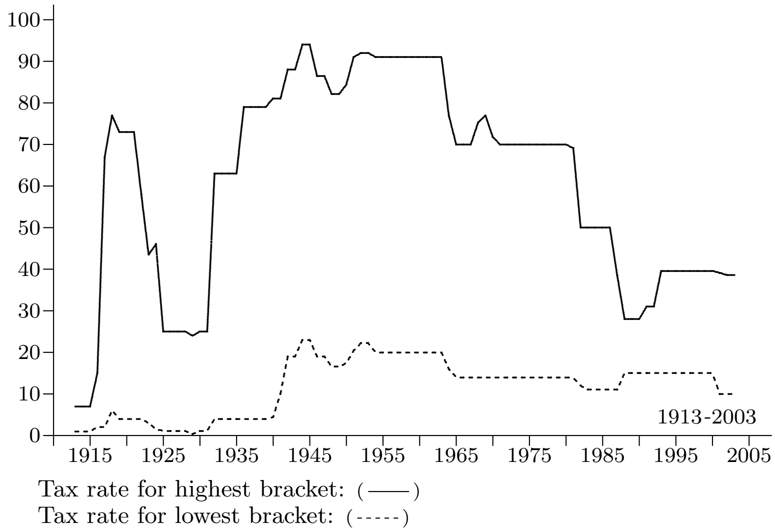
3. *The rise of the stock market.* During the same two decades, stock market indexes corrected for inflation, which had been divided by 2 during the crisis of the 1970s, rose nearly three times above their average level of the late 1960s and early 1970s, that is nearly 6 times above their level of the late 1970s.

4. *Fiddling with financial mechanisms.* The financial sector of the economy dramatically developed during neoliberalism. The net worth of financial corporations[34] amounted to about 16% of the net worth of nonfinancial corporations during the 1960s; during the second half of the 1990s, the percentage reached 22%. Besides lending, these corporations are engaged in numerous types of financial operations, such as underwriting, the management of portfolios, in particular those held by pension and mutual funds, or transactions on money and financial markets. Significant profits, also partially the expression of the interest and dividends, are made in partnerships and distributed as partnership income.

The means by which the above "performances" were achieved have often been described: deregulation and regulation; new forms of public intervention (as in the control of inflation and credit policy); etc. A crucial mechanism was the new discipline imposed to labor and management. As is well known, the concentration of assets in the hands of all categories of funds acted as a powerful instrument to discipline management and, indirectly, labor.

33. G. Duménil, D. Lévy, *Capital Resurgent, op. cit.* note 1, ch. 9, 13, and 15.
34. Definition as in section 2.3.1.

Figure 14 Tax rates for higher and lower brackets




Source: IRS, SOI Bulletin - Historical Tables and Appendix, Table A. U.S. Individual Income Tax http://www.irs.gov/pub/irs-soi/03inta.xls

#### *4.3.2 Taxing less the rich: after-tax income inequality*

Another crucial component of neoliberalism was the reduction of tax rates for the higher income brackets. The logic is the same as above. This is clearly documented in figure 14 which shows the tax rates for the upper and lower tax brackets. The tax cut of the 1960s was followed by the two steps downward in the 1980s, from 70% to 40%.

The effect of taxation can only be studied globally. This explains why section 2 does not consider incomes after taxes, since the main focus in that section is the composition of income (wages and capital income) and the corresponding inequality.

Overall, one can assert that the reduction of tax brackets was consistent with neoliberal objectives, since the growing pattern of inequality during the 1980s and 1990 was not affected by taxation. After tax similar trends are observed. The pattern of inequality was even strengthened to some extent.[35]

#### *4.3.3 Riding the new wage trends*

As shown earlier (sections 2.5.1 and 3.1), the rise of wage inequality was not concomitant to the assertion of neoliberalism. It was one of the expressions of the gradual unravelling of social equality during the first years of the Keynesian compromise.

Neoliberalism did not interrupt the hike of high wages. In a sense, one could contend that top income brackets channelled it to their own benefit. In this society where most

35. Congressional Budget Office (CBO), Effective Federal Tax Rates: 1979-2001, Washington, http://www.cbo.gov/showdoc.cfm?index=5324 (2004), tables 1.C, Pretax Income and After-Tax Income.

of income is paid as labor compensation, with a gradually opening salary range, it is not too surprising to note that the upper fractions of ruling classes caught up with these trends, and biased them to their own benefit. Considering the top 1% fractile, high wages, supplemented by stock options, appeared as the most straightforward and efficient device to appropriate a growing fraction of the surplus before profits are distributed along traditional channels.

At the very top of the top, in the world of what we called the "interface between ownership and management[36]", that of the boards of directors and top management, owners and top managers coexist and interact: owners still engaged in management, and managers that their remuneration transform into owners when they were not originally scions of capitalist families. Although neoliberalism is fundamentally about the power of capitalists, this "merger" at the top was a crucial element in the imposition of the neoliberal order. The reassertion of the privileges of capitalist ownership would have been impossible without the collaboration of top management, to such a degree that the frontier is blurred.

## 4.4 The compromise with upper salaried classes

There is no statistics unambiguously allowing for the identification of class patterns. The specificity of figures 3 and 8 is that, besides the description of inequality, they reveal quite distinct historical trajectories for various fractiles (figure 8 adds the striking profile of the 0-90 income fractile). Obviously, no interpretation can be read out of any data set, independently of a more general framework of analysis. In our opinion, these data, combined with observations on the composition of income (and their profile over time, as in figure 9 for wages), provide very helpful quantitative information in the identification of social categories. The distinction of upper salaried classes in this section uses this type of methodology.

Once identified the broad frontiers of these classes and their specific fate during the neoliberal decades, the section successively addresses the social content of the neoliberal compromise and discusses its strength and fragility.

### *4.4.1 Upper salaried classes and their fate during the neoliberal decades*

In the social pyramid, below the very "private" territory of the interface between ownership and management, one can locate a rather broad layer of "upper salaried classes", those who (comparatively) did benefit from the dissolution of the pattern of the stricter equality asserted after World War II. As contended earlier (section 3.1), a widening gap was gradually opened within the broad and heterogeneous category of wage-earners. The upper category is a well-off segment of the population, whose standard of living is basically dependent on wages before retirement, and pension funds, after. Note that, writing "benefit", we take the rise of comparative income at face value, and engage neither into the discussion of consumerist alienation nor into that of the possible fate of such classes along alternative trajectories.

Which upper fractions? It is obviously difficult to establish clear-cut frontiers, both theoretically and empirically, given the limitation of the data. The fractile 90-99 is certainly emblematic, as clearly evident in all measurements. One must recall, however, that the

36. G. Duménil, D. Lévy, *Capital Resurgent, op. cit.* note 1, ch. 23.

separation of the top 1% is probably too strict, and the upper frontier should be established around 98 instead of 99. Symmetrically the lower boundary, 90, is certainly too high: 85 or even 80 could be more appropriate.

How did these classes benefit from neoliberalism? There are four economic components to this continuing improvement in the comparative standard of living of these groups, though, relatively to the earlier postwar decades, this progress was slow:

1. As recalled earlier (section 3.1), their salaries grew comparatively faster than other categories of the population. Neoliberalism did not interrupt the earlier trend. It is not clear that it actually strengthened it.

2. To some limited extent, the larger returns on financial investment contributed to the income of these groups, while still active. They benefit from direct capital income and capital gains, but this source accounts for a quite limited fraction, say below 5%, of their total income (table 7). The ideological importance of this phenomenon might be more important than its actual material import.

3. The extension of pension funds and other retirement accounts was the crucial mechanism by which these groups were "associated", though in a subordinate position, to the restoration of capital income and the rise of capital gains, for the best or for the worst, as the future will tell.

4. These neoliberal decades were those of rising consumption and declining saving trends. In this shift, these groups played the central role, also for the best or for the worst. There are, at least, three factors to this dangerous bias: (1) the shift toward large wages, *per se*, as the main source of income, a factor of low savings — provided that employment and retirement are guaranteed, which is supposedly the case for these upper salaried classes; (2) the development of pension funds to supplement social security; and (3) the bold credit policy, under neoliberalism, toward households. This rush of the better-off fractions of wage-earners toward consumption is certainly a crucial component in their adherence to the neoliberal social order.

Throughout the 1980s and 1990s, saving rates declined to incredibly low levels. (Accumulation in the United States was only made possible by the contribution of the rest of the world, and the future of this trajectory is problematic.[37]) As contended in a recent study of the Federal Reserve[38], saving precisely declined for either top ruling classes or upper middle classes (the top quintile). This is acknowledged by Alan Greenspan, who made the following statement in his January 20, 1999, testimony: "We have some evidence from recent years that all or most of the decline in the saving rate is accounted for by the upper income quintile where the capital gains have disproportionately accrued, which suggests that the wealth effect has been real and significant".

#### *4.4.2 The neoliberal compromise*

The upper fractions of wage earners did not suffer as other social groups did domestically and in the rest of the world. This upper fraction of salaried classes defines a crucial component of the neoliberal compromise.

37. G. Duménil, D. Lévy, "The Economics of U.S. Imperialism at the Turn of the 21th Century", forthcoming in *Review of International Political Economy* (2004).
38. D. Maki, M. Palumbo, Disentangling the Wealth Effect: A Cohort Analysis of the Household Saving in the 1990s, Federal Reserve, Washington (2001).

Both figures 3 and 8 show the distinct fates of the top 1% income fractile and the other fractions immediately below in the income hierarchy, the fractiles 90-95 and 95-99, separately or jointly (90-99): (1) the sudden diminution of income for the top 1%, and the sudden restoration from the 1980s onward; and (2) the gradual rise for the 90-99 fractile. Distinct mechanisms are clearly at issue. Figure 8 stresses the outstanding comparative cost for the great mass of wage-earners (keeping in mind that the 90 boundary is probably somewhat too high.)

This is one straightforward quantitative expression of what we call the "neoliberal compromise": a compromise between upper classes, to the detriment of lower categories— higher wages and capital.

In the striking of such a historical deal, it is difficult to determine what role each social category exactly played. Did capitalists enticed the upper fraction of wage-earners into the new social order which restored their own privileges. What was the role of these salaried classes? In the analysis of such a complex social process, it is important to keep in mind, other broader conditions: (1) the dollar crisis, and the unravelling of the Bretton Woods order; (2) the rise of transnational corporations seeking international deregulation; (3) the structural crisis of the 1970s; (4) inflation; (5) the "decline" of U.S. hegemony after the Vietnam war, etc. Recall that, in the election of Ronald Reagan, nationalism played a central role ("American is back!"). But the outcome of this complex set of circumstances was the striking of a new social deal, a thorough break from the earlier *New Deal coalition*.

This neoliberal compromise made the reassertion of the power and income of capitalist classes compatible with the preservation of the rules of democracy. By democracy, we mean here a configuration in which the power of ruling classes appears compatible with degrees of freedom to think and act on the part of other classes. This includes, the expression of divergence among the various fractions of ruling classes, as well as a degree of social confrontation, provided that given limits are not trespassed. In this context, the domination of ruling classes can be maintained despite recurrent free elections. The rules are such that a significant portion of the population does not participate in the "democratic" electoral process, or votes with the single purpose of sanctioning the previous majority.

Although the control of education and mass media is crucial in the perpetuation of such a social order, ruling classes must also compromise with other fractions of the population. This is how the thoroughly reactionary neoliberal project remained compatible with these democratic rules. It allowed ruling classes to restore their privileges without radically upsetting the traditional rules of (class) democracy.

#### *4.4.3 Strength and fragility of the neoliberal compromise*

The benefits that condition the new liberal compromise with upper salaried classes appear simultaneously real, as stated above, fictitious in some respects, and difficult to preserve in the future:

1. Figure 11 and, even more clearly, figure 10 show that below the top 1% there was no neoliberal miracle. Figure 10 indicates for the 90-99 percentile a disappointing rise of purchasing power of approximately 25% in about 25 years. Still this group did progress in comparison to the rest of the population. The low performances of neoliberalism in term of purchasing power vis-à-vis this upper salaried class define a first aspect of the fragility of the economic basis of this association. (Note that this "purchasing power" is that of income; actual purchases are something else.)

2. To the above, one can object that neoliberalism ensured the prevalence of high interest rates, dividends, and a surging stock-market. This is where the development of pension funds appears as a crucial component of the neoliberal strategy, since these upper salaried classes do not live from capital income or gains while active. The growth of pension funds established a decisive link between these classes and upper ruling classes.[39]

The alternative was between the streamlining of the traditional social security system and pension funds. The contradiction is that pension funds can only contribute to the payment of pensions to the extent that they stimulate savings and accumulation. In any instance, it is the work of the active fraction of the population which will contribute to the purchasing power of retirees. Accumulation, growth, and technical progress are at issue. The U.S. economy is the living demonstration that pension funds did not stimulate savings. Individuals are accumulating in their funds, on the one hand, and consume, on the other. Thus, as we show in other studies[40], firms are not investing much or investing on the basis of international financing, with the obvious constraint of paying capital income to foreigners.

# 5 - Conclusion

As is obvious, and strikingly illustrated by the observations made in the previous sections, U.S. capitalism underwent important transformations. In many respects, traditional features were perpetuated, but in others, changes appear so far-reaching that it seems impossible to contend that only "forms" of ownership and "channels" in the distribution of the surplus were modified leaving untouched basic social relations.

A first observation is the break which coincided with the Great Depression and World War II. But the postwar decades were also marked by important transformations, in particular the gradual unravelling of the very broad compromise among wage-earners which prevailed after the war, and the sudden reassertion of the rule of capitalist ownership within neoliberalism.

It is easy to refute analyses suggesting a dissolution of class patterns (section 5.1). But the question remains: What kind of capitalism do we live in? Sections 5.2 and 5.3 briefly summarize the two main lines of interpretations given in this paper.

39. And it works. It is interesting to note, for example, to what extent the AFL-CIO is aware of the interest of workers in the profitability of corporations: "What's wrong with CEOs taking a disproportionate share of the wealth? The problem is that excessive CEO pay takes dollars out of the pockets of shareholders, including the retirement savings of America's working families." http://www.aflcio.org/corporateamerica/paywatch/retirementsecurity/

40. G. Duménil, D. Lévy, "The Economics of U.S. Imperialism", *op. cit.* note 37

## 5.1 Working capitalists and capitalist workers

A first naive interpretation can easily be brushed aside. It suggests that class patterns were gradually offset as a result of a double transformation. Supposedly, capitalist classes are now involved in production and rewarded as such. These new classes are those of the "working rich". The "proof" is that most of their income is now made of wages, like those of any other workers; they also receive large partnership income or income from similar sources, like medical doctors or lawyers do; true, they also benefit from capital income and capital gains, but "decently". Symmetrically, adding to the alleged confusion of social relations, salaried workers hold growing amounts of securities, in particular indirectly through mutual and pension funds, and, thus, share to a significant extent the condition of the owners of the means of production.

First, a closer analysis reveals that what we denoted globally as partnership income actually covers truly capitalist types of financial activities. Very large amounts of capital are invested there and concentrated in the hands of a minority of "very high net worth" households, according to the flattering phrase used in bank's advertising. Not only this type of activity can be characterized as capitalist, but it also allows for the transformation of capital income into capital gains whose tax rates was much lower. (For the very rich, the entire U.S. economy is a tax heaven.) Second, still for the same classes, very high salaries, supplemented by stock options (and their explosion during the neoliberal decades) cannot hide the true nature of the mechanism at issue: a privileged manner of appropriating the social surplus. Globally, these outstanding incomes can be rather unambiguously linked to the ownership of capital.

The diffusion of this bonanza remains quite limited. Below the top 1% of the income pyramid, may be the top 2%, capital income and capital gains amount to a very small percentage of the total income of these lower categories, at least when still active. These groups share some of the benefits of the ownership of capital in a subordinate position:

1. Pension funds do associate, to some extent, these groups, below the top, to capital income and gains when they retire. Pensions paid by pension funds still provide, however, a moderate share of total income even for well-off people (less than 30% for the upper income quintile). Intermediary salaried classes, lower in the income pyramid (such as the third quintile), do garner some income from their previous accumulation within funds, but hardly more than one sixth of their total income as retirees.
2. But retirees do live on capital income. Actually, direct capital income accounts for more than the total of pensions paid by government and private pension funds. One can surmise that these sums are largely concentrated at the top of the income pyramid.

## 5.2 Two-tier capitalism

A first alternative interpretation can be given, in which a rather standard framework of analysis of class patterns is preserved. It suggests that within capitalism in the late 20th and early 21th centuries, two "levels" can be distinguished in the analysis of capital ownership:

1. *Capital ownership by a capitalist class.* This ownership possesses all the characteristic of capitalist ownership since the separation of ownership and management at the transition

between the 19th and 20th centuries. Owners are fundamentally separated from corporations, in spite of what we denote as the "ownership-management" interface. Their property can be characterized as financial. The power of these classes is expressed through "their" financial institutions. Within these financial institutions, one must also include mutual or pension funds, but what is at issue here is not the pensions that these upper categories may receive, but funds as source of income and power, via: (1) their management; and (2) the pressure that the funds may exercise on corporations for larger profitability.

2. *The access given to broader salaried classes, primarily through pension funds, to a quite distinct form of ownership.* There, "ownership" is actually passive and subordinate, but still the ownership of capital is at issue.[41]

This is the configuration of what we call "two-tier capitalism".

## 5.3 Capitalist and upper salaried classes in the neoliberal compromise

The above interpretation remains, however, rather static, or a-historical. Actually, historical processes are at work, and the engine is class struggle.

The upper fractions of salaried classes, involved in the second "tier", are not just dominated mestizos in this capitalist reproduction process, but also actors. The broad social compromise imposed by the large masses of workers after World War II — in the context of the weakness of the capitalist order and the growing power of Soviet-style socialism, whatever its class nature — was gradually eroded by rising wage inequality. (Obviously, this polarization is also the expression of new hierarchic patterns in the division of labor, whose analysis lies beyond the limits of this paper.) Simultaneously, the "containment" of traditional capitalist owners, though still alive and active, was ensured.

In the context of broader favorable conditions, the capitalist class used this widening polarization among wage-earners to its own advantage and, rather suddenly, restored its prerogatives within neoliberalism (after decades of continuous efforts). The early "Keynesian" compromise yielded in front of the new neoliberal compromise, a shift from the lower strata of the income pyramid toward the top.

In the adherence of upper salaried classes to the neoliberal creed, pension funds played a crucial role. Abstracting from the rest of the population and the rest of the world, did these classes make the wrong choice? Large interest rates and the hike of the stock market created the illusion of an autonomous and automatic prosperity. But will large interest rates be maintained? What is the future of the stock market when all profits are already distributed as dividends and returns on stocks still very low in spite of the decline of stock indexes? What is the future of an economy which paradoxically lost its capability to save (when pension funds were supposed to stimulate savings), and accumulated external disequilibria?

At a more general level of analysis, the issue is that of the future of neoliberalism and of the neoliberal compromise: a new phase of neoliberalism or beyond?

41. Various analyses suggest for the future a "reappropriation" of this capital by these proprietors, with a whole range of social projects from a more "civilized capitalism" to "pension fund socialism".

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