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Financial globalization and labor: employee shareholding or labor regression?

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Abstract:

In this work we intend to review from a critical perspective the 'patrimonial capitalism' approach, as well as its analysis of wage-labor transformations in developed economies during the last thirty years. For this purpose, we take the economies of France and the United States as study cases.

According to this approach (developed by the French Regulation School and other adjacent authors), patrimonial financialization of working households has involved a radical transformation of the wage-labor nexus, paradigmatically exemplified by the concept of *employee shareholding*. We will try to point out what we consider weaknesses of this approach, theoretical as well as empirical.

Furthermore, we focus on an alternative interpretation that characterizes the nature of wage-labor nexus transformation in the French and US economies as a wage adjustment. This wage adjustment, as we observe in our work, is the result of the neoliberal policies developed to restore capital profitability after the crisis of the 1970s, and has caused an erosion of salary and social conquests attained by labor after the Second World War. Finances have acted as a lever of social reorganization among classes to achieve the objective of profitability recovery.

Keywords: patrimonial capitalism, financial globalization, employee shareholding, crisis, wage adjustment, USA, France.

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1. Introduction

The important transformations experienced by the world economy in the past three decades have crucially affected some aspects of the wage-labor nexus. Although there is some agreement between different heterodox interpretations regarding the nature of these transformations and the contemporary world economy in general, different interpretations do arise over the type of changes experienced in the realm of labor. Among such, we will analyze in this text a particular interpretation: those authors who label the current world economy as 'patrimonial capitalism'. We will carry out a critical review of this approach, proposing an alternative interpretation by which the theoretical weaknesses detected may be overcome.

Although we find important deficiencies in the analysis developed by the authors of the 'patrimonial capitalism' approach, we consider a review of this theoretical proposal appropriate for several reasons. First of all, because it is a heterodox analysis with significant incidence in the academic research, the political implications of which deserve to be assessed in a critical way. Additionally, it is an analysis that coherently integrates changes in the wage-labor nexus with a wider conceptualization of the new growth regime (denominated 'patrimonial capitalism'). We find this to be a valuable perspective compared to those labor market analyses that ignore the main economic transformations after the crisis of Fordism. Furthermore, the authors of the 'patrimonial capitalism' approach develop certain fundamental aspects in order to conceptualize changes not considered by other analyses of the wage-labor nexus: transformations registered in financial markets, and the mechanisms by which these transformations affect corporations. Finally, the weaknesses of this approach present an important incentive for analysis. Detection of said weaknesses allows us to consider and question certain crucial aspects, in order to elaborate a proposal explaining the nature of wage-labor nexus transformations.

After pointing out in this introduction the object of our work, in the second section we briefly review the general interpretation developed by the 'patrimonial capitalism' approach concerning current transformations in the world economy and changes experienced by wage-labor nexus. As we shall see, the authors of the approach outline these changes as a radical transformation of the wage-labor nexus, paradigmatically exemplified by the concept of *employee shareholding*. In the third section we point out what we consider to be weaknesses of this approach, theoretical as well as empirical. In the fourth part, and in a tentative way, we propose an alternative interpretation that, in trying to overcome detected weaknesses, characterizes the nature of transformations in wage-labor nexus in the French and US economies. Our interpretation is an unfinished work, as it corresponds to an open line of research. Nevertheless, we outline elements that should be included in any analysis

that seeks to understand, from a critical perspective, transformations in the wage-labor nexus.

2. 'Patrimonial capitalism' and wage-labor nexus transformation: *employee shareholding*

2.1. An interpretation of the contemporary world economy: the 'patrimonial capitalism' approach

During the second half of the 1990s and around certain works of Aglietta¹, some French authors opened a research line about the new growth regime after Fordism. Although the core of these authors –Boyer, Orléan, and Aglietta– belong to the Regulation School, this discussion has also been fed by contributions from other theoretical perspectives which we will also consider, especially the works of Jeffers, Plihon, and Chesnais. The original proposal presented by Aglietta in his first works has been clarified or questioned by the other authors as well as by himself, moving some distance from the initial proposal in recent years. Nevertheless, beyond minor discrepancies not relevant to this synthesis, the research line opened by these authors has given rise to a coherent characterization which, citing Aglietta's expression, we denominate 'patrimonial capitalism'².

According to Aglietta (1998; 2005), the main characteristics of 'patrimonial capitalism' are the extension of *employee shareholding*; the importance of institutional investors in corporate governance; and the new role played by financial markets in national macroeconomic adjustments. This is why he proposes the term 'patrimonial' to define the contemporary world economy: *'The denomination 'patrimonial regime' makes reference to the predominant role played by capital markets, which configure the wealth of households in the determination of macroeconomic balances. It also designates the extension of employee shareholding through the importance acquired by institutional investors in corporate financing and governance, becoming an essential instance of the regulation of this growth regime'* (Aglietta, 1998:14).

'Patrimonial capitalism' inaugurates a new growth regime that can be summarized in the following sequence: financial markets experience important transformations –due to general liberalization and deregulation– crucially affecting corporate strategies and generating fundamental changes in the behavior of households (which register a process of financial patrimonialization). This sequence determines a growth regime qualitatively different from Fordism, including reconfiguration of the wage-labor nexus defined by the extension of *employee shareholding*. We shall now analyze this sequence in greater detail:

¹ We consider Aglietta (1998 and 2005) as the references that inaugurate and establish the 'patrimonial capitalism' approach.

² With this term we refer to a concept that, apart from some terminological discrepancies, involves the main works of these authors. Boyer (2000) refers to this concept as 'finance-led growth regime', Chesnais (2003) as 'finance-led accumulation regime', Plihon (2004) as 'shareholder capitalism', and Aglietta, after years designating the new growth regime as 'patrimonial capitalism', later (2004) changes to 'financial capitalism'.

a) Market Finances. The driving force responsible for the setting-up of the ‘patrimonial capitalism’ dynamic are the newly liberalized financial markets. The determination and allocation of savings and financing, formerly carried out by the banking system, are now exercised by capital markets. By the term ‘market finances’ the authors refer to a new financial environment, disintermediated and liberalized, where stock markets and institutional investors are leading actors. As financing costs and terms are determined by the market, the high degree of liquidity of financial markets gives investors an arbitration capacity that, in the words of Orléan, allows finances to exercise their power³. This power is illustrated by the tension between what Orléan denominates the ‘fundamental value’ and the ‘speculative value’ of an equity; that is to say, between the productive and speculative natures of saving. In the context of market finances, this tension is resolved in favor of the financial nature of the equity; therefore, speculation dominates over productive performance. The link between the prevalence of the speculative dimension and its effects on the economic performance is expressed through the great growth of stock markets and the power of institutional investors in these markets. Indeed, pension funds, investment funds, and insurance companies have become leading actors in financial markets, increasing their weight in the GDP in terms of assets from 70.5% in 1980 to 182.9% in 2004, in the US, and from 10% to 156.4% in France (OECD, 2006).

b) Financialization of corporate strategies. The capacity of finances (fundamentally through institutional investors) to impose their interests on nonfinancial corporations connects financial markets with the general growth regime of accumulation, transforming this regime. The development of liberalization and market finances give rise to diversified and deep stock markets, with a growing presence of foreign capital. Although equity property is dispersed between many institutional investors, its effective control is concentrated to a reduced number of actors with great capacity to constrain corporations. Specifically, institutional investors have the capacity to impose their own objectives (short-term and highly financial) on nonfinancial corporations, forcing corporate performance to be subordinated in order to obtain high and growing financial yields. Given the facility with which they may reorganize their portfolio, the power of institutional investors in an environment of high liquidity and deep of financial markets compels corporations to compete in capital markets with the return offered to their shareholders. The new shareholder sovereignty –maximization of shareholder value as the new managerial imperative– entails the development of the well-known administrative principles of *Corporate Governance*⁴. These principles become necessary measures for guaranteeing that managers assume the objectives of stock markets, such as managers’ retributions being tied to market evolution (i.e., stock options), or

³ Following the term used by Orléan (1999) in the title of his book (*Le Pouvoir de la Finance*).

⁴ This is the Anglo-Saxon term used to denominate the specific type of governance raised by shareholder sovereignty. Orléan (1999:219) reproduces the main indicators used to assess this type of governance.

transparency norms for economic information being facilitated by corporations to shareholders.

Therefore, the corporate strategies applied are those developed to obtain good results in shareholder value indicators⁵. These measures try to increase the profit obtained per unit of capital invested, by means of widespread cost-cutting. On one hand, managerial restructurings are undertaken with the purpose of cutting both labor and capital costs: mergers and acquisitions, offshoring, outsourcing, massive dismissals, refocusing and concentration in the most profitable segments of the productive chain, abandonment of productive diversification (substituted by financial diversification of institutional investors), simplification of conglomerate organizational structures, and external growth through leveraged buyouts. On the other hand, corporations develop financial strategies that are also capable of increasing profitability through the reduction of share capital: financial leverage is systematically used for share buybacks, in order to increase shareholder value and to satisfy investors' demands of high financial returns.

c) Households' financial patrimonialization. Not only have corporations become more dependent on financial markets; the performance of market finances has entailed a rise in the financial patrimony of households⁶. According to calculations by Aglietta (2005) using OECD data, the net financial patrimony of American and French households has increased by 13% and 35%, respectively, between 1986-89 and 2001-02. Plihon (2004) maintains that financial patrimony of households doubled in size in France between 1990 and 2002, while household disposable income increased by only 50% in the same period. Financial patrimony of French households constituted 60% of total patrimony in 2002, and 75% in the case of US households. Financial patrimonialization of households is crucial for the development of the new 'patrimonial capitalism' growth regime, on the basis of a feed-back relationship. On one hand, the tendency of households to delegate the administration of their financial patrimony has become possible thanks to institutional investors, who at the same time have stimulated their own development. Institutional investors play as vital a role in the spreading of a market dynamic through the financial sphere as in the active imposition of shareholder sovereignty over corporations. Also, the rise of this patrimony has allowed certain households to support the deterioration of wage revenues, due to corporate restructuring. Lastly, the 'patrimonial capitalism' approach states that financial patrimonialization has generated (through 'wealth effects') fundamental changes in the aggregated demand configuration. Demand would no longer be harmed by wage deterioration, since the market value of households' financial assets (with a tendency to

⁵ New methods of corporate governance assessment are used for this purpose, such as EVA (Economic Value Added), MVA (Market Value Added), or ROE (Return on Equity), and minimum profitability benchmarks are set up for the different business units of corporations, as has been pointed out by Aglietta (2000 and 2004) and Orléan (1999).

⁶ Regulationist authors identify population ageing as a main causal factor for households' financial patrimonialization.

overvaluation) would have a positive influence on private consumption. In this way, households' private consumption would supposedly be liberated from wages, arriving at a point where salary cutbacks would not have a net negative effect on aggregated demand and economic growth.

2.2. Labor in 'patrimonial capitalism': *employee shareholding*

According to the authors of this review, the new growth regime established by 'patrimonial capitalism' has substantial effects on labor conditions. Indeed, the setting up of the new corporate governance determines that a large part of the gap between financial yields, claimed by capital markets and productive performance of corporations, affect workers via different channels.

Although there are different interpretations within this research line⁷, all the authors considered in this review argue that an immediate consequence of cost-reduction measures and corporate restructurings is wage deterioration.

There are also other aspects of the 'patrimonial capitalism' growth regime that destabilize the wage-labor nexus, with workers absorbing more risks (compared with Fordism). Via various channels, wage earnings shoulder the following new and considerable risks: the difference between temporary horizons (demanded by financial markets) and productive performance, with rising flexibility requirements; the rise in investment volatility; new corporate restructurings and the resulting labor segmentation; and individualized wage earnings of workers linked being to productivity or benefits.

Beginning here, Regulationist authors find enough causes to announce a substantial wage-labor nexus transformation⁸. Workers no longer enjoy a classical relationship with corporations; moreover, deteriorated wage earnings and the growing weight of households' financial patrimony –in an environment of continuous overvaluation of financial assets– question the wage-based nature of working-class households. This issue is well summarized within the debate around the previously mentioned 'wealth effects': if household patrimony is so important that consumption and savings decisions depend more on stock market prices than on the evolution of household wages, there is no reason to continue identifying such households as working-class. Antagonisms between the working class and capital would no longer exist⁹. This argument is reinforced not only by the fact that direct wages decrease while patrimonial complements increase, but also because traditional components of indirect and deferred wages –social security, health insurance, unemployment insurance and,

⁷As we shall see, the Regulationist interpretation, with Aglietta representing its most extreme version, differs from the rest of the authors.

⁸This analysis is especially extreme in Aglietta (1998), although it can also be found in Aglietta (2004) and Aglietta (2005), and in Orléan (1999). Boyer (2000 and 2001) maintains a much more moderated position.

⁹To what extent demand becomes independent of wage-mass evolution (i.e., to what extent 'wealth effects' are truly operative) is an important controversy among Regulationist authors. A synthesis of this controversy in the dialogue maintained by Aglietta and Boyer can be found in their respective articles of 2000.

especially, pensions¹⁰– are no longer contractually associated with workers' labor status. Instead they become services, to which access is guaranteed only by means of individual accumulation of patrimony.

Aglietta therefore ends by considering that the wage-labor nexus suffers from changes of such a nature that they completely redefine labor, questioning its wage-based determination: wage components are no longer essential once we analyze the relationship between a worker and his corporation.

This idea, summarized in the concept of *employee shareholding*, entails a whole redefinition of the working class in the context of 'patrimonial capitalism'. Workers no longer depend substantially on their wage earnings, and their capital ownership status modifies their 'working class' essence in a definitive way. The property of capital, through the tenure of shares by workers (both directly, through new compensation mechanisms, or indirectly, via institutional investors) changes its nature and becomes 'social'. In this way, financial patrimonialization of households transforms them into ownerships, giving rise to a supposed 'novelty for the salaried society: the arrival of the social property of capital' (Aglietta, 1998: 41).

Therefore, the importance of financial patrimony for households and the effectiveness of 'wealth effects' to free demand from wage-mass are key elements in Aglietta's analysis. These allow him to interpret changes in wage-labor nexus as the emergence of a new reconciliation between capital and labor. *Employee shareholding* –where interests would be schizophrenically divided between labor and capital– would be the highest exponent of this reconciliation.

3. Weaknesses of the 'patrimonial capitalism' approach

The 'patrimonial capitalism' approach and its analysis of the current world economy and transformations in the wage-labor nexus are built upon constraints, as much theoretical as empirical.

Nevertheless, the authors who grouped around what we call the 'patrimonial capitalism' approach come from distinct theoretical perspectives, and they develop different analyses, especially when studying the effects of finances on labor transformations. For this reason we are impelled to make certain discriminations in our review.

All of the authors considered here assume as a contrasted reality the deterioration suffered by wage earnings in France and USA during recent decades, as well as the increase in risk and uncertainty for labor. However, the theoretical interpretation pointed out by the

¹⁰ Aglietta (1998) considers new private pension systems –managed by capitalization– as a step forward in the progress of society.

'Regulationist core' (Aglietta, Orléan, and, to a lesser extent, Boyer) diverges substantially from what Chesnais, Plihon, or Jeffers outline.

For the former, wage deterioration and increased risk for workers do not necessarily mean either a loss of purchasing power or a labor regression in general: the loss in importance of wage earnings and the growth of labor uncertainty are compensated by an increasing share for workers in corporate ownership, either directly, or by means of equity holding in the stock market, or through pension or mutual funds. We are therefore not talking about a labor regression, but rather a reconfiguration of the wage-labor nexus. In this new wage-labor nexus, workers experience losses as well as certain improvements¹¹ at the same time, without evident net effect on living standards.

On the other hand, the other authors mentioned in this review (Chesnais, 2001; Chesnais and Plihon, 2000; Plihon 2003 and 2004; Jeffers and Plihon, 2001) read the same phenomenon from a different theoretical perspective: the decrease in wage earnings and the increase in labor's risk is not compensated by the patrimonialization of working households' savings. Therefore, this phenomenon entails an effective regression of workers' living standards.

Although we consider this second interpretation to be more appropriate, these authors also present a remarkable weakness by limiting their analysis of the wage-labor nexus transformation to an expression of opposition to the arguments of Aglietta and Orléan. They have not clarified the role played by labor regression in their analysis; neither have they clarified the relation of this phenomenon with financialization.

Once we have reviewed this difference between various authors of the 'patrimonial capitalism' approach, we will analyze the weaknesses of the Regulationist version. Moreover, in the following section we will focus on an alternative interpretation that attempts to overcome the limits detected in Chesnais, Jeffers, and Plihon.

There are two analytical levels on which we can distinguish deficiencies and weaknesses in the analysis of the Regulationist authors: the theoretical and the empirical.

Without denying the growing access of French and American workers to financial markets, it is necessary to point out that the 'patrimonial capitalism' approach does not correctly conceptualize this phenomenon. The excessive emphasis it places on the entrance of workers into such markets (*employee shareholding*) makes it difficult to focus this process on its basic theoretical dimension: the shift in household savings to pension funds, investment funds, or to direct shareholding – a shift from traditional wage-saving forms (real estate, bank deposits, etc.) toward other, more profitable, forms (given the recent performance of the world economy).

¹¹ Supposedly, decision-making capacity, personal fulfillment and greater income possibilities (through profit sharing or financial participation). Aglietta (1998).

Therefore, although this savings transformation is extremely important to understand the new patterns of macroeconomic performance in the US and France, it does not introduce, from a theoretical perspective, a substantial change in the nature of labor. Workers still depend in both economies on their labor force in order to subsist, and this dependence cannot be surpassed by means of the management or financialization of their savings. Furthermore, labor continues to discover how, in its attempt to maximize wage savings, these savings are finally managed by different financial institutions (banks, pension funds, investment funds...) to their own benefit, exactly as happened in previous periods.

Another analytical level where we can distinguish deficiencies and important omissions in the Regulationist approach is the level of the empirical test.

These authors have insisted (Aglietta, 2000) –especially in the case of the US economy, but also in the French case– on the importance to working households of revenues and patrimony increments from financial sources (capital gains, dividends...). Such financial revenues and capital gains would theoretically cause, as we have pointed out, the existence of ‘wealth effects’, strengthening the links between household consumption and the evolution of stock markets and financial profitability. Therefore, household consumption would become relatively independent of the wage-mass.

This argument omits the fact that, according to OECD data (Boone and Girouard, 2002: Table 2), less than 13% of households in France held stock shares in 2000. This figure, according to the European Savings Institute, goes up to 23% if we consider stock shares held through investment funds. In any case, ownership distribution among households has not changed much: in 2000, only 7.4% of French households with a monthly income under 1.500€ held stock shares, compared to 11.2% of those with income between 1500€ and 2300€/month, and 14.3% of those between 2300€ and 3050€/month. These three groups accounted for 83% of the total French population (64.5% in the first two groups) (Boone and Girouard, 2002: table 2). Also, a study of the *Observatory on employee shareholding in Europe* determines that workers held only 2.6% of Paris Stock Exchange capital in 2000 (Trebucq, 2001).

Even in the USA, where the number of households holding stock shares (either directly or through pension and investment funds) is as high as 50%, we cannot ignore that 85% of the stocks and mutual funds, and 89% of financial securities, were owned by just 10% of the population in 2001 (Wolf, 2004: table 6). Moreover, 44% of stocks and mutual funds and 58% of financial securities belonged at that time to the richest 1% of the population. That is to say, for most working households, the supposed ‘wealth effects’ (consequent on increased stock market prices) failed to operate: most household revenues remain linked to the wage-labor nexus. As has been established by Maki and Palumbo (2001) for the US economy, households which experienced an increase in the marginal propensity to consume during the

1990s (the period of the 'new economy') came only from the top 20% of wealthiest households. In other words, 'all of the consumption boom really can be attributed to the richest groups of households' (2001: 22).

'Wealth effects' might operate somewhere in these economies, but certainly not for the majority of the population. Therefore, the attempt to link 'wealth effects' to a general wage-labor nexus transformation in these economies constitutes an economic statement not based on empirical evidence. While we can (perhaps, with difficulty) support this argument for higher levels of the American working class, it is most certainly not the case for today's French working class.

4. An alternative interpretation of labor transformations: crisis and wage adjustment.

Beyond the mentioned limits of the 'patrimonial capitalism' approach (excessive importance given to 'wealth effects', lack of empirical evidence of the working households' financial patrimony, ambiguous extrapolation of US economic performance to European economies¹², etc.), Aglietta, Orléan, and Boyer present an even more global weakness when analyzing wage-labor nexus transformations.

The main vector of labor transformations during recent decades has been not so much financial patrimonialization of working households as progressive and systematic deterioration of the wage-labor nexus, as well as erosion of the victories attained by labor after World War II. Labor regression has become a key variable in explaining the attempts to exit the structural crisis of the 1970s.

Despite the arguments of the 'patrimonial capitalism' approach, transformation of the wage-labor nexus along the last few decades has not been merely another transformation experienced by the macroeconomic growth regime. In the same way, this transformation has not brought about new opportunities or relative improvements for workers by means of capital gains. On the contrary, wage has been the key variable upon which the main economic transformations have been built in the US and France during the past thirty years. And the outcome of this process has been a significant deterioration of employees' living and working conditions.

At the end of the 1960s, developed countries began to experience a fall in the profit rate, which a few years later caused an accumulation short-circuit and an extended economic crisis. Corporate overinvestment progressively undermined the marginal profitability of new investments during the late 1960s (Marglin and Shor, 1991; Setterfield, 1997), which finally precipitated the accumulation short-circuit and the beginning of a long period of weak growth, increased unemployment, and public deficit increments, at which point a general transformation of the postwar economic order took place.

¹² Self-criticism of this point is in Boyer (1999)

In this context, capital has led a powerful offensive over the last three decades to obtain a recovery of the profit rate (Onaran, 2005; Duménil and Lévy, 2004a). This offensive – worldwide in its dimension– has used diverse instruments with the objective of restoring benefits: external opening of economies to transnational capital, progressive privatization of productive sectors and public services, and market liberalization and deregulation. In Figure 1, we may observe how the general profit rate was recovered in the US and France, thanks to this offensive: in 1982, this rate was 6.4% in the US and 10.4% in France; by 2006 it had recovered to 13.8% in the US and 14.5% in France.

Figure 1: Profit Rate of US and French corporations, 1948-2006 (%)



* Profit rate is defined as corporate profits divided by corporate net stock of private fixed assets. Source: BEA, National Economic Accounts (2007); INSEE, Comptes nationaux annuels (2007)

These neoliberal policies (developed to enlarge and deepen profitability opportunities for capital) have entailed an intense transformation of the wage-labor nexus. We can highlight two measures in particular: labor market liberalization, and elimination of the ‘corset’ (imposed during the Keynesian period) to the speculative development of finances. Both measures, together with external opening and privatization, have enabled an extraordinary development of the financial sphere. ‘Patrimonial capitalism’ wisely highlights the central role played by the ascent of financial capital in the reorganization of the world economy over the past thirty years. Nevertheless, it does not correctly identify the ultimate meaning of the movement deployed by finance. As Husson (2006) has pointed out, this ultimate goal has

been to act as a lever for social reorganization among classes, to achieve a recovery in profitability.

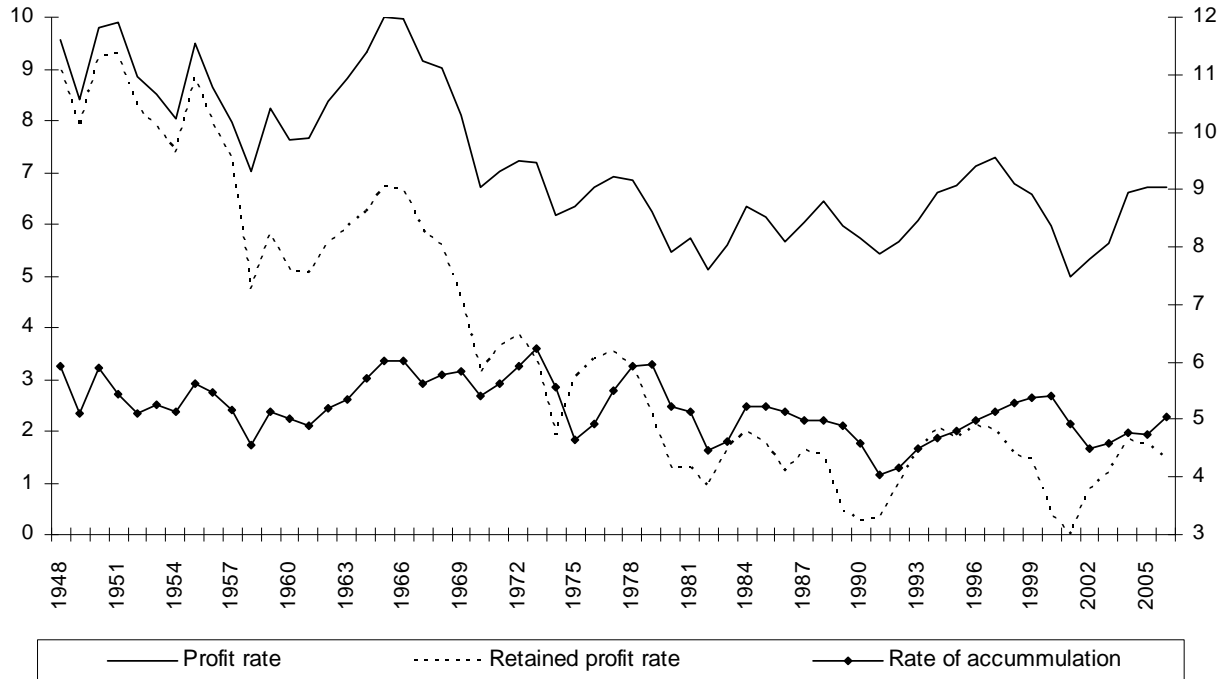
In this article we outline how that renewed ascent of financial capital is converted into labor regression via two channels, direct and indirect. The first channel refers to wages, employment, and working conditions, while the second is related to economic growth.

First we analyze the latter, or indirect channel. Again, the significant financial liberalization experienced by international financial markets after the 1970s has reinforced the emergence of a new growth regime. In this context, the financial sphere of the economy has taken advantage of three instruments to drain profits away from nonfinancial corporations and toward creditors and shareholders (Crotty, 2005; Duménil and Lévy, 2004a): high real interest rates, increased corporate profits allocated to dividends, and buy-backs of shares by the companies themselves. The overlapping of these three instruments has caused a reduction in corporations' rate of retained profit. Since retained profit is a key variable in explaining corporate investment, these three instruments have implied slower rates of accumulation during the 1980s and 90s, slower rhythms of employment creation, and higher unemployment rates.

The US and French cases certainly well-illustrate this tendency of the profit rate, as can be seen in Figures 2 and 3. In both diagrams we can distinguish how neoliberal policies have restored nonfinancial corporations' profit rate (before payments of interests and dividends). Nevertheless, the rate of accumulation has not experienced a similar recuperation in either country; and one reason for the downward tendency of accumulation is the plunge in corporations' retained profit rate¹³.

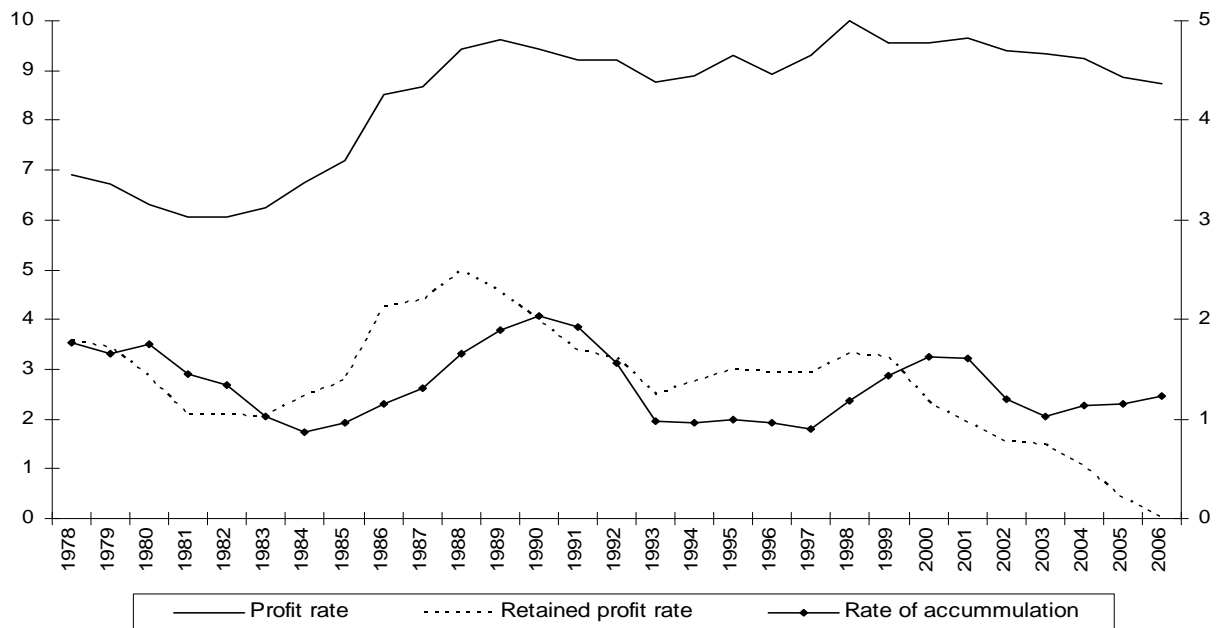
¹³The retained profit rate of corporations is defined here considering only dividends and interest paid by corporations, and not interest and dividends received. In this way, we try to separate two simultaneous processes, both related with the financialization of corporate strategies. On one side, the process that we try to isolate in our definition of retained profit rate: interest and dividend flows associated with the main operating activity of the corporation. A possible proxy of these flows are the outflows (dividends and interests paid by corporations). On the other side, we exclude in our calculations financial inflows, most of them related to the reorientation of nonfinancial corporations' resources away from productive activities and toward financial allocations.

Figure 2: Profit rate, retained profit rate and rate of accumulation, US nonfinancial corporations, 1948-2006 (%)



*Profit rate and retained profit rate refer to left scale. Rate of accumulation refers to right scale. Both scales have been normalized to a 0 to 10 scale.
 **Profit rate is defined as corporate profits divided by net stock of private fixed assets. Retained profit rate is defined as corporate profits less dividends and interests paid, divided by net stock of private fixed assets. Rate of accumulation is defined as net fixed private investment divided by net stock of private fixed assets. All these rates take into consideration only nonfinancial corporations data.
 Source: BEA, National Economic Accounts (2007)

Figure 3: Profit rate, retained profit rate and rate of accumulation, French nonfinancial corporations, 1978-2006 (%)



* Profit rate and retained profit rate refer to left scale. Rate of accumulation refers to right scale. Both scales have been normalized to a 0-to-10 scale.
 **Figure 3 presents the same methodology than Figure 2.
 Source: INSEE, Comptes nationaux annuels (2007)

This trend illustrates how finance has acted as a vehicle of income redistribution among different social groups, allowing a global profitability recovery for capital at the expense of corporate investment, employment levels, and (as we shall see) wages and working conditions.

This macroeconomic performance must be clarified for the US economy: although the evidence in Figure 2 shows how the slowed rate of accumulation during the 1980s parallels the fall in the retained profit rate, the former rate vigorously increased during the 1990s' 'new economy' boom, making possible a rapid growth in employment (and hence low unemployment levels).

Nevertheless, this macroeconomic performance is closely connected to the capacity of the US economy (due to its singular hegemonic position) to attract massive amounts of savings from the rest of the world, allowing the partial 'disconnection' between the retained profit rate and the rate of accumulation that we see in Figure 2, with a growing capacity to 'export' the consequences of neoliberal adjustment to the rest of the world. Even so, and as we see in Figure 2, the US rate of accumulation during the 1990s did not reach the levels of the 1960s and 70s.

The emergence of a new financial environment seems to be positioning the wage-mass as an adjusting variable in the new growth regime (reducing corporate investment¹⁴). Nevertheless, the financialization process presents another, more direct link with labor markets, which we shall now analyze.

A particularly outstanding phenomenon among quoted corporations both in New York and Paris is the change in their ownership structures. The resurgence of financial capital has taken place via the ascendancy of institutional investors, as instruments of coordinated governance of said capital. Nowadays, these investors in many cases hold the majority stake of quoted corporations' capital. However, each of these investors separately holds only a small share stake, generally less than 1-2% of a corporation's capital stock (Denis and McConnell, 2003; Roe, 1994; Morin, 2000 and 2002)¹⁵. As such, financial risk is greatly diversified, since investors can at any time put their insufficiently profitable shares up for sale, given the context of deep liberalization and liquidity in US and French stock markets. Investors therefore have the ability to immediately punish those corporations that fail to follow their dictates.

This change in corporate ownership structure and the remarkable liquidity of financial markets have together imposed the untouchable objective of short-term financial profitability as the paramount concern of corporate governance (Commissariat Général du Plan, 2002).

¹⁴ For a detailed analysis about how market finances contribute to the slowdown of corporate investment, see Duménil and Lévy (2004), Chesnais (2004), Eatwell and Taylor (2000), Aglietta (2005), and Commissariat Général du Plan (2002).

¹⁵ This causes what we can be called the 'piranha effect': usually, any institutional investor is alone strong enough to modify a corporation's strategies, but the coordinated intervention of several is generally decisive for corporate governance.

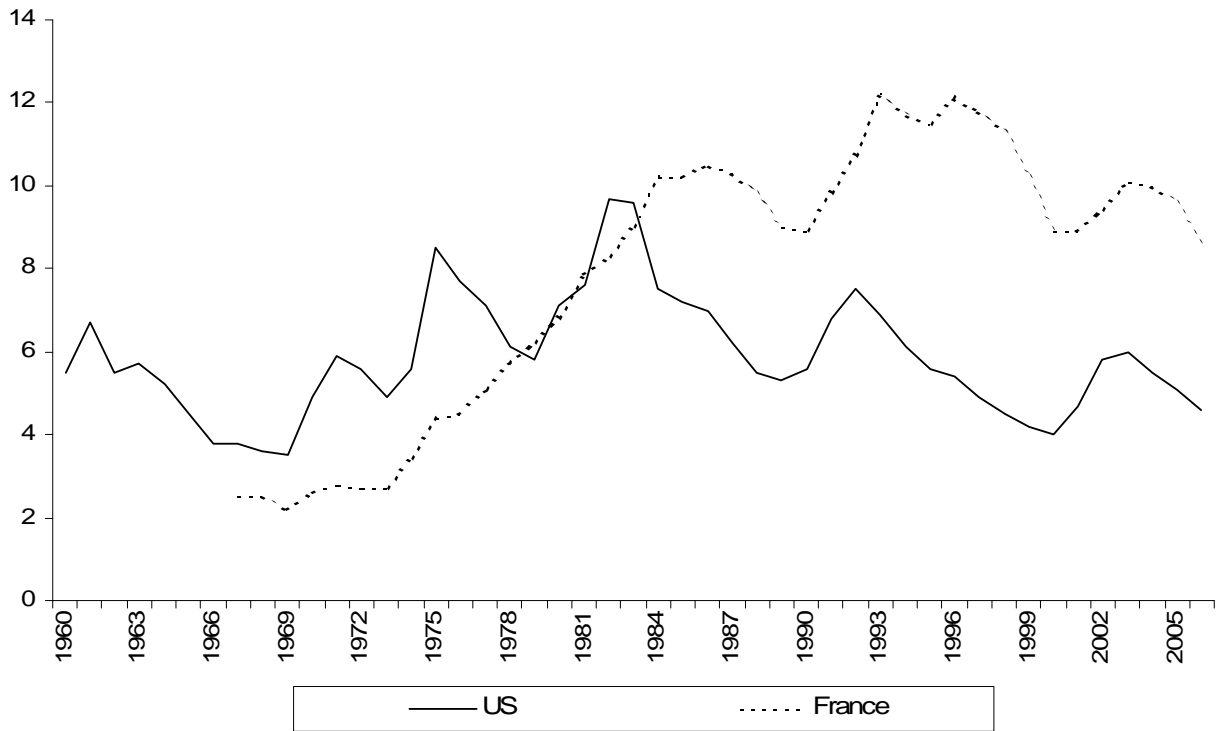
The dissemination of this objective among quoted corporations of the US Dow Jones or French CAC-40 has meant a progressive financialization of corporate strategies, understanding 'financialization' as a subordination of these strategies to the maximization of financial profitability.

Financialization of corporate strategies in the US and French productive sectors has entailed the emergence of a new set of common practices on both sides of the Atlantic (Batsch, 2002). These practices have direct consequences on the administration of labor forces and, in general, on the wage-labor nexus transformation. 'Patrimonial capitalism' authors have pointed out, albeit with unequal emphasis, the importance of these new corporate strategies (Chesnais and Plihon, 2000; Plihon, 2004): mergers and acquisitions have made reduction in the wage-mass possible, thanks to new synergies and economies of scale arising from capital concentration; the reduction and partition of corporate assets (outsourcing, disinvestment and downsizing, refocusing...), vigorously encouraged by institutional investors, have divided the corporate labor force; stock repurchase plans to increase shareholder value –generally through strong leverage– have displaced some financial and credit risk toward workers; offshoring has permitted fulfillment under better conditions of the short-term demands of financial markets; and, finally, the development of flexible production has allowed many corporations to adopt the new brief horizons of capital valorization, helping to maximize shareholder value.

Financialization of corporate strategies has a clear consequence on the labor market: the progressive weakening of trade unions and workers' bargaining power. This growing fragility of workers vis-a-vis capital structures in the collective-bargaining process has positioned wages as an adjusting variable for the US and French economies, by three mechanisms:

- a)** A first channel of adjustment of the wage-mass has been the relative destruction and substitution of employment during recent decades. One way to approach this phenomenon is by observing the evolution of unemployment. This channel has been of particular importance in France, as we can see in Figure 4: during the 1980s and 90s, unemployment increased into the double-digits. This phenomenon is intimately linked to the aforementioned decline in the rate of accumulation. A similar tendency can be observed for the US economy during the 1980s.

Figure 4: Unemployment Rate (%), US and France, 1960-2006



Source: Bureau of Labor Statistics (2007); INSEE (2007)

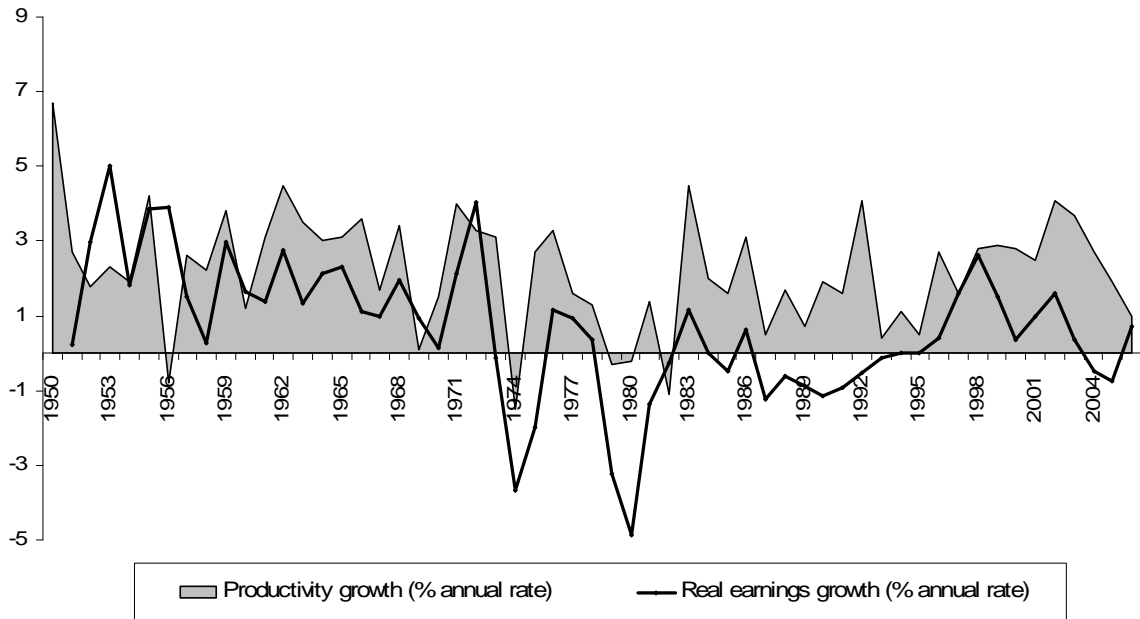
Although there is an interruption in the US unemployment increase during the 1990s, as can be seen in Figure 4, this economy continues to destroy and substitute jobs throughout the period. Relative destruction and substitution of employment is a more complex phenomenon: apart from the net employment created by the US economy, it is necessary to analyze the rate of job loss (annual average number of jobs lost as a proportion of the labor force). As Farber (1997) has pointed, the rate of job loss in the US stood at about 14% during the first half of the 1990s, even higher than the already substantial 10% rate of the 1980s. And this tendency continued during the second half of the 1990s, as it has been pointed out by Lazonick and O'Sullivan (2000). Restructuring and downsizing of the labor force has been one of the main strategies of corporations to transfer the costs of economic adjustment to workers. Consequently, a deep restructuring of the US labor force has taken place: many stable and well-paid jobs in manufacturing and services have been substituted by unstable and precarious employment.

b) A second channel of adjustment of the wage-mass has been the salary freeze. Since the beginning of the 1980s, one tendency has been reversed: wage no longer

increases above the growth rate of productivity (as used to happen in the 1960s and 70s).

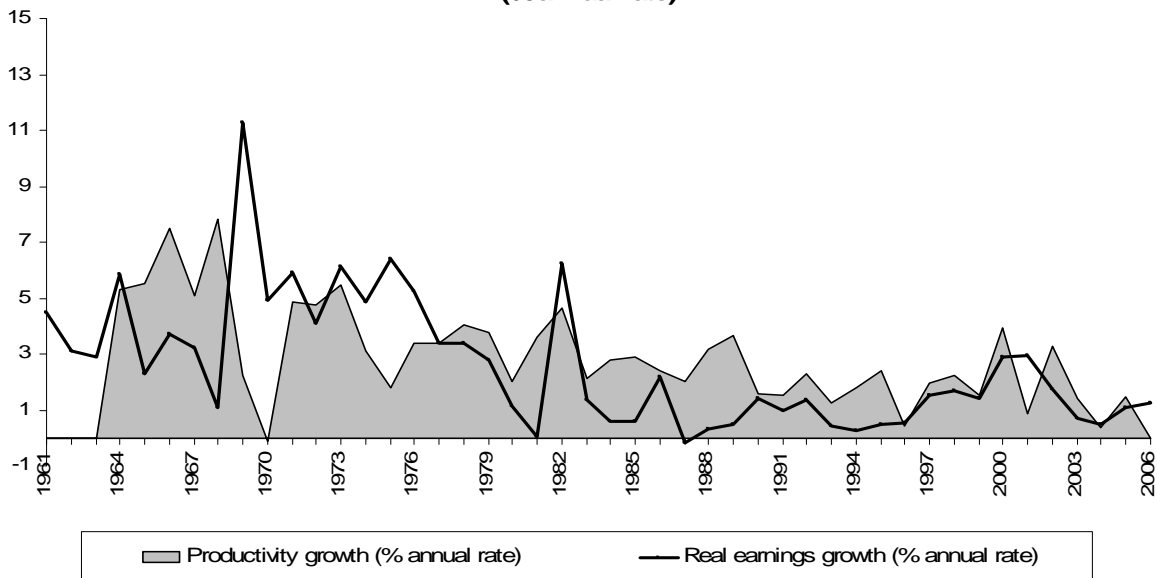
The break-up of this tendency –more intense in the US economy than in France, as can be seen in Figures 5 and 6– has been made possible by a sustained freeze of real wages. This salary freeze has been caused in part by the aforementioned weakness of labor in collective bargaining.

Figure 5: Productivity and real earnings growth, total private sector, US 1950-2006
(% annual rate)



*Productivity growth refers to output per hour of nonfarm business. Real earnings growth refers to hourly earnings in private sector. Data for the 1950-1964 period is taken from *The State of Working America 2006-07, table 3.3*. Source: Bureau of Labor Statistics (2007)

Figure 6: Productivity and real earnings growth, private sector, France 1960-2006
(% annual rate)



Source: INSEE (2007)

c) In third place, and due to labor market liberalization and a progressive erosion of the trade union victories of previous decades, financial investors and corporations have been able to partially transfer their economic risk to workers. A good sample of this can be found in the US labor market: in spite of the capacity of the 'American Job Machine' to create employment, 35% of laid-off workers remained unemployed two years later. Moreover, those workers who were able to find a job after a layoff earned a wage 13% lower than before (Lazonick and O'Sullivan, 2000: p.20).

In France, the labor turnover rate increased from 22% to 36% between 1983 and 2002 in firms with more than fifty employees.

These are not the only channels that link economic financialization with the adjusting role of wages. While we will not further analyze this issue, we should not forget how the economic policies of the US and France have entailed cut-offs in both indirect wages (health insurance, education, social services and subsidies...) and deferred wages (unemployment insurance and pensions). Neoliberal policies developed by the public sector to favor a market finance context have trapped the State in its own financial labyrinth: the need to attract and retain international financial capital, as well as financing needs of public debt, have meant a progressive cutting of public expenditure (and therefore, of indirect and deferred wages) through the 1980s and 90s, as well as a reinforcement of privatization programs and a more regressive taxation system.

5. Economic, social, and labor consequences of wage adjustment.

The consequences of the process of wage adjustment on workers' living conditions have been different in the US economy and in France. Nevertheless, both cases illustrate the common offensive by capital against labor and against social conquests achieved by the working class and its organizations after World War II, on both sides of the Atlantic. Erosion of these conquests should not be conceptualized as 'negative externalities' of the process of wage adjustment, but rather as its ultimate objective and significance.

In France, the freeze of real wages during the past twenty five years (with an annual growth rate of 0.8% during 1980-2006), together with high rates of unemployment, have caused an effective blockade of purchasing power. The annual growth rate of the Leclerc-BIPE purchasing power index was 1.0% between 1990-2002, while the debt-to-gross disposable income ratio of households went up, from 32% in 1980 to almost 60% in 2004.

Also, strategies of employment flexibilization have caused an increase in precarious employment and economic risk for workers in France: according to Eurostat, temporary employment increased from 3.3% in 1983 to 12.8% in 2006, while partial employment moved from 9.6% to 17.3% during the same period (the percentage of involuntary part-time jobs

was 30% of total part-time employment in 2006). Additionally, the rate of transition from temporary to permanent employment dropped from 40% in 1989 to 33% in 2001 (Enquête Emploi 1989-2002, INSEE).

As shown by the French MES-DARES National Survey on Working Conditions, the growing precariousness of employment has meanwhile been accompanied by a remarkable increase in the pace of work in corporations. The proportion of industrial workers subject to rules or delays of less than one day increased from 31% in 1984 to 61% in 1998.

Nevertheless, given the particular labor and political organization in France, there is no evidence of an increased working day in the last twenty five years, nor of a relevant increase in inequality among working households. In 1980, the annual number of working hours was 1,808, decreasing to 1,616 hours in 2004.

In the US economy, we have already seen how the main channel of adjustment during this period has been the real wage freeze (and even its deterioration). When we analyze the hourly and weekly earnings of workers, we observe how real wages in the corporate sector declined not only in the 1980s but also in the first half of the 1990s. As we can see in Table 1, real average hourly earnings, in constant 1982 dollars, went down from US\$8 in 1980 to US\$7.53 in 1995. Weekly earnings have experienced a faster deterioration: they dropped from US\$281.27 in 1980 to US\$262.43 in 1990, then to US\$258.43 in 1995 and up to US\$278.66 in 2006 (in constant 1982 dollars).

This process has been accompanied by a significant rise in the annual number of work hours. US households have experienced a rise from 1,523 annual work hours in 1980, to 1,816 in 2000, with a corresponding increase from 43.7 to 47.0 working weeks per year. This trend has obviously been determined by the incorporation of women into labor market; even so, if we consider only men, we observe a rise of around 100 annual work hours between 1980 and 2000.

Year	Annual Work Hours 1				Average hourly earnings 2		Average weekly earnings, total private 2	
	Husbands	Wives	Mean Households	Total equivalent weeks per household	Total private		Level	
					Current dollars	1982 dollars ³	Current dollars	1982 dollars ³
1965					2,63	8,04	101,52	310,46
1970					3,40	8,46	125,80	312,94
1975					4,73	8,48	170,28	305,16
1980	2.112,9	933,0	1.522,9	43,7	6,84	7,99	240,77	281,27
1985	2.130,1	1.029,6	1.579,9	44,5	8,73	7,91	304,68	276,23
1990	2.185,4	1.215,1	1.700,3	45,4	10,19	7,66	349,29	262,43
1995	2.235,3	1.322,3	1.778,8	45,9	11,64	7,53	399,53	258,43
2000	2.212,3	1.420,0	1.816,1	47,0	14,00	8,03	480,41	275,62
2005					16,11	8,17	543,65	275,82
2006					16,73	8,23	566,79	278,66

1 Annual Work Hours for Middle-Income Husbands and Wives with Children, age 25-54

2 For production or nonsupervisory workers in private nonagricultural industries.

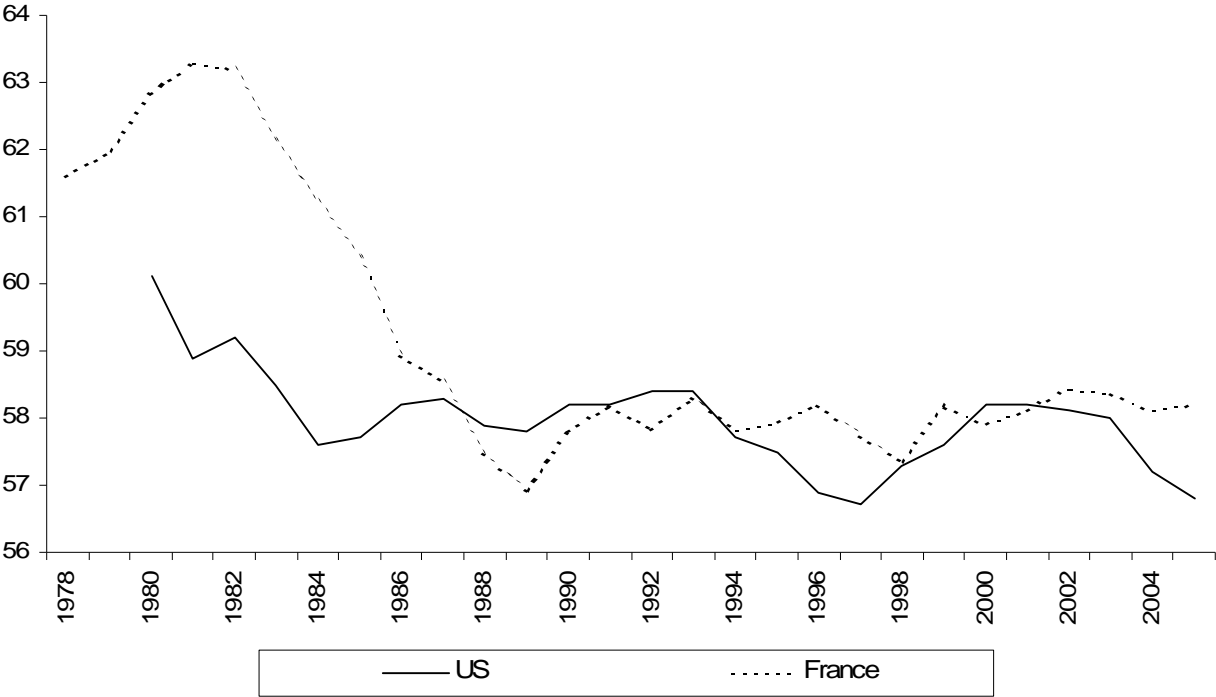
3 Current dollars divided by the consumer price index for urban wage earners and clerical workers on a 1982=100 base.

Source: Bureau of Labor Statistics (2007) ; *The State of Working America* 2004-05, Figure 1T

The consequences of unequal access to capital ownership in terms of revenues were reinforced during the 1980s and 90s, fueling a spectacular growth of social inequality in US society: in 1980, the richest 20% of the US population held 41.1% of aggregate family income; by 2003 this share had increased to 47.6%. If we take the aggregate family income received by the richest 5% of the population, the percentage for 1980 and 2003 was 14.6% and 20.5%, respectively. Going beyond aggregate family income, we further observe the evolution of global wealth (including financial and real estate wealth, plus durable consumption goods), as well as an increase in wealth concentration. According to Wolff (1996), the richest 1% of the US population concentrated little more than 20% of total wealth in 1980; in 2000, after decades of liberalization, deregulation, and neoliberal adjustment, this rose to 38%.

Therefore, the various channels of wage adjustment have caused in the US and France not just erosion of the wage-labor nexus and of the social victories of the postwar period, but also a great process of income redistribution between capital and labor. The blockage of real wages during the past thirty years has caused a fall in the wage-share ratio in the US and French economies, in favor of corporate and financial benefits.

Figure 7: Wage share, US and France, 1978-2005 (%)



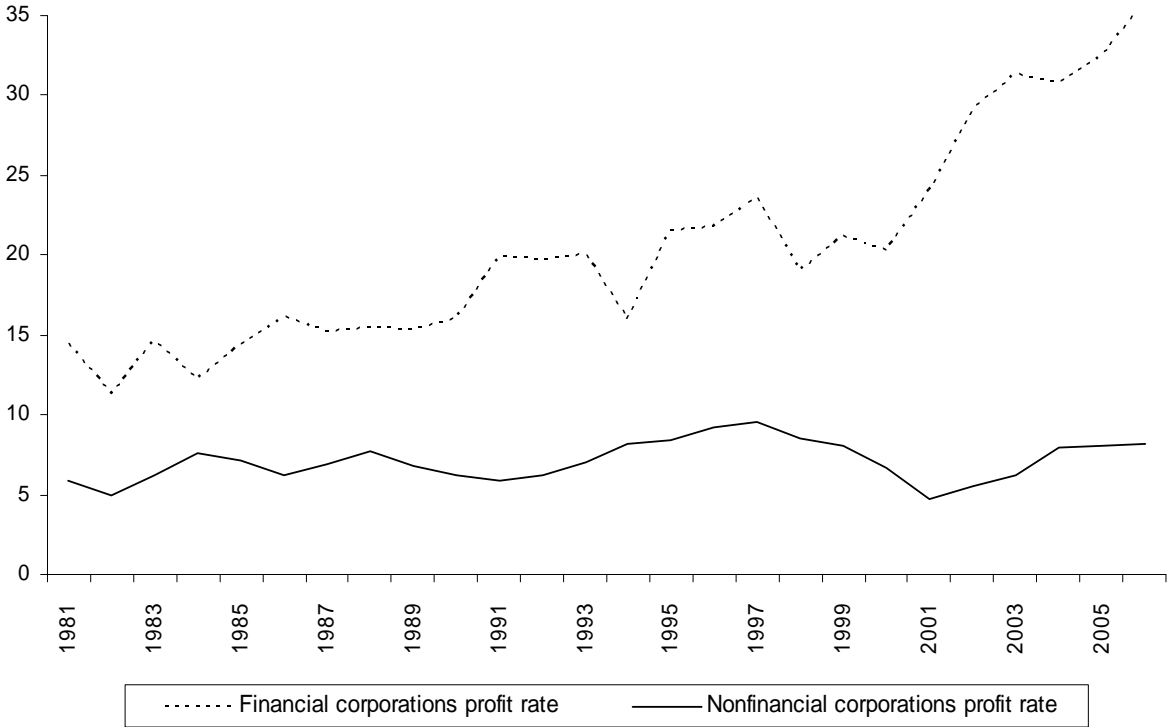
Source: BEA, National Economic Accounts (2007); INSEE, Comptes nationaux annuels (2007)

When we analyze in greater detail this process of income transfer between social classes, we observe that financial capitalists are the class-fraction most favored. As Epstein *et al.*

(2003) have shown, the Rentier income share¹⁶ increased spectacularly over the 1960-2000 period, both in USA and France.

According to our own calculations, presented in Figures 8 and 9, the recovery of the profit rate in the US and France has been much sharper for financial corporations than for nonfinancial corporations. Therefore, yields for financial capital have grown much faster than real profitability throughout the period.

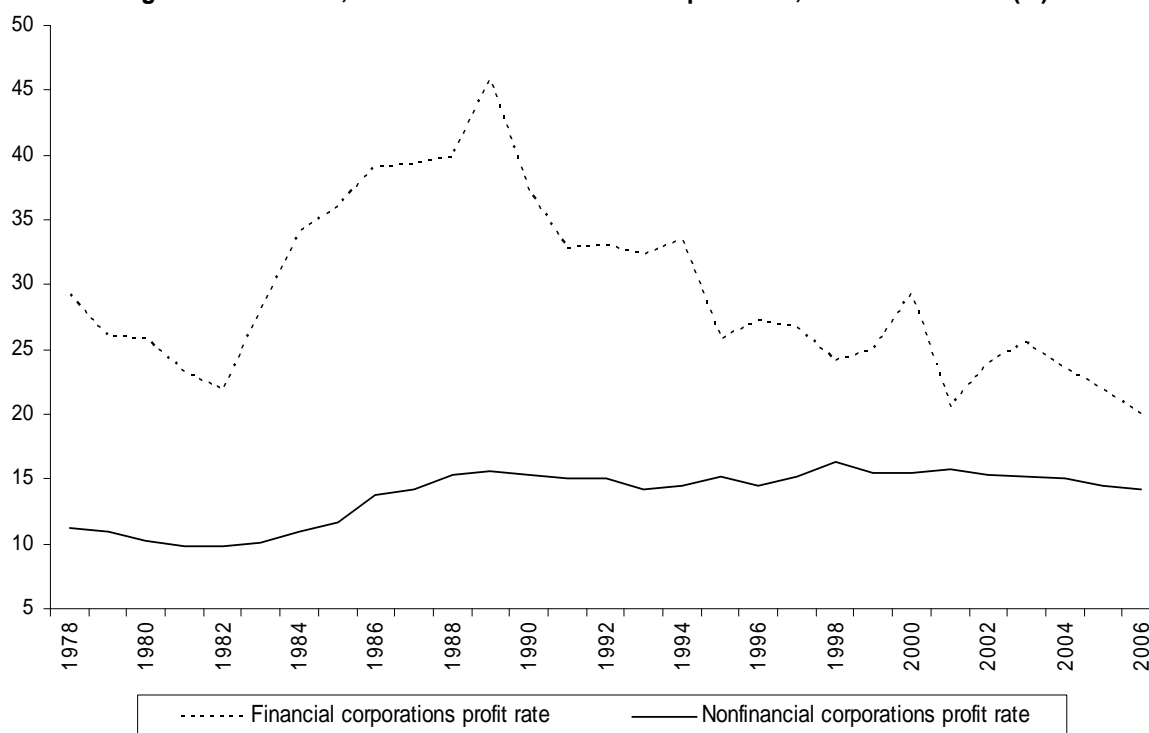
Figure 8: Profit rate, financial and nonfinancial corporations, US 1981-2006 (%)



*Profit rate is defined according to methodology used in Figure 1 (splitting up data for financial and nonfinancial corporations). Scale is not normalized in this case.
 Source: BEA, National Economic Accounts (2007)

¹⁶ Defined as profits realized by firms engaged in financial market activities, plus interest income realized by all nonfinancial, non-government resident institutional units, i.e. the rest of the private economy.

Figure 9: Profit rate, financial and nonfinancial corporations, France 1978-2006 (%)



*Profit rate is defined according to methodology used in Figure 1 (splitting up data for financial and nonfinancial corporations). Scale is not normalized in this case.
Source: INSEE, Comptes nationaux annuels (2007)

6. Conclusions:

Liberalization and deregulation, led by financial capital, have made possible the rise of a new macroeconomic regime in France and the United States. Resurgent financial capital has been a powerful instrument of social transformation, allowing the restoration of global profitability at the expense of wages and working conditions. But when compared to the 1950-80 period, capital accumulation and growth have not been restored as such during recent decades.

Therefore, the resurgence of financial capital over the past thirty years, and the mounting subordination of productive and labor dynamics to finance, should not be viewed so much as the expression of supposed conflict between financial capital and productive capital¹⁷ but rather as a lever for global transformation in capital-labor relations.

In this work we have tried to review from a critical perspective the 'patrimonial capitalism' approach, as well as its analysis of global transformations taking place in developed economies for the last thirty years. For this purpose, we have taken the French and US economies as study cases. This review should allow us to reinforce an open and unconcluded line of research, such as has been presented here in a tentative way. Of

¹⁷ As can sometimes be deduced from Chesnais (2004)

particular interest would be to incorporate into our theoretical proposal the important contributions contained in the 'patrimonial capitalism' approach, as well as to deepen our analysis of the main weaknesses of said approach.

The 'patrimonial capitalism' approach has been valuable in bringing different authors together into an unquestionably important debate. In spite of its multiple variants and the divergent analyses presented by different authors, the 'patrimonial capitalism' approach has greatly contributed to the critical debate about the rise of market finances at the end of the 20th century, along with the causes and consequences of that rise. One example would be the analysis of the transition from a regulated finance regime to a market finance regime. Furthermore, another outstanding contribution of this approach has been to identify causal links among aforementioned changes in the financial sphere, and their consequences on corporate governance. The study of the links between institutional investors and capital ownership of US and French corporations, the changes in said capital ownership, or the consequences that these factors have had –via corporate governance– in terms of financialization of corporate strategies, all constitute an undeniable advance in understanding the world economy.

Still, as we have already pointed out, weaknesses of the 'patrimonial capitalism' approach when analyzing the main labor transformations of recent decades are also important. These weaknesses are significant throughout all variants and authors of the approach, although they are especially important in the 'Regulationist core'. Taking these weaknesses as a possible starting point, we can identify some preliminary conclusions.

First of all, it is impossible to analyze the transformations experienced by labor in developed economies during recent decades without first undertaking a global analysis of changes to the world economy during this period – particularly changes relative to economic financialization. It is thus necessary to understand capital's offensive during 1980s and 90s as a key factor in the analysis of labor transformations, centering on the particular instruments (liberalization, deregulation, privatization, flexibilization...) used by capital to restore the rate of profit. In a complementary way, neither is it possible to understand the dimension of recent, major transformations in the US and French economies without due consideration of mutations to the Fordist wage-labor nexus.

Again, the deterioration of direct, indirect, and deferred wages has played a central role in this wage-labor nexus transformation. This process of wage erosion has furthermore resulted in a decrease of the labor income share. Therefore, we witness through this process a progressive collapse of the main social victories attained by labor during the 20th century. Analysis of the wage-labor nexus transformation and erosion of social advances should not be considered merely in a quantitative way. Other, qualitative aspects of the wage-labor nexus are also significant and have also been modified in the past few decades, including for

example the increasing economic risk and social uncertainty associated with labor. In this way, a new generation of labor has grown up under temporary, part-time, uncertain, and precarious working conditions.

To assess all these changes, their depth and their links to financialization, there is no need to redefine the nature of the capital-labor relationship. On the contrary, a class analysis is necessary to full understanding of wage-labor nexus transformations. Therefore, it makes no sense to expect the arrival of a hypothetical 'social capitalism', where collective interests of corporations can be achieved while avoiding the confrontation of capital and labor. 'Popular capitalism' and the claim that stock markets are 'meeting points' –sites of social engagement and class dissolution– are simply attempts at apologetic mystification, a strategy not unknown in the history of Economics. Nevertheless, these concepts seem to currently underlie certain analyses coming from the academic heterodoxy.

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