FINANCE AND MANAGEMENT IN THE DYNAMICS OF SOCIAL CHANGE

(*CONTRASTING TWO TRAJECTORIES: UNITED STATES AND FRANCE)*

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1 - Introduction: Actors in History

There is, in the left academy, a rather broad agreement concerning the nature of the new phase of capitalism asserted since the early 1980s, commonly referred to as *neoliberalism*. Central to this contemporary economy is the preeminence of financial institutions and mechanisms, domestically and internationally: the new discipline imposed on labor and management, macro policies targeted to price stability, and the opening of frontiers to trade and capital movements, etc. Although it is a multifaceted phenomenon, it is possible to date neoliberalism from the end of the 1970s, when the Federal Reserve, chaired by Paul Volcker, decided to increase interest rates at any level supposedly required to curb inflation (what we denote as the "1979 *coup*").

We agree with this general framework of analysis, but we also believe it often lacks a clear, explicit, reference to social relations. The paper is, actually, a bold attempt at assessing both contemporary trends in capitalism and the perspectives now opened for the 21st century, in a framework whose main focus is on classes, and the interplay of class relations and struggles[1]. Thus, the theoretical foundations in the paper are rather strictly marxist, with the major "revisionist" proviso that a *managerial class*, to be defined below, is a component of class relations in contemporary capitalism[2]:

1. A crucial transformation in the history of capitalism was the separation between ownership and management at the transition between the 19th and 20th centuries. The transformation, around 1900, combined the "corporate revolution", the "managerial revolution", and the formation of a new "modern" financial sector directly backing large corporations. Obviously, this separation was not absolute, but it was so far-reaching that it reshaped social relations.

2. The capitalist class, or bourgeoisie, took a new form, that can be labeled *financial*, since its hold on the means of production was maintained through the ownership of securities (stock shares and loans), instead of the traditional individual or family ownership. We denote as "finance", the upper fraction of this capitalist class and the financial institutions (banks, investment funds, International Monetary Fund...) through which the power of this class is enforced.

3. Management was delegated to a salaried personnel, reaching unprecedented levels of sophistication under new organizational forms. The traditional opposition between a bourgeois and a proletarian class was, thus, mediated by new intermediate classes (besides the earlier petty bourgeois class still active). A managerial class emerged, supplemented by clerical personnel. The new managerial trends reshaped the organization of both the private and public ("government", as the term is often used) sectors, uniting, to some extent, these various bodies beyond the sectorial divide.

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1. The paper builds on the foundations laid in G. Duménil, D. Lévy, *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard: Harvard University Press (2004).

2. We will not discuss here the interpretation of these transformations in relation to Marx's analysis (G. Duménil, D. Lévy, *Au-delà du capitalisme?*, Paris: Presses Universitaires de France (1998); "Production and Management: Marx's Dual Theory of Labor", *in* R. Westra, A. Zuege (eds.), *Value and the World Economy Today. Production, Finance and Globalization*, London: Palgrave, 2004, p. 137-157).

Abstracting from traditional petty proprietaries, class patterns can be summarized as follows: (1) Capitalist owners; (2) Managers (in a broad sense of the term including officials); (3) Clerical workers; and (4) Production workers. In addition to smaller capitalists, managers and clerical workers shaped what has been denoted as "new middle classes". The conditions of clerical and production workers tend to converge and, for the sake of simplicity, we will call both of them, considered jointly, as the "popular classes". Thus, the following hierarchical configuration can be denoted as the *early twentieth century social pattern*:

- Large capitalist owners.
- Managers and smaller capitalists.
- Popular classes of clerical workers and production workers.

The focus of the paper is, broadly, on the last century of capitalism. We distinguish three phases: (1) A first hegemony of finance from the late 19^{th} century to the Great Depression; (2) The "Keynesian" or "managerial" compromise from World War II to the late 1970s. (3) The second financial hegemony in neoliberalism since then. (We restrict ourselves to the examples of the US and French societies.)

2 - Class patterns and powers

This section uses data on income distribution to suggest the emergence of new trends in social relations.

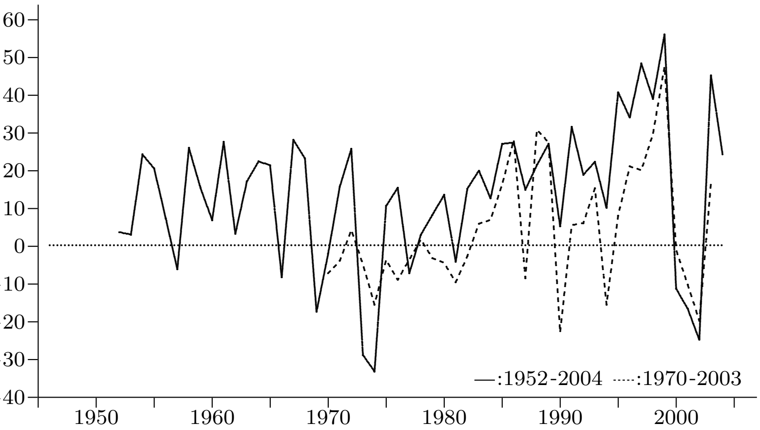
2.1 Capital income under neoliberalism

The restoration of high incomes and, in particular, of capital income, was the main purpose of neoliberalism: control of the cost of labor of popular classes and maximizing of the profit rate, large interest rates, lavish distribution of dividends, rise of the stock market, etc. In this sense, it was highly successful.

It is easy to document this phenomenon. Figure 1 shows the share of financial incomes in the total income of households. Capital gains and a correction for the devaluation of assets by inflation are added. Large fluctuations reflect the up and down of the stock market. Abstracting from these fluctuations, one observes in the United States a significant decline during the 1970s and an upward trend since the 1980s. This rise culminates in 1999, prior to the "bursting of the bubble". One can also observe the recovery in 2002. (One can notice that, in 1999, capital gains, mostly virtual, amounted to more than 50% of total household income.) The data for France is only available since 1970, but one can easily observe a similar profile, beginning with very low levels during the 1970s.

As can be easily surmised, high incomes earners benefit more from financial income than the rest of the population. Therefore, we can infer that they were the main beneficiaries of the restoration of these incomes. But this is also where things become more complex.

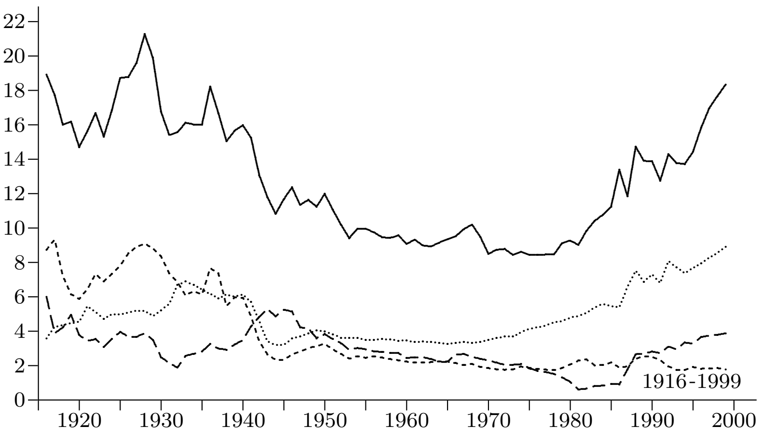
Figure 1 The share of financial incomes in the total income of households: United States and France



United States: (——)
France: (-----)

Financial incomes are the sum of interest and dividends, plus (virtual or realized) capital gains corrected for inflation. (In France: *Revenus de la propriété mobilière.*) Total income is the sum of Compensation of employees, Proprietors' income (with adjustments), Rental income of persons (with adjustments), and Personal income receipts on assets.

Figure 2 Share in the total income of all households of the 1% of households with larger incomes: United States, total income and its components



Total income (including capital gains): (——)
Capital income: (-----)
Sole proprietorship, Partnership, and S-corporation income: (— —)
Wages: (·········)

The three components do not add up to the total, since the fourth component, capital gains, is not represented separately.

2.2 Capital income and "wages" at the top of the income pyramid

Indeed, the income of the fraction of the population earning high incomes, dramatically increased with neoliberalism. But, contrary to what could be inferred from the previous section, fiscal data do not identify interest, dividends, and rent as the major elements in the comparative rise of large incomes under neoliberalism.[3]

This can be assessed using data from the Internal Revenue Service (IRS).[4] There are two differences with the data used earlier: (1) No correction for the effect of inflation is made (stocks of assets are unknown); and (2) Only *realized* capital gains are considered. In addition to the decomposition by income fractiles, one advantage of this data set is that the series are available since World War I.

Figure 2 shows the fraction of total income received by the top percentile, 99-100, of households (actually individuals filling a tax return), when they are classified by the level of their income. Incomes are the sum of four components: (1) wages (including the distribution of shares and pension benefits); (2) incomes of sole proprietors, partners, and S-corporations; (3) capital income (interest, dividends and rents); and (4) realized capital gains. The figure also shows the three first components separately. (Only capital gains are not represented, though they are included in the total.)

The consideration of the fiscal income of the top 1% (99-100 fractile) of the income pyramid confirms our view that the situation of classes with upper incomes improved in the 1980s and 1990s. From the 1970s to the early 2000s, the share of total income received by the upper percentile of households, in terms of income, rose from 8% to 18%.

This restoration can be viewed as a return to the income concentration levels that prevailed before World War II. Inequality actually diminished sharply throughout the Great Depression and World War II. The top 1% lost 4 percentage points of the total income of the country between its average share during the 1920s (1919-1928) to the average of for the 1950s. There was no recovery after the war but, instead, a slow decline until the neoliberal upturn. The intermediate period, that of the Keynesian compromise, can be globally characterized by low incomes at of the top of the income pyramid.

The transformation of income composition is telling. Before World War II, interest, dividends, and rent, accounted for about half of the income of the traditional capitalist class. The recovery during the latter decades was due to (1) "wages", and (2) income from sole proprietors, partnership, and S-corporations. (An important fraction of "wages" corresponds to the distribution of shares.[5]) These are incomes from tax returns, and it is obviously impossible to determine how much capital income is undeclared. The importance of tax shelters has been growing considerably during those neoliberal years. But the rise of the other categories of incomes remains — unquestionable.

3. G. Duménil, D. Lévy, "Neoliberal Income Trends. Wealth, Class and Ownership in the USA", *New Left Review*, 30 (2004), p. 105-133.
4. The data are from T. Piketty, E. Saez, "Income Inequality in the United States, 1913-1998", *The Quarterly Journal of Economics*, CXVIII (2003), p. 1-39.
5. G. Duménil, D. Lévy, "Neoliberal Income Trends", *op. cit.* note 3.

2.3 Incomes and classes

There is no straightforward correspondence between income channels and class determination as implied in the patterns of social relations outlined in section 1. Any individual can receive dividends and interest but, for this reason, does not become a capitalist. The case of upper "wages" is particularly difficult, since the fact of receiving a wage does not mark an individual as a production worker. Marx had already noted in volume III of *Capital* that, following the separation of ownership and management, active capitalists pay to themselves a wage, and consider themselves as "workers". The problem is made even more complex by the fact that the tasks of the active capitalist may be delegated to salaried managers, or "wages" may reflect mere sinecures.

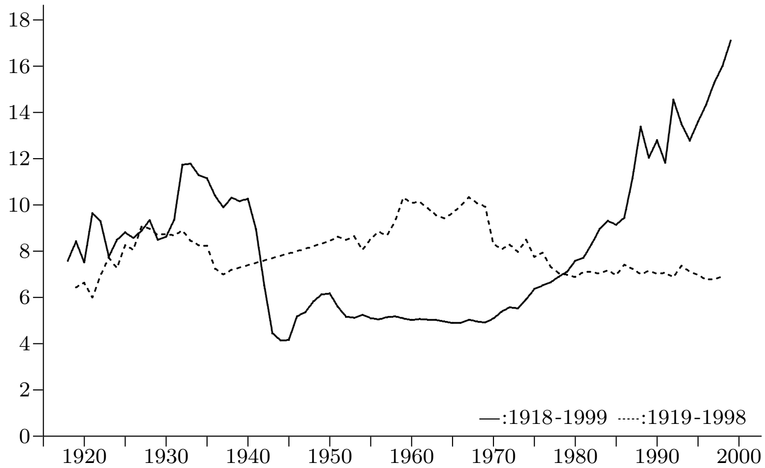
The case of *sole proprietors, partnership, and S-corporations* shows that the pattern of social relations is even more intricate than suggested by the separation between wages and profits in a corporation. Since the late 1980s, most of partnership income has corresponded to a financial sector where rich households pool their wealth and engage into financial operations; interest and dividends are, thus, transformed into partnership income. (These groups are major users of tax shelters.) Considering the income of the three groups jointly, the income of Finance and Real Estate represents about one third of the total. The profits of Business services amount to about a quarter of the total; they correspond to the managerial tasks which are subcontracted to enterprises where professionals are active, selling their services but also owners of their enterprise.

At the level of income of the upper percentile, non-wage income are large, signaling a status within relations of production, distinct from rank-and-file wage earners. This is even more obvious higher in the hierarchy. (In 1999, incomes other than wages represented half of the income of the top 1%; for the top 0.01%, incomes other than wages amount to 58%.) And fiscal data do not reflect nonrealized capital gains, which might account for the bulk of the rising "virtual" wealth of very rich families. At this level, the capitalist component is quite significant. The remunerations are so high that any individual reaching the top percentile becomes, de facto, the holder of large portfolios of securities.

Below the 1% upper percentile of the pyramid of incomes, wages (including pensions) are the overwhelming component of income. In the United States, in 2001, the income of fractiles below the top 1% were made of wages up to 90%. But this does not mean that this block of 99% of households is homogeneous.

In what follows, we compare three income fractiles: 99-100, that is the upper percentile as above, 90-99, and 0-90. Figure 3 shows the ratios of the average wage of the top percentile to the average wage for the 0-90 fractile. For example, 8 on the vertical axis reflects the fact that the average wage in the top percentile was 8 times larger than the average wage in the 0-90 fractile. For the United States (——), the figure confirms the sharp reduction of income (here wages) inequality, during World War II, from a ratio of 8 or 10 to a plateau of 5 during the 1950s and 1960s. This ratio began to rise during the 1970s but, overall, such "low" ratios were characteristic of the period of the Keynesian compromise. But the most stricking observation is that, from the 1970s onward, the ratio engages into a steep rise, up to 17 in 1999.

Figure 3 Ratio of the average wage in the 99-100 income fractile to the average wage in the 0-90 fractile: United states and France



United States: (——)
France: (-----)

2.4 A new configuration of class domination in the United States?

This singular profile of wages at the top of the income pyramid in the United States, and the role it played in the restoration of the income of the better-off fraction of the population, is so sharp that it suggests a new transformation of the institutional framework in which the powers and incomes attached to ownership and control are expressed under neoliberalism in the United States.

The main feature of this transformation is that, in the United States, capitalist ownership and top management tend to coalesce, defining a hybrid class, in which capitalist owners participate in top management, and top managers, *via* large remunerations, become owners, if they were not before entering the group. Athough the structural pattern of capitalist and managerial classes is still at issue, the hierarchical configuration of relations introduced in section 1 must be altered:

- *Large capitalist owners-top managers*, a hybrid complex in which the interaction between both social relations confers specific features on each component.
- More traditional managers, lower in the hierarchy, and whose involvement in ownership is secondary, as in pension funds, and smaller capitalists.
- Popular classes.

(In a very crude empirical manner, we associate the two first components to either one of the two fractiles: 99-100 and 90-99.)

The difficulty in the distinction between the two patterns—*early twentieth century pattern* and this *U.S. late twentieth century pattern*—is the nature of the relation between top managerial activities and ownership. The first pattern preserves the separation between the capitalist and managerial components: Owners may also be registered as managers, but on behalf of ownership, whatever the reality of the tasks. This approach is in line with Marx's analysis of the "active capitalist". The second configuration points to a polarization among the managerial class, between "top" and "standard" management, and a hybrid class at the top of the social hierarchy.

This polarization within the managerial class is a replica of that which always existed among capitalists, between the upper fractions of the class and medium or petty owners. (At issue in this polarization within the capitalist class is the distinction we introduced in our definition of neoliberalism, between the upper fractions of the capitalist class and the rest of the class, although no strict separation can be established.) It is not too suprinsing that such a polarization was also asserted within the managerial class, as this class was maturing and gaining social ascendancy. The difficulty in this discussion is the dual logical pattern of "structural" determinations (capitalists, managers...), on the one hand, and the resulting confinement and concentration of powers and incomes, on the other among real "blood and flesh" individuals.

In this new configuration in the United States, the grasp of ruling classes, or the "new ruling class" as it can now be denoted, on the means of production must be interpreted as the combined effect of ownership and top management. It is a new revolution in the institutions of ownership, to be related to that which occurred at the turn of the 19$^{\text{th}}$ and 20$^{\text{th}}$ centuries. Although the participation of members of capitalist families to management has always been a characteristic of 20$^{\text{th}}$ century social configurations, this hybrid character is now becoming a basic feature under neoliberalism. It reshapes incomes channels. The bourgeoisie, the "leisure class[6]" of the early 20$^{\text{th}}$ century re-emerged, after several decades of containment, within a set of relations in which its link to top management has been reshaped. Both control and income channels are at issue. The bourgeoisie actually "borrows" to top management its own income channels, wages, inflated to the point of becoming the privileged access to the surplus. Traditional channels, such as interest and dividends, are now shared with broader, though upper, fractions of the population, as in funds.

It is this ruling class whose power and income was asserted in neoliberalism. The fate of the standard managerial class, as defined above, was distinct: its relationship to the ruling class is one of "compromise", not "fusion". Using the income data of the 90-99 fractile to characterize this group, it appears that its relative wages, in the metrics of figure 3, displays a rather steady upward trend, since World War II, slightly steeper during the neoliberal decades, a thoroughly different profile from that observed for the top percentile. We use the phrase *neoliberal compromise* to define the situation of this class under neoliberalism, with its growing share of total income and its pension funds. It is a compromise between the new ruling class and the standard managerial class.

Globally, a new alliance is taking place among upper classes, that we can label as *capitalist* and *managerial*. One way of interpreting this emerging configuration of social relations is to consider jointly the two classes and their internal fragmentation, on the one hand, and the two aspects, fusion and compromise, on the other. This social deal implies a double polarization: (1) the upper fraction of the capitalist class (capitalists I) and the rest of the class (capitalists II), and (2) the upper fraction of the managerial class (managers

6. T. Veblen, *The Theory of the Leisure Class*, London: The Macmillan Company (1899); T. Veblen, *Absentee Ownership and Business Enterprise in Recent Times*, London: George Allen & Unwin (1924).

I) and the rest (managers II). Of course, in both instances, only a minority belongs to components I. Concerning *capitalists I* and *managers I*, an actual fusion occurred under neoliberalism, the *big capitalist owners-top managers* compact, or new ruling class. Components II are embedded within neoliberalism in the *neoliberal compromise*, in particular *managers II*.

This fusion at the top, as observed in the United States in the late twentieth century, is not singular. An important historical precedent was the lasting transition between feodalism and capitalism, when: (1) the feodal rent took gradually capitalist features, as capitalist relations were increasingly governing economic mechanisms; (2) lords were engaging into business to raise their income, and (3) capitalists were acquiring estates and titles of nobility.

2.5 Income and social patterns in France

It is interesting to compare the fiscal data from the IRS to similar data in France: They do not show a restoration of the share of total income accruing to the better-off fractions of the population. We believe there are two reasons to this. First, as we will contend, the movement of wages was very different in France; second, the doubts manifested ealier concerning the declaration of financial income in the United States, are fully confirmed in the case of France: The ratio of capital income declared to the fiscal authority, to that identified within French national accounting, displays a significant downward trend during the recent decades, signaling a growing trend towards under-declaration.[7] Overall, the fraction of capital income which appears in income statements is very low, estimated at an average of 18% during the 1990s!

As for the United States fiscal data on wages are fraught with less uncertainty. Figure 3 also plots the relative wage of the top percentile in France. During the prewar years, the ratios are similar to those observed in the United States. A first striking observation is the difference in levels between the two countries, from World War II to the 1970s. In the United States, the plateau, in figure 3, was around 5: in France, the ratio is 9 or 10. Thus, the wage hierarchy in the upper fractions of wage-earners appears very strong in postwar France. It is impossible to determine to what extent this access to high wages was dependent on the ownership of capital or not, but the overall low levels of capital income and other features of the French society suggest that these high wages were basically an expression of the status conferred on top management. Despite the Keynesian compromise, this "managerial" society was very unequal.

Another dramatic divergence between the two countries is, however, observed during the later decades. In France, from the late 1960s onward, wage inequality was reduced. This observation probably echoes the new regulatory framework in which the determination of wages was embedded after 1968, in particular in the *Accords de Grenelle*. New rules were fixed for the determination of the minimum wage, and the determination of the levels of remunerations of managers is somewhat constrained.

Thus, an important difference between the two countries is that, under neoliberalism, wage inequality rose strongly in the United States, but not in France. A major consequence

7. There are three sources: (1) fraud, (2) exemption, and (3) withholding.

is that the new configuration of class relations suggested by the study of neoliberalism in the United States, does not seem to apply to the French society, or to a quite lower degree.

This important finding points to other well-known differences: Although the same common basic features are observed in both countries (in particular the rise of financial income), neither the Keynesian compromise nor neoliberalism, nor the trajectories of class struggle, were identical in the United States and France. History is at issue.

3 - History on the move

This section first recalls the main features of neoliberalism in the United States and France. The focus is on similarities and differences, and these observations echo the income profiles identified earlier. The second section is devoted to class struggle in the United States during the 20th century. This is where trajectories are determined, and this analysis provides important insights on the somewhat diverging paths followed by U.S. and French societies.

3.1 Mimetism and idiosyncracy

There are, in the two countries, many common facets to the difference between neoliberalism and the earlier Keynesian compromise:

1. A first element is the transformation of management or "corporate governance". It is now widely acknowledged that neoliberalism imposed a new management of corporations in which the interests of shareholders come first. This corporate governance under neoliberalism is also an expression of the return of the stock market central stage. The "creation of value" for shareholders defines the new objectives of managers of big corporations.
Symmetrically, the identification of these trends — managers dedicated to the new ruling class — implies, or should imply, the recognition that the behavior of managers during the decades of the Keynesian compromise had distinct objectives: The assertion that managers are more dedicated to the interests of owners in neoliberalism, is equivalent to the proposition that they were less so during the previous decades. This is equivalent to saying that managers had developed sectional behaviors, in line with their position within class patterns, whose main feature was a lesser concern for shareholders. Besides profitability, the emphasis was on growth and technological change. These managerial trends were well understood. It is not coincidental that the theories of *managerial capitalism* bloomed in the United States in the 1960s and 1970s.[8]

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8. J.K. Galbraith, *The New Industrial State*, New York: New American Library (1967); A.D. Chandler, *The Visible Hand. The Managerial Revolution in American Business*, Cambridge: Harvard University Press (1977). It is interesting to cite here the book written, in 1963, by a French manager, typical of the men who led the economy after the war: François Bloch-Lainé (*Pour une réforme de l'entreprise*, Paris: Éditions du Seuil (1963)). The cover states: "The enterprise is a community of interests, impossible to reduce uniquely to its owners. [...] Within an enterprise, as within the Republic, there are the governors (managers) and the governed (capital and personnel)".

2. As is well known, the decades of the Keynesian compromise were also specific in terms of policies, in particular macro-policies. After World War II, in France, the tolerance to inflation was large, and policy were targeted to growth and full employment. In the United States, the 1960s marked the heydays of Keynesian macroeconomics, though the stimulation of the macroecomy remained on the agenda to the end of the 1970s, up to the 1979 coup.
The compromise leading to the definition of such policies was expressed in, and framed by, the existing political bodies, assemblies and governments, and technically enforced by officials. Considering these decades from the view point of capitalists, and keeping in mind that the officials in charge of the implementation of these policies were also part of the managerial class in the broad sense of the term, these policies testified of a type of "sectional" behavior similar to that identified for private management.

3. In relation to regulatory frameworks and property relations, the relationship between the financial and nonfinancial sectors was also at issue. In France after World War II, the financial sector was actually dedicated to the cheap financing of the economy in the context of large inflation rates. A calculation of the profit rate of financial corporations leads to negative profit rates! As shown in earlier work[9], such a difference in favor of the nonfinancial sector was also manifest in the United States from the mid-1060s to the end of the 1980s, but returns were not negative.

4. Another common element, in which differences in degrees are at issue, is social protection, or welfare. In the United States such frameworks emerged well before World War II, and can be traced back to the Progressive era, at the beginning of the 20$^{\text{th}}$ century. It is, however, true that the new social order after the Great Depression and World War II saw major accomplishments in terms of social protection. In France, in particular from the *Front populaire*, between the two world wars, to the *liberation* after World War II, a very broad framework of social protection was established.

5. As is well known, in both countries, in addition to social protection, state intervention after World War II was prominent in research, education, and industrial policy, but this was even more so in France, where part of the economy (nonfinancial and financial) was nationalized. These new trends were not only specific of the early postwar years. The *Programme commun de gouvernement* of 1972 between the socialist and communist parties (and the *Radicaux de gauche*) planned the extension of this public sector. When François Mitterand was elected in 1981, a short attempt was made at implementing such radical reforms. This ephemeral revival illustrates the strength of such trends, in this conflicting configuration.

There is an international facet to these mechanisms, in which the situation of France was distinct from that of the United States. France drew a considerable benefit from the framework of Bretton Woods. It allowed the large degree of tolerance to inflation, with recurrent devaluations of the franc vis-à-vis the dollar, and the succession of periods of strengthening and relaxation of exchange controls. Rates of exchange were low. Inflation was a crucial factor in the financial repression of the capitalist class. In spite of the existing limitations to capital mobility, the country received large flows of U.S. direct investment. In the context of the edification of the European community, and given this favorable international environment, France bridged gradually the technological gap with the United

9. G. Duménil, D. Lévy, *Capital Resurgent, op. cit.* note 1, figures 15.2 for France and 15.3 for the United States.

States. In spite of this relative advantage conferred on less advanced countries, the framework of Bretton Woods was not damaging for the United States; rather it perpetuated the hegemony of this country, at least untill the dollar crisis of the early 1970s. Then, after a period of uncertainty during the structural crisis of the 1970s, the assertion of neoliberalism strengthened this hegemony to even higher degrees.

But the singularities between the two countries are particularly evident in the features of the new neoliberal phase, with important political implications:

1. In the two countries, policies were dramatically altered with neoliberalism, in particular, for France within the European Union. Since the early 1980s, however, the macroeconomics of the U.S. economy are quite specific. Demand is stimulated by a bold credit policy boosting the consumption of households; an important share of demand is directed toward the rest of the world, with a large deficit of foreign trade, and a small inflationary impact on the domestic economy; large flows of financing come from the rest of the world. (Note that this trajectory would be impossible if macro policy was also targeted to the equilibrium of trade.)
Thus, concerning policy, the difference between the United States and France is not so much one of "liberalism", but of comparative position in the world economy. The United States benefit from their global domination, and this makes neoliberalism less devastating for significant segments of the population, among middle classes. This context of growth and spending in the United States played, we believe, a central role in the formation of the neoliberal compromise, since upper classes in general engaged in a consumption spree.[10]

2. Concerning social protection the difference between France and the United States was one of degree as stated earlier; but, what is a issue here is, above all, the fate of social protection under neoliberalism, which proved more resilient in France than could have been expected.

Thus, after 25 years of neoliberalism, two crucial differences are apparent between the two countries. The course of the macroeconomy remained more favorable in the United States, and the managerial class was associated, though in an inferior position, to the neoliberal prosperity, benefiting mainly to the members of the new ruling class. The French economy, and society in general, is deeply transformed, but a difference between the United States and France is that many of the institutions of the postwar decades are still there. In particular, many of the features of the Keynesian compromise in terms of social protection were maintained, thanks to popular resistance and, probably, the adherence of large segments of management to these social arrangements. Actually, the contrast is very strong between the coexisting old (Keynesian) and new (neoliberal) aspects. Due to the simultaneous existence of these two facets, the contemporary French society is sometimes called *social-liberal*.

Overall, in the two countries, the relationship between the capitalist and managerial classes was similar in many respects but also significantly distinct in others, both during the Keynesian compromise and neoliberalism: (1) The managerial features of the French society were particularly strong; (2) Financial interests were not only "contained" but "repressed"; (3) The intervention of the state was larger; and later, (4) The resistance to the neoliberal

10. The saving rates of upper classes shrank to incredibly low levels (D. Maki, M. Palumbo, Disentangling the Wealth Effect: A Cohort Analysis of the Household Saving in the 1990s, Federal Reserve, Washington (2001)).

offensive was stronger. The differences pointed above during the Keynesian compromise can be viewed as harbingers of this distinct social trajectory under neoliberalism, with strong idiosyncracies.

Note that these diverging social trajectories do not explain the comparative performances of the United States during the second half of the 1990s, relative to France or Europe in general. Distinct positions in imperialist hierarchies are at issue.

Which circumstances may account for these divergences? The historical features of ownership probably play a role here, with an alleged significant attachment to "bourgeois" traditions in France. (But it is also true that a growing fraction of large French corporations is now held by international institutional investors such as U.S. pension funds, who certainly do not act along such lines.) Management, in France, is also marked by specific historical traits, such as a rather tight relation to the state, strengthened by the characters of the French system of education, with a tradition of attachment to centralization and state intervention. To some extent, management is viewed in France as "social" organization, rather than profit maximizing. In spite of permanent propaganda, the managerial class in France is, also "to some extent", attached to the system of social institutions of the postwar decades. The role this class played in the history of social confrontation in France (its inclination towards "socialism", be it, in the past, revolutionary or, up to the 1970s, reformist) remains present in a sense.

Overall, the "love affair" at the top, U.S. style, between upper classes in neoliberalism was not achieved in France, neither was the neoliberal compromise, or to a lesser extent. This is where the observations made concerning income patterns, on the one hand, and specific economic and social features, on the other, converge.

In these complex mechanisms can we assert any direction of causation? It is obviously not that income trends caused the set of differences recalled above. At issue are distinct trajectories of class struggle, given their historical determinants.

3.2 Class patterns and struggle

Whatever the importance of technical change and profitability trends, the relevance of institutions, etc., the evolution of class patterns and struggle is central in the interpretation of social trajectories. This section does not actually compare the dynamics of class struggle in the United States and France; the perspective is rather strictly limited to the United States. The purpose of the analysis is to show how the crucial role of class struggle should be concretely understood in relation to the transformation of class relations introduced in the previous sections.

Finance, as we define it, did not always exist. It was the historical product of the sharp transformation of the institutional framework of capitalism at the transition between the XIXe and 20th centuries, when the separation between ownership and management was achieved and the new financial sector was shaped: capitalist owners, on the one hand, large and powerful financial institutions, on the other.

From the establishment of this configuration onward, financial institutions appeared as a prominent actor, acting on behalf of capitalist interests. The merger wave at the turn of the century occurred under the sway of the large financial institutions, with the emblematic figures of Morgan or Rockefeller... It is sometimes contended that the new financial capitalists took over industrial capital (and the concept of *financial capital* was certainly relevant in those years).[11] The new configuration was, anyhow, established, with the main contradiction located not between financial and industrial capitalists, but between the owners of the new financial or nonfinancial corporations, and the capitalists of the traditional sector.

In the following decades, a central issue was the control of the macroeconomy. A major objective was the stability of prices, assessed in those days in terms of gold instead of a broad bundle of commodities as in a price index. The large banks of New York and Chicago acted as *de facto* central institutions, since they were the banks of other banks.[12] This embryonic monetary policy was not very efficient, and crises were rather frequent with a wide financial component (windows were closed, banks failed). Clearing houses, as collective institutions, were used in order to attempt to check crises. Overall, large financial institutions opposed to the creation of a central bank, as they were afraid of loosing the control of monetary mechanisms. Only the crisis of 1907 created new conditions, and initiated the process which led to the establishment of the Federal Reserve in 1913.

This reluctance to create central monetary mechanisms and institutions capable of confronting the mounting tendency towards macro instability[13]—in an economy, in addition, fraught with considerable heterogeneity—ended in the Great Depression. Financial institutions were held responsible for the crisis, and the New Deal and postwar framework of "contention" was implemented, a significant set back for the capitalist class. After the war, financial interests, in concert with business leaders, advocated the return to a free-market economy, that is unconstrained capitalism. The new compromise was struck, symbolically expressed in the Employment Act in 1946, which made of full employment a duty for the state.[14] During the negotiations of Bretton Woods, the financiers in control of New York big banks straightforwardly opposed to the plan[15], that, they contended, would prove inflationary. They, instead, put forward their *key currency* plan, which would preserve their central position in the control of international monetary mechanisms. They were defeated, although the agreements also reflected the same compromise mix typical of the new Keynesian framework. Capital movements were, anyhow, limited.[16]

In the assertion of the second financial hegemony in neoliberalism, financial institutions acted, again, as the agent of the capitalist class in class struggle, in particular from the new,

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11. W.G. Roy, *Socializing Capital: The Rise of the Large Industrial Corporation in America*, Princeton: Princeton University Press (1996).
12. O.M.W. Sprague, *History of Crises under the National Banking System*, Washington: National Monetary Commission, Government Printing Office (1910).
13. The progress of private management, the development of echanges, and monetary mechanisms results in a trend toward growing macro instability (the recurrence of overheatings and recessions). This tendency must be constantly checked by the progress of policies. This is what we call "the tendential instability thesis" (G. Duménil, D. Lévy, *The Economics of the Profit Rate: Competition, Crises, and Historical Tendencies in Capitalism*, Aldershot: Edward Elgar (1993), section 18.4).
14. In the framework of analysis in this paper, there is nothing like an autonomous state, and the dynamics of social transformation cannot be addressed in terms of a confrontation between the state and the market. (The reference to the "market" hides the freedom of capitalist initiative.) This promiment role conferred on the state was the expression of the new class compromise.
15. G.W. Domhoff, *The Power Elite and the State. How Policy is Made in America*, New York: Aldine de Gruyter (1990).
16. A key element in the road to serfdoom of von Hayek (*The Road to Serfdom* (1944), Chicago: The University of Chicago Press (1980)).

1 - Finance

The view that neoliberalism must be interpreted as the restoration of the power and income of a "social entity" is now rather widespread. The emphasis is placed either on *financial institutions*, typically banks and pension funds, or *capitalists*. To account for the dual character of this social entity, the phrase "financial capital" has much appeal because it is reminiscent of the the work of Rudolf Hilferding and Lenine (as well as Marx in some translations). *(a)* Note that the phrase "financial capitalists" would be more appropriate, since the world is not governed by such abstractions as capital, but by classes. It is, however, clear that neoliberalism cannot be described as the preeminence over industrial or commercial capitalists, of capitalists whose proporerty would be concentrated in financial corporations: (1) The capitalist class, whatever its managerial traits, and financial institutions, for example funds, own *the entire economy* or, more accurately, its most advanced sectors: whether financial or nonfinancial corporations; (2) This does not mean that this distinction is totally irrelevant. Lower in the hierarchy of corporations, nonfinancial corporations and their owners may suffer from the power of finance (for example, high interest rates). To avoid such ambiguities, we coined the concept of "finance", in the quite specific sense of the upper fraction of the capitalist class and its financial institutions.
The fact that it seems now more adequate to point, in the United States, to a "new ruling class" does not question the framework of analysis of *finance*, theoretically and empirically. With the emergence of neoliberalism, the capitalist facet of the new ruling class is so strong that financial institutions conserved their priviledged functions.

(a) R. Hilferding, *Finance Capital: A study of the Latest Phase of Capitalist Development*, London: Routledge and Kegan Paul, 1981 (1910); V.I. Lenin, *Imperialism, The Highest Stage of Capitalism*, Peking: Foreign Language Press, 1973 (1916); G. Duménil, D. Lévy, La finance capitaliste: rapports de production et rapports de classe, PSE, EconomiX, Paris (2005), section 2.1.1.

deregulated, stronghold of eurobanking. This has been well documented.[17] In a similar manner, the 1979 coup of Paul Volcker was directly encouraged by big banks, if not fully initiated.[18]

As is well known, in contemporary capitalism, mutual and pension funds play a central role in the disciplining of management in favor of shareholders. U.S. financial institutions are extremely powerful, nationally and internationally. They are a central actor in the extension of the neoliberal order throughout the planet. The same is true of international monetary institutions such as the International Monetary Fund, the World Bank, and the Bank of International Settlement. Their role in the extension of neoliberalism, that is the progress of capitalist interests everywhere, has often been discussed (opening of commercial and capital frontiers in the wake of the debt crisis and the recurrent crises of the 1990s, imposition of stabilization plans, primary budget surplus, and neoliberal reforms...).

Overall, financial institutions are a central actor in history, acting on behalf of the capitalist class. When this class lost the control of financial institutions, to whatever degree, its domination was shaked and its fate as ruling class threatened. It was so during the Keynesian compromise.

The managerial class was symmetrically involved in all of the above controversies since its own emergence as historical actor, though without the violence of capitalist or

17. E. Helleiner, *States and the Reemergence of Global Finance. From Bretton Woods to the 1990s*, Ithaca: Cornell University Press (1994).
18. W. Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country*, New York: Simon and Schuster (1987).

popular classes. Which social forces were backing the creation of the Federal Reserve? Who made the New Deal? etc. Like the new urban classes of the 19$^{\text{th}}$ century, of which it is an off-spring (and whose function in the revolutions of the late 19$^{\text{th}}$ and early 20$^{\text{th}}$ century has been amply documented by historians), we believe it played a stubborn, though unobtrusive, role in the ongoing process of social transformation. Much work remains to be done to assess this place in history.

Parenthetically, it is interesting to note that the managerial class find in government institutions an opportunity to express its organizational capabilities. This is obvious concerning its public component, but it is also true of tasks which, under other circumstances, correspond to private management, as in a public corporation. And the weight of history was probably determinant in this respect, in particular in France, given the long practice of state interventionism. But, if their historical relation to the state had a possible impact on the formation of the class, as in France, managers are not intrinsically "statist". The property of the means of production does not have to be transferred to the state to limit or suppress the power of owners. This is clearly illustrated in the course of managerial corporate governance during the Keynesian compromise, in France, outside of the public sector. The case of Germany, where households held very few stock shares (as shares were hold by other corporations), demonstrates that other configurations were also possible. Non-profit institutions, such as universities or hospitals in the United States, are not necessarily owned by the state (federal government, states, or cities), and are handled by staffs of managers. Macro policies are as "statist" or "para-statist" under neoliberalism as during the Keynesian compromise, because they must be performed centrally; the fact that their objectives were modified in neoliberalism is irrelevant to their statute. The example of the autonomy of central banks illustrates this duality.

The pressure from popular classes is present in our interpretation of history in various junctures in the United States, beginning in the late 19$^{\text{th}}$ century and early 20$^{\text{th}}$ century. This period was one of strong class struggle on the part of industrial workers.[19] It saw the formation of a Socialist party (in 1901). But World War I provided the political circumstances conducive to the elimination of radical trends. These developments played a crucial role in the definition of the new framework of social protection.[20] The entire pattern of class struggle was, however, rather complex, since these decades were those of the emergence of the institutions of modern capitalism. A major contradiction among upper classes opposed the capitalists of the traditional sector to the new corporations backed by the financial sector. The tensions were also strong with farmers, pitted against big business. The managers of the new corporations initiated a process of collaboration with unions, and promoted the new reforms (accidents, housing, health, retirement programs). The larger and rising profitability of large corporations allowed them to do so, contrary to the traditional sector.

Another historical juncture is the situation prevailing after World War II. It was created by the triple shock of: (1) the Great depression; (2) the war itself; and (3) the emergence of USSR, after the war, as a major power. The labor movement was everywhere gathering momentum. The reply was simultaneously, as is generally the case, repression and compromise. The survival of capitalism was at issue. We will not document here

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19. One can cite here the example of the *Colorado Coal Strike* of 1913-1914, and the Ludlow massacre, where workers and capitalist waged an actual war.
20. As shown in J. Weinstein, *The Corporate Ideal in the Liberal State, 1900-1918*, Boston: Beacon Press (1968).

what we mean by repression: McCartism in the United States, physical elimination of communists everywhere... Only the social threat on the part of popular classes created the conditions for the Keynesian compromise. It was so domestically (social protection) and internationally (tolerance to, or encouragement of, development models in the context of the Cold War). Already, during the New Deal and the war, managers and officials had played a prominent role. Their intermediate position and their inherent capability to organize made them the unescapable linchpin of the new social arrangement. It was also an opportunity for them to assert their autonomy.

The 1970s illustrates negatively the centrality of popular struggle. In the context of the structural crisis, popular forces were defeated, and this defeat allowed for the new financial hegemony in neoliberalism. The same favorable juncture, for upper classes, explains how the top of the managerial class finally chose to merge with the upper fractions of the capitalist class, and how the rest of the class engaged in the neoliberal compromise, away from its alliance with broader social categories.

It is also clear that popular resistance to the dismantling of the institutions of the Keynesian compromise, with respect to the institutions of social protection, is not specific to France. This resistance also exists in the United States, but the commitment of the state was not as far-reaching as in France. One difference is that, in France, to date, the managerial class never rejected these institutions. This is one aspect of the distinct pattern of alliances in France, whose main feature is the absence — or immature form — of what we call the neoliberal compromise.

These episodes provide interesting examples of the impact of popular struggles, and illustrate the interaction between these struggles and the diverging interests of the various components of upper classes. Class struggle on the part of workers actually provides the social energy required to stimulate the changing configuration of social relations, the preeminence of the social order to come. To use a phrase in fashion, upper classes "surf on the wave" of popular struggle, and the objective of each component is to lead.

There is a lot in common between popular struggle in France and the United States. In particular, the same threats were posed by class struggle on capitalist societies, at the beginning of the century and after World War II. The same postwar shocks were felt in the major capitalist countries. It is, however, also the case that — from the French revolution, through the class struggles in France that Marx analyzed, to the struggle during the interwar years which led to the popular front — social strife, in France, was always marked by radical traits. The situation after World War II, with a strong Communist party, was tense, and the necessity to compromise was acute. Paradoxically enough, neoliberalism was imposed in the context of the "socialist" episode after 1981, another expression of the same radical trends. Again, popular resistance to the dismantling of social protection prevented the thorough adjustment of France to neoliberalism in all its components. In each of these successive episodes, the inclination of the managerial class towards social reformism played an important role.

4 - Conclusion: Two historical trajectories?

A basic characteristic of contemporary capitalism is the coexistence of two upper classes, capitalist and managerial, potentially ruling. The managerial class stepped on the social stage at the transition between the 19^{th} and 20^{th} centuries. In this sense, it is recent. From the late 19^{th} century to the Great Depression, the capitalist class occupied an hegemonic position. Note that at issue here are not the actual tasks in organization, but power, that is the capability to impose its rule and secure its income. After the depression and World War II, capitalism lived, in the Keynesian compromise, a very specific period, in which the autonomy of the managerial class, of its private and public components, was increased. This was made possible by the compromise with both popular classes and capitalist classes. Instead of labeling these two facets "downward" and "upward", along a social ladder, in a vocabulary which might be judged pejorative for popular classes, we will use the terms "left" and "right", which actually account rather adequately for the political spectrum. It might well be the unique manner of linking the polarization left/right to class patterns.

In a country like Japan, it was certainly possible to refer to a managerial hegemony, since capitalist interests were very weak; in the United States, this would be an exageration; in Europe, the situation can be deemed as "intermediate". With neoliberalism, the power and interests of the capitalist class were restored, and the position of financial institutions was strengthened, both dramatically. Managers were subjected to a new discipline. It is not only that their autonomy was plainly and neutraly diminished, but that their action was targeted toward capitalist interests. In this process, they were obviously not passive agents, but social actors — depending of groups (upper and lower) and countries. Thus, the imposition of this new discipline was made politically acceptable by the "standard" managerial class by the neoliberal compromise, while top management fused with the upper fraction of the capitalist class — give and take.

This is where the story becomes quite telling concerning the future of our societies:

1. In France, although social compromises shifted to the right under neoliberalism, the distance between the two classes remained considerable, in terms of income and politics. Managers were first constrained to the left by the dynamics toward lesser wage inequality at the end of the 1960s, and, in neoliberalism, traditional income channels remained rather impervious. In neoliberalism, management was actually "disciplined" by capital.

2. In the United States, the capitalist class learned from the Keynesian compromise and the structural crisis of the 1970s. When profit rates were depressed, and capital incomes low, wages "appeared" as a priviledged channel in the appropriation of the surplus. From the 1970s onward, at the top of the managerial hierarchy, wages began their hike. Capitalist owners jumped into the bandwagon, possibly set it into motion. A split occurred in the managerial class, with an upper fraction gradually coalescing with large capitalist owners in a hybrid class. The rest of the class, whose fate was already improving relatively to the bulk of wage earners since the war, did not suffer from this fusion at the top, and was associated to capitalist prosperity through pension funds in this two-tier capital hierarchy, where standard capital incomes are partly "trivialized". Far more than in France, this class arrangement shifted the center of gravity of the U.S. society to the right. It is not

coincidental that this social deal was struck in the country which dominates the world economy, with the subsequent movement toward the renewed imperialism.

Overall, these configurations defines the contemporary world alternative: (1) a new deal to the left, or (2) the continuation of the *big capital-top management* “love story” in the new ruling class U.S. style. One should not conclude straightforwardly that the diagnostic on the present situation of the French society implies a return to the left; neither is it obvious that such a turn is unthinkable in the United States. History is more complex, and the future of these trajectories will depend on economic conditions and class struggle, since, as Marx wrote, human beings make their own history, but under given [economic] circumstances.

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