

CONTRADICTIONS OF SHAREHOLDER CAPITALISM: DOWNSIZING JOBS, ENLISTING SAVINGS, DESTABILIZING FAMILIES

Wally Seccombe

W.R. Timken Jr, fourth in a venerable **family** line of industrialists, heads a bearing and steel company in Canton Ohio. The city's biggest employer, the Timken company is very advanced **technologically** with an excellent reputation for high quality products; yet in another sense it is an old-fashioned firm. As they *New York Times* reports, Mr. Timken is a paternalistic boss.' Born and raised in Canton, he worked for the firm for two decades under his father's tutelage before taking it over, and he has no intention of moving the company anywhere. **Proudly**, he shows the *Times* reporter a letter his **grandfather** sent to his sister in 1922 stating:

Money should be conscientiously used to some extent right here in Canton where all of it came from. I recognize our bounden duty to do something for Canton and the thousands of men and women here who have toiled and made the many millions each of us have.

Here is a frank **acknowledgment** that capital's wealth derives from labour, plus a firm commitment to the company's workers and their home town – both antiquated sentiments in today's world of **free**-floating 'shareholder value' and jet-setting CEOs with several residences but no fixed address.

Wall Street brokers don't look at modern capitalism in the way Mr. Timken does. He is a representative of fixed, productive capital rooted in Canton for four generations; they head up circulating capital, zipping around the world in cyberspace, seeking places to park some notional cash today in order to take off with much more of it tomorrow. The Street doesn't like Mr. Timken's company very much. The *Times* reporter explains:

The rap on the Timken Company from Wall Street analysts is that it could be even

more profitable if it would only be more aggressive about downsizing its work force of 18,000, if it were not so preoccupied with striving to produce the top quality bearing and steel products in the world and if it was less worried about its responsibility to the people of Canton. 'The company is so focused on quality and its reputation and pleasing its customers,' said Tobias Levkovich, an analyst at Smith Barney, 'to some degree it hurts the profit margins.'

The money managers contrast **Timken** with another firm headquartered in Canton, the **Diebold** Company. **Diebold** is North America's leading maker of automated teller machines, so there is an obvious affinity with Wall Street's business. The ATM extends the computerization of financial transactions, displaces more labour from the circulation of wealth, and enlists the savings of the masses in the business of capital accumulation in a much more direct way than the traditional savings account ever did. It's a marvellous instrument for asserting the dominance of circulating over fixed capital, part of a much larger process that is installing money managers at the head of the banquet table in the new digital economy. But the main reason Wall Street analysts love **Diebold** is that the company has cut costs and made a bundle in the last decade, opening several lower-paying factories in the South, moving hundreds of decent-paying **manufacturing** jobs out of **Canton**.³ If **Diebold** awards its top executives with stock options, as four in five large U.S. corporations do today, then the company's soaring stock-price will have personally enriched them in a multi-million dollar way for shedding employees in Canton.

When the bull market **began** its record-setting run in **1982**, the Dow Jones Industrial Average stood at **776**; sixteen years later, it has just broken through 9000 as I write. Hoping to moderate the market's steep ascent and thus avert a crash, Federal Reserve Chairman Alan Greenspan warned in December of **1996** that American investors had fallen prey to 'irrational exuberance'. Since then, the Dow has risen **65%**. No-one knows how long this will last or whether the market's frothy bubble can be gently deflated. When the Crash of October 19th **1987** knocked **22.6%** off the Dow in a single day (the largest one-day drop in its history), most money managers agreed, with the chastened wisdom of hindsight, that **the** market was overvalued and due for a major correction. So what are these sages saying today, with the Dow in orbit at three and a half times the peak it reached prior to Black Monday? Not much. Most are too busy raking in the loot to fret about the minority of nay-sayers in their ranks who warn that the market is seriously overvalued.

The persistent rise of equity markets is a euphoric bet by investors

on the stellar future of 'shareholder capitalism' and its capacity to keep driving up profit margins. **Psychologically**, the willingness to bet is related to many factors, above all the free-market elation that swept across the Western world with the collapse of Communism. And conversely – the doubts lurking beneath this giddiness – there is a nagging **feeling** that the deregulated future is shaping up as a very scary place. Millions of middle-aged baby boomers (the author included) fear that by the time we lose our jobs, retire, or require extensive hospital care, the supports provided by the welfare state won't be there in a reliable form. We'll be left, with our families, to fend for ourselves. This ominous prospect makes it prudent to start investing our personal savings in a retirement fund during our peak earning years while we are still in a position to do so.

The meteoric rise of stock markets has been spurred by the computerization of long-distance financial transactions and the deregulation of cross-border capital flows. In the past decade, trade has expanded at twice the rate of **GDP**, foreign direct investment at three times, and cross-border share-transactions at ten **times**.³ In 1970, transactions in bonds and equities across U.S. borders represented 3% of the nation's GDP; by 1996, **164%**.⁴ In the post-war era of fixed-rates (before the U.S. went off the gold standard in 1971), the vast bulk of **foreign** exchange was directly related to trade, tourism and foreign direct investment. Today, these activities account for a small fraction of the flow; nine-tenths of it is orchestrated by fund managers speculating on currency swings, or by firms and investors trying to defend themselves against such swings through the use of derivatives and hedging strategies. **Money** is changed between currencies today at the mind-boggling rate of \$1.5 trillion on an average business day, double the volume of five years ago. Daily turnover on the world's foreign exchange markets often exceeds the total reserves of the major central **banks**.⁵ The resulting currency gyrations have made it much more difficult for governments to coordinate their macro-economic policies and almost impossible to predict or control the terms-of-trade between countries – two essential conditions of international financial stability. When things go horribly wrong – as they have most recently in East Asia – the global money traders shun countries and denounce governments that **they** had embraced just **yesterday**, diverting attention from the ways their own speculative machinations precipitate financial chaos. This exculpatory exercise follows predictably from the first article of neo-liberal faith – that 'the markets' are never wrong.

Freed from substantial government restraint, the anonymous power

of circulating capital has 'turbo-charged' Anglo-American capitalism and spread its neo-liberal currents around the **world**.⁶ **Working** in concert with other forces, the tidal wave of near-money sloshing around in cyberspace is shifting the balance of power:

- altering the prevailing patterns of capital accumulation, the pecking order among the agents of capital, and the organizational form of large corporations;
- turning the balance of class power against labour by intensifying job insecurity on the one hand, while luring the family nest-eggs of fully employed workers into a compensatory bet on the continued appreciation of financial assets on the other, thus confounding their class interests.

The paper examines these changes in turn.'

Fund Managers and the Triumph of Shareholder Capitalism

As the hired guns of circulating capital, money managers champion 'shareholder capitalism'. They snap up the shares of companies whose top executives aggressively slash the payroll, shut-down unprofitable plants, sell off sideline businesses and use the profits extracted by ruthless cost-cutting to boost dividend pay-outs and repurchase company shares. In most cases, radical pruning 'works' – at least in the short term: profit margins rise and the net gain is passed through to shareholders. But what if CEOs have longer-term, fixed-capital priorities – such as offering employees job security and training opportunities, signing multi-year contracts with local suppliers, and retaining earnings for longer-range R&D investments? This is 'stakeholder capitalism' (a term of derision on Wall Street) wherein executives eschew the immediate advantages of layoffs, outsourcing and spot-markets in favour of deepening the firm's relationships with its employees, suppliers and local communities in the belief that these *in situ* commitments will benefit the company and its shareholders in the long-run. The *modus operandi* of the major Japanese corporations has been more reflective of stakeholder priorities, and we know what a reversal of fortune has occurred between American and Japanese capital in the past decade. Following Wall Street's lead, the world's money managers are increasingly inclined to shun companies that insist on preserving the stakeholder model.

Initially, incumbent executives and board-insiders rebuffed the demands of the brokers and **fund** managers, resenting the latter's

intrusion on *their* turf. During the 1980s, they fought back with poison pills, golden parachutes, staggered board terms, and a raft of other measures designed to make managers harder to dump and companies unappealing targets for hostile takeover bids. By 1990, about half of America's largest companies had adopted such measures.' But even as corporate executives tried to defend their traditional prerogatives, money managers increased their leverage through a judicious combination of carrot and stick – if a company's share-price outperformed the market average, its top executives would reap millions through **performance** bonuses and stock options; but if it lagged behind its competitors for long, they might be shown the door.

The directors of publicly-traded companies whose stock 'underperforms' are no longer prepared to be patient with CEO's who seem shy about 'making the **tough** decisions' to cut costs and streamline operations. And if they won't pull the **trigger**, institutional investors with big blocks of shares will press for changes at the top, or failing that, ally with the firm's competitors to oust entrenched managers. The waves of mergers and acquisitions that have fuelled the escalation of North American stock-markets since the **early** 1980s have been based upon **identifying** companies that are *not* aggressively maximizing shareholder value, taking them over, **turfing** out the old managers and bringing in executives prepared to do whatever is necessary to restore the company's profit margins.

Slimming Corporations and Fattening Shareholders

Under intense pressure from fund managers to boost shareholder value, corporate executives have embarked upon a crash-course in divestment and re-engineering – spinning off sideline businesses, shutting down losing divisions and **shifting** production to regions with lower labour costs. They've become so keen to cut costs that radical pruning is undertaken **by** thriving firms as well as those who are floundering. A 1992 survey of 530 large firms in the U.S. found that three-quarters had downsized in the past year, and one in four had divested, merged or acquired businesses. The great majority were making **money**.⁹

When drastic cuts are made by desperate corporations awash in red ink, the workers and communities hurt by job losses regret management's decisions but **generally** find them understandable. When, however, downsizing is undertaken by the managers of prosperous firms with flush balance sheets, their actions are more likely

to provoke disbelief and outrage. Slashing the payroll of profitable companies breaks with past practice and violates an implicit understanding that most workers felt they had with their employers. Robert Reich, former Secretary of Labor in the Clinton Administration, comments:

The norm had been, until relatively recent years, that if a company was highly profitable, workers could be assumed to have steady employment. Indeed, if company profits increased, workers' benefits and wages would increase with them. . . . That is no longer the case. . . Highly profitable companies now shed thousands, if not tens of thousands, of workers. In doing so, companies are in certain cases doing nothing more than redistributing income from employees to shareholders."

Successive waves of corporate streamlining in the eighties and nineties have reversed the post-war trend towards vertical integration and horizontal conglomeration. Capital markets today impose a 'conglomerate discount' on the parent company's stock, exerting enormous pressure on firms to eliminate intertwined ownership structures and 'fix, sell or close' money-losing subsidiaries." Wall Street's new mantra is: 'Back to basics, refocus on the core business.'" After two decades of such 're-engineering', most major North American corporations are leaner than they were in the 1970s. Slimmer, but not smaller. Despite the glib talk by futurists and management gurus about the virtues of nimble 'networking' corporations, downsizing does not normally entail **shrinking** the corporation. What gets shrunk is the number of employees in relation to company revenues. From 1971 to 1991, the world's 500 largest multinationals increased their revenues by seven times without increasing the number of workers they employed globally."

Neo-classical economists argue that in most cases downsizing raises the efficiency of firms and boosts their **profit** margins, with the gains being passed through to shareholders. While ostensibly refraining from moral judgment, the implication is that whatever makes private corporations more efficient must be good for almost everyone. The normative premiss lurking in the mainstream paradigm is revealed when the social devastation that results from corporate culling is referred to as an 'externality'; this is tantamount to telling laid-off workers, their families and by-passed communities: 'gee, we're sorry you got in the way, but Progress stops for no-one these days'. Marxists view corporate downsizing from the dynamic standpoint of 'many capitals' in competition with one another, not from the micro-

economic standpoint of the (ideal) firm. From this perspective, corporate purging is an essential corrective to capitalism's recurrent 'tendency to **over-production**'.¹⁴ In the competitive quest to increase market-share, firms rush to expand their productive capacity. Sooner or later, entire industries becomes **glutted** with more product than can be sold at a profit. In the face of brutal price competition, the only way firms can restore sagging profit margins is to discharge surplus capacity by laying off workers, shutting down older production facilities and driving less efficient firms out of business. Short of wars and depressions, financial markets are vital to the Darwinian process of revitalizing the economy **by** culling **laggards** from the flock. While investment floods new business ventures and 'leading edge' technologies, it abandons the fixed capital embodied in older plants and less efficient enterprises, compelling uncompetitive firms to renovate, sell out, or die. Marxists would therefore agree with neo-classical economists that destroying surplus productive capacity by means of aggressive downsizing is **perfectly** rational from the standpoint of firms. Yet we would explain capitalism's tendency to devastate the lives of those it expels and leaves behind not as an incidental by-product of rising efficiency but as the **systematic** result of firms treating labour-power as an expendable commodity while maximizing returns to shareholders under rigorously competitive conditions.

The Holy Terror and IBM's Born-Again Experience

The recent **history** of IBM provides a textbook case of the process at work with the stock market **riding** herd. As its mainframe business sagged and IBM stumbled badly in the PC and server markets, the company's stock got mauled, **falling** from an all-time high of \$175 per share in August of 1987 to an eighteen-year low of \$41 just six years later – a loss of 77% in the midst of a rising market. **IBM's** board finally 'got the message': the only way to regain the market's confidence and save the proud behemoth from slow death-by-disinvestment was to dump John **Akers**, the CEO, and parachute in a turnaround specialist, breaking with the company's longstanding tradition of promoting top executives from within.

After hiring an executive search firm to shop the top job round the upper echelons of corporate America, the recruiters approached Louis Gerstner, a free-agent with a fierce reputation after brief stints as the top boss at American Express and RJR Nabisco. Some IBM board members were worried that the candidate knew almost nothing about

the computer industry, but the chief-recruiter prevailed: 'Lou was tougher than nails. Hard things needed to be done. I knew he could do them.' The candidate turned down an initial offer, but the recruiting team persisted. In a breathless Fortune magazine cover-story on the devout Christian (entitled 'The Holy Terror Who's Saving IBM'), Betsy Morris explains how Gerstner was persuaded.

The recruiters told Gerstner that he had a moral imperative to take the job. He must do it for the good of the country. That worked. Said one individual involved: 'It appealed to his ego, his larger self – this concept of serving society as well as making money and being successful.'

Emboldened by higher purpose, Gerstner negotiated his terms. The main sticking point was that the board offered him a stock-option on a measly 500,000 shares and the candidate felt he was worth a million. With the promise of 'future considerations', he accepted the job.

When Gerstner took over Big Blue in April 1993, he arrived with his retinue of loyal disciples in tow, executives who had moved with him from company to company in his tours of duty. In a firm with an old-fashioned reputation for lifetime employment and corporate loyalty, tough-as-nails 'Lou and crew' finished off a massive downsizing that slashed IBM's payroll almost in half, from a high of 406,000 employees in 1986 to 219,000 by 1994. Predictably, they turned the stock-price around in the process.

Heedless of criticism inside and outside the company, Gerstner began to cut costs, restructure and weed out disbelievers. He jolted the culture with shock therapy... He slashed long-term debt from \$14.6 to \$9.9 billion, managed nonetheless to buy back \$10.7 billion in stock, and goosed IBM's share price to \$168, \$6.75 below its all-time high.'¹⁵

The company's PR department claims that under Mr. Gerstner's leadership IBM is going all-out to regain its dominant position on the 'cutting edge' of information technologies. A glance at the balance sheet tells a different story. From the end of 1994 to March 31, 1997, IBM shelled out \$13.2 billion buying back its shares, while spending only \$9.9 billion on research and development. In April 1997, Gerstner raised IBM's dividend a further 14% and announced that the company would repurchase another \$3.5 billion shares.¹⁶ The stock rose \$8 on the news, and went on to reach an all-time high in May 1997. These spending priorities have already shrunk the company's net worth by 15% and do not bode well for its global competitiveness in the long-term. But IBM shareholders are not complaining. These fair-weather friends have made a bundle as Big Blue's share-price has

risen five-fold under Gerstner's leadership; they will continue to hold the stock only as long as the company appears set to make them more in the near future.

For his part, Mr. Gerstner's book-value profit on the company's stock recovery was a tidy \$69 million, and the board has **granted** him an option on another 300,000 shares. While he proclaims the public benefits of private **greed**, some IBM executives are more reticent.

At a dinner with top executives and their spouses... Gerstner rubbed some people the wrong way by blatantly talking about how much they'd all reap as a result of the dramatic runup in IBM's stock."

Perhaps they were reminded of the biblical story of their boss's Lord-and-Savior driving the moneychangers from the temple."

The Bull Market in Stock Options and Share Buy-Backs

Exempting executive suites from the cost-cutting frenzy, corporate boards have jacked up the compensation of their top managers at a dizzying pace – 500% from 1980 to 1995. A study of 365 of the largest American corporations revealed that the average compensation of CEO's had bounded 30% in 1995 and another 54% in 1996. While lecturing their employees about the need for 'team-work and shared sacrifice', these hypocrites made 209 times that of an average American factory worker in 1996, up from 44 times in 1965.¹⁹ Money managers are quite prepared to bestow their blessings upon the seven and eight-figure incomes top CEOs rake in annually, as long as the company's share-price is rising in line with its competitors. (The incomes of top fund managers, after all, are roughly comparable.) However, when a **firm's** profits sag and its share-price languishes, today's **fund** managers do not hesitate to publicly question the worth of its CEO. This generates bad press, pointed questions from shareholders at annual meetings, and attracts the unwanted attention of takeover sharks who smell blood in the water – all of which may shorten the tenure of bosses who fail to keep their company's share-price competitive.

The leap in executive pay has been driven by a shift in remuneration from basic salary to stock options. Ever since Berle and Means' classic study of the joint-stock company highlighted the separation of managers from owners, mainstream economists have fretted about the firm's 'agency problem' – how to ensure that managers consistently place the shareholders' interests above all other considerations. The

WALLY SECCOMBE

stock option is designed to address this issue by providing managers' with a direct incentive to act in ways that will benefit shareholders; the 'virtuous circle' is closed when investors snap up the firm's stock, lift its share-price and enrich the option-laden executives whose priorities have pleased them.²⁰ In the past decade, this inducement has become a very sweet carrot indeed. The senior executives of publicly-traded American companies now receive about 40% of their pay in stock options, and in the largest corporations, the proportion is much greater. While the average salary of the twenty highest-paid U.S. executives in 1996 was a paltry \$9.1 million, their stock-option gains averaged \$72.8 million.²¹

In floating the **huge** stock options **they** offer their top executives, corporate boards usually prefer to repurchase stock in the market rather than issue new shares; in this way, they avoid adding to the outstanding shares in circulation and 'diluting shareholder value'. In effect, boards send the company's cash on a farewell tour through the stock-market (usually to rapturous applause) rather than handing it over directly in the form of salary hikes or bonuses. In 1996, the firms listed in the **S&P 500** index announced repurchase schemes worth \$145 billion; this represented an 87% leap over the prior year, which is especially **remarkable** in light of the sky-high prices the bull market placed upon them.²²

It is easy to understand why top executives loaded with stock options would push repurchaseschemes; but why have company directors gone along for the **ride?**²³ Under what circumstances does it make sense for directors to drain the operating capital of companies in order to boost their stock-prices?The answer seems to be: when firms have more cash on hand than **they** can productively invest and fear disgruntled shareholder~There is no doubt that company coffers are now brimming with cash; since the recession of the **early 1990s**, profit margins have rebounded sharply. But high profit-rates in earlier periods did not trigger a buy-back binge of this magnitude. What is different now? Managements used to feel that it was prudent to retain the bulk of corporate earnings to fund major investments in future years or simply to cushion the firm's passage **through** the next recession. Nowadays, they act more like worried store-owners who empty out the cash register when they close up shop at night, leaving the till standing open in plain view of the street. To be seen hoarding earnings is asking for trouble from dissatisfied fund managers demanding higher dividend pay-outs, or worse, from corporate raiders vowing to 'unlock shareholder **value**' through a takeover bid. Far better to use the money to

appease shareholders and inoculate them against takeover fever.

The wave of share buy-backs reflects an unusual conjunction of factors – exceptionally high returns to capital coupled with persistent constraints on expanding productive capacity. The source of the latter impediment is sluggish consumer demand, directly related to capital's success in cutting payroll costs and intensifying workers' insecurity. Since the mid 1970s, real wages have **stagnated** and workers have become increasingly worried about losing their jobs. With saving-rates at an all-time low, people are concentrating on paying down mountains of personal debt and are no longer spending with reckless abandon. The upshot is that many product-markets have become glutted. In this economic climate, major investments in new plant are too risky; so companies have opted instead to spend the surplus reacquiring their shares, boosting stock dividends and shopping for other companies. During the past fifteen years, U.S. non-financial corporations (in aggregate) have financed their investments *entirely* from retained earnings, while pouring additional billions into the market in the form of dividends, buy-outs and share-retirements, well in excess of new-share issuance and initial public **offerings**.²⁵ One recent study estimates that capital expenditure has dipped beneath 70% of cash-flow, a near-record **low**.²⁶ This shifts capital-value massively from the sphere of production into the sphere of exchange. As share-prices go into orbit and the average daily trading volumes on North American stock exchanges escalate, the total number of shares in circulation is actually contracting. Since households have also been injecting their savings at a record pace (more on this below), wealth is not flowing **through** North American capital markets in either direction; it is accumulating in the sphere of exchange as a vast swirl of speculative liquidity seeking higher returns.

Mergers and Acquisitions: Shopping for a Mate

When corporations have more cash on hand than **they** know what to do with, they can always go shopping. From 1981 to 1995, U.S. non-financial firms laid down 34% of their total capital expenditures buying one another. The 'M&A' binge which helped to drive the stock markets skyward shows no sign of abating. The 1980s were billed as the decade of 'merger mania'; yet in 1997, the fourth year in a row of record highs, the value of U.S. deals reached \$957 billion, 12% of GDP. This is almost three times the volume of 1988, the peak year of the prior **decade**.²⁷ The merger waves of the 1980's were typified by

WALLY SECCOMBE

hostile takeover bids sprung on ambushed companies by corporate raiders – notorious outsiders such as T. Boone **Pickens**, Carl Icahn and Ronald **Perelman** – who pursued their objectives by means of proxy fights and leveraged buyouts funded by junk bonds. While shotgun marriages still occur, the asset-strippers of the previous decade have been replaced by more respectable suitors, such as the **CEOs** of Johnson & Johnson, **Hilton** Hotels, Citicorp, and the Royal Bank of Canada. They are more inclined to sit down with their prospective partners behind closed doors and work out 'a good fit'. Executives often see an opportunity for strategic mergers when seeking to make their companies major players in rapidly **evolving** markets that neither firm has the capacity to **fully** exploit on its own.

As soon as companies announce deals, they are assessed by financial analysts from the top brokerage houses who broadcast their views instantaneously. The widely-publicized verdicts of the more prominent analysts are vital to the rapid formation of a consensus in capital markets, where windfalls are reaped by making the same move as everyone else but **doing** so just ahead of the pack. If the leading analysts declare that a proposed merger 'makes sense' – has a realistic chance to make money for shareholders in the not-too-distant future – the executives who cooked up the deal are rewarded by sharp jumps in their companies' stock prices.

While the typical merger deal is hailed from the office towers as 'a match made in heaven', down below on the shop floor, the company announcement reads much more like the weather advisory of an approaching tornado, threatening to suck up earth-bound creatures and spit them out onto the street. After watching other firms go through mergers and takeovers, workers anticipate that the consummation of their company's deal will provide top executives with a one-time chance to jettison contractual obligations, suspend the seniority principle, cull redundant staff in overlapping departments, and sell-off subsidiaries that bosses now view as peripheral to the amalgamated company's core business. From the vantage point of employees, today's 'civilized' mergers do not look very different from the asset-stripping shoot-outs of a decade ago.

Pouring Personal Savings Into Financial Markets

We shift our attention now from firms to households on the other side of capital markets. As real interest rates slowly descended through the **1990s**, vast numbers of baby boomers concluded that they were no

longer making enough money on their savings in the standard safe-havens of bank accounts, guaranteed investment certificates and Treasury Bills. So they opted to take greater risk in the pursuit of higher returns by shifting funds into equities and bonds, mainly via mutual funds. If investors are willing to ignore the broader social fallout and calculate their interests narrowly, this appears to be a **good** bet. Historically, the world's major stock markets have risen much more than they have fallen. The chances of coming away from the table with more money than one bet in the first place is vastly better here than in any casino. And since the odds are in the investors' favour, the **longer** they play, the more money they are **likely** to make – the exact opposite of gambling in a casino. It stands to reason, then, that people with savings and a mounting anxiety about the future of public provision would be willing to 'put their money down' on private capital. The only surprise is the sheer number and size of the bets being made. Once we take that into account, the stock market's blast-off is explicable in terms of the prosaic laws of supply and demand – a torrent of cash chasing relatively few investable assets. Since the start of 1995, the total value of shares owned by American households has surged by almost \$5 **trillion**.²¹

Does the deluge of cash pouring into financial markets mean that households are spending less and saving more? Not at all. From the mid 1970s, when the real incomes of wage-earners stopped rising, most families dipped into their savings and went into debt in order to sustain their **living** standards. American households now save 3.8% of their disposable income, the lowest level in 58 **years**.²² The share of disposable income they must pay to service their debts has reached the unprecedented level of 18%.²³ The indebtedness of Canadian households is only slightly less onerous. By 1996, the household savings rate of Canadians hit a 50 year low at 4.6% of disposable **income**.²⁴ In short, the tidal wave of new investment reflects a major reallocation of savings and not an increasing propensity to save. This is what economists call 'disintermediation'. Middle and working-class savers used to let the banks put their money to profitable use; now they are much more inclined to invest their own savings. The trend is transforming finance capital and hitching the fortunes of Main Street to Wall Street as never before.

The great bulk of the new money **flooding** into capital markets has been channelled through collective instruments such as mutual funds, pensions, insurance portfolios and trusts. This is a new trend. Wealthy Americans have always **preferred** to hire brokers, place their own bets,

and hold shares individually. In 1985, individual investors held 57% of the shares of America's largest corporations and 'institutional investors' the remaining 43%. Nine years later, these proportions were reversed as vast numbers of middle- and working class households poured their savings into the capital markets. Mutual funds in particular are growing at a torrid pace. In the past seven years, the asset-value of U.S. mutual funds has quadrupled and now stands at \$4.6 trillion.²³ 66 million U.S. citizens now have mutual fund accounts and for the first time ever, Americans have more value tied up in mutual funds than they hold on deposit in the nation's banks (at \$4.2 trillion). Pension funds have also grown rapidly and are presently valued at \$3.5 trillion.²⁴ The same trends are occurring north of the border. In 1986, Canadian mutual fund assets stood at C\$20 billion; by April 1998, they totalled C\$329 billion. Mutual funds and pension plans combined now hold a majority of the country's publicly-traded shares.²⁵ On both sides of the border, most of the new investment is going into equities. In 1990, U.S. stock funds accounted for less than a quarter of mutual fund assets; seven years later, over half. In Canada, the portion climbed from 37% in 1992 to 52% by 1996.²⁶

When dispersed investors pool their savings in mutual and pension funds, they concentrate formidable power in the hands of fund managers. By and large, the latter exercise this power 'passively', simply playing the markets. There is no legal barrier to fund managers becoming active shareholders. A minority of pension managers have led the campaign for 'shareholder activism' and taken seats on corporate boards; a few have even become embroiled in takeover battles. But most money managers have too many stocks in their portfolios to get involved with specific companies; they prefer to sit at computer terminals and place their bets anonymously.

While money managers are capitalism's new magnates, wielding tremendous power in financial markets, they must submit to the discipline of those markets, held hostage by the same 'numbers game' they run on corporations. The price-performance of mutual funds is listed every day in the papers. Comparative historical data are readily available, and there is a rapid proliferation of guide-books by free-lance analysts who specialize in rating mutual funds for prospective investors. The latter are free to redeem their units at a day's notice and shop their savings around. Many unit-holders are impatient for results and mirror the restless attitude that money managers display towards companies. In fact, the short-term dispositions of both are linked, for when investors rush to withdraw their money from a fund, they force

the manager to sell holdings to pay them **off**. Fund companies put their managers under intense pressure to deliver results and attract more money to their funds. The ones who lag behind their competitors may find themselves ousted and replaced by newer hot-shots on a roll – just like the underperforming **CEOs** they pressure.

In an era of resurgent 'shareholder **power**', mutual funds make the link between investors and companies more tenuous than ever. The unit-holders of a mutual fund do not actually own shares in the companies in the fund's portfolio; legally, the fund's trustee holds them (in segregated accounts) on behalf of the unit-holders. The decision to invest one's savings in financial markets is thus divorced from ongoing decisions as to where to invest it; this is a significant change in the history of **capitalism**.³⁶ Mutual fund investors are like money-travellers who decide which region of the world they would like to visit and pick a tour-operator who offers an attractive package-deal in the area. When **they** arrive at the airport, the operator takes over, planning the itinerary and hiring someone to drive the electronic tour-bus, deciding which sites to visit along the way. At this point the analogy breaks down, because at least the travellers on a real tour-bus take an interest in the sites they visit. In the case of most pension contributors and mutual-fund investors, ignorance is bliss. They have no idea what companies the fund currently holds in their name; that's what they hired the manager to worry about. The fund manager executes the trades that drive their imaginary bus through cyberspace, whistling cheerful tunes (in the form of **quarterly** fund reports) designed to persuade the paying customers not to rush for the exits when the road gets bumpy.

Labour? Capital Goes to Market

Corporate assets are held much more widely now than **they** have ever been. At the time of the 1929 Crash, only 3% of American households held shares; before the October 1987 crash, 25% did; now roughly 45% **do**.³⁷ Pensions have grown very substantially. In 1975, 45 million U.S. workers were enrolled in private pension plans with \$259 billion in assets; by 1998, almost twice as many workers were included in pension plans with assets of \$3.5 trillion, roughly 60% of the country's **GDP**. In 1957, 818,000 workers across Canada were enrolled in pensions worth **C\$2.3** billion; by 1996, 5.1 million workers (42% of the paid labour force) were registered in plans worth **C\$ 485** billion, equal to 62% of the country's **GDP**.³⁸

WALLY SECCOMBE

While the base of the financial pyramid has been spreading out and down, the richest households still hold a disproportionate share. In the U.S., the wealthiest 10% of households claim 81% of stocks and 88% of bonds that are individually held (with pooled investments being much more broadly **spread**).³⁹ The property foundations of the capitalist class remain firmly in place. Since the overall distribution of wealth and income has become even more unequal in the past two decades, the Right's claim that we have entered an era of 'people's capitalism' is risible. Yet it would be equally foolish, from the Left, to conclude that nothing much has changed from a class perspective. Deferred labour income has become a major source of new money flowing into capital markets and the traditional dividing line between wage-income and capital accumulation has been blurred.

The new money flooding into financial markets shows up in data on household wealth, where financial assets are growing rapidly even in relative terms. In 1980, Canadian households held 20% of their assets in financial investments; a decade later, 30%. I have no current figure, but it is undoubtedly much higher now, perhaps 40%. In the U.S., financial assets now represent 43% of total household wealth. This is a 50 year high, and may well be an all-time record. The shift from physical to paper assets is related to the sag in the real estate market. Millions of working people have chosen to invest their savings in mutual funds rather than paying down the mortgage; thus far, it's been a profitable choice. American households today have more equity tied up in the stock market than they do in their own **homes**.⁴⁰

Precisely because they are not rich, small investors tend to worry about how their investments perform. The more insecure they feel concerning their jobs and the public provisions of the welfare state, the more **they** count on private investments to help fund the future expenses associated with aging, retirement and their children's post-secondary education. People invest hope in capital markets together with their hard-earned cash. Will the finance minister's new budget be tough **enough** to please the bond market? Will the economy's growth slow down a bit so that the central bank doesn't raise short-term interest rates? Will the share-price of company X perk up when the CEO announces plans to restore profitability by shutting down several plants? These prospects may sound ominous to workers, but they please investors. Wage-earning investors have a foot in both camps. The main financial concern of younger employees is to take home enough pay at the end of the week to cover current expenses; as they reach middle-age, workers become increasingly concerned with

the future. They wonder when they can afford to retire and worry that their families will sink into poverty when the paychecks suddenly stop. Acting prudently, many middle-aged workers save and invest so that they will have an additional source of income to supplement pension benefits and social security payments when they retire.

Pension Plans and Workers' Binary Class Interests

Twenty years ago, the management consultant Peter Drucker wrote a book entitled *The Unseen Revolution: How Pension Fund Socialism Came to America*. He saw the rise of employee pensions as having major implications:

The shift to an economy in which the 'worker' and the 'capitalist' are one and the same person, and in which the 'wage fund' and the 'capital fund' are both expressed in and through 'labor income' is a radical innovation and at odds with all received theory. That the 'capital fund' is created out of labour income – and payments into a pension fund, whether made by employer, employee, or both, are 'deferred wages' and 'labor costs' – is perfectly sound Marxism. But it is totally incompatible with both classic economic theory and Keynesian neoclassicism. That this 'capital fund' is in turn channelled back through 'labour income' – which is what pension payments are – is again perfectly sound classical theory. But it is totally incompatible with Marxism, even at its most revisionist.

The worker and the capitalist have not become 'one and the same person' and the U.S. is today more thoroughly capitalist than ever. But Drucker was nonetheless prescient in drawing attention to an important structural change in the American economy that neither neo-classical economists nor marxists could readily acknowledge. The ensuing two decades have deepened the intermingling of class incomes across the life-course that he highlighted in the 1970s.

The changeling of labour savings into capital markets is a two-edged sword. Conceivably, unions could seize control of their own pension funds and put them to co-operative use. Concerted strategies along these lines are certainly possible. Several bold and exemplary attempts have been made; they deserve to be more broadly studied and discussed by the Left.¹¹ But let us also be clear that there are formidable obstacles in venturing down this road; the resistance to capital redeployment is not confined to the rich. Millions of working people are counting on these funds to provide retirement income, and they have reason to fear the harsh verdict of the financial markets on non-maximizing capital investment.

Consider the Ontario Teachers Pension Plan. With \$54 billion

WALLY SECCOMBE

aboard, the OTPP directs one of the largest pools of capital in Canada; the Plan owns 3% of the TSE 300, the Toronto Stock Exchange's top three hundred companies. As with most pension funds, its managers are prohibited by the Plan's constitution from having any investment objective other than risk-adjusted maximization. As the OTPP's President insisted in his 1993 Annual Report:

A number of teachers have suggested that corporate governance be extended to social investment. The purpose would be to prohibit investment in companies that, in some people's perception, produce 'socially unacceptable' products or behave unacceptably in terms of environmental conduct, labour relations, human rights, and other political and social matters. The teacher's pension plan is not, in our view, a political pool of capital . . . The plan exists solely to provide members with retirement income and related benefits. . . Fiduciary duty requires us to resist suggestions to alter the plan's investment policy to advance the social and political ideology of some people at the expense of all plan members."

'Social and political ideology', in this context, means any policy that is potentially at odds with the Plan's **duty** to accumulate capital as quickly as possible on a risk-adjusted basis – any strategy, in other words, that runs counter to the reigning neo-liberal orthodoxies of our day. For teachers who are **relying** on the Plan, and very little else, to furnish them with income upon their retirement for the rest of their lives, the President's warning to beware of 'social investment' sounds ominous.

The OTPP's money managers are renowned as 'shareholder rights' advocates. Asked about the wave of corporate downsizing, the Plan's chief investment officer says:

Companies aren't put together to create jobs. The number-one priority is creating shareholder wealth . . . When we **buy** shares in a company, we treat it as if we're owners of the company. We believe the board of directors. . . has a duty to maximize the share value for us. If its not going to be looking after our interests first and foremost, then we will invest elsewhere."

Holding a huge portfolio of Ontario bonds, OTPP's managers are also hard-line fiscal conservatives. Their stance contrasts sharply with the teachers' unions who were major organizers of the Days of Action, a series of city-wide strikes and demonstrations against the Ontario **government's** deep cuts to social **services**. At the 1996 demonstration in Hamilton, teachers' comprised more than half the turnout which police estimated at 100,000. The follow-up demonstration in Toronto was even larger, and the province's teachers once again turned out in massive numbers. They then led the charge against an odious Bill 160 (removing power from local school boards and vesting it with the

Minister of Education) with an all-out province-wide political strike for two weeks which sustained widespread public support and shook the government. In the meantime, the OTTP's managers – to judge by their previous statements – probably commended the Harris government behind the scenes for its drastic spending cuts on the grounds that they were 'investor-friendly'.

This 'mixed message' cannot be plausibly ascribed to the divergent ideologies of union leaders and money managers; both are representing teachers and can reasonably claim to be acting on their behalf. The truth is that teachers have conflicted class interests, as have other workers with substantial pension funds circulating through financial markets. How would we estimate the balance of teachers' interests across the labour-capital divide? A clear majority of the plan's 155,000 active teachers are entitled to retire with a full pension in the next fifteen years.⁴³ As retirement approaches, the financial health of the OTTP becomes much more important than modest changes in their present rates of pay. In the meantime, relatively few young teachers have been hired since 1975. For the first time in 1997, pension benefits paid out exceeded contributions from active teachers. As the Annual Report explains:

The growth in pensioner population relative to the active teaching population means that we will have to depend more on investment income than is the case today. These demographics underscore the importance of implementing a diversified investment policy that maximizes long-term investment returns so that we can pay the pensions promised without increasing the contributions.⁴⁵

'Maximizing returns' has entailed entering the equity markets in a big way. From 1990 to 1996, roughly three-quarters of the OTTP's asset-expansion has come from investment income and capital appreciation. The OTTP pattern is not unusual in this regard. In the past fifteen years, investment income has swelled Canadian pension funds at roughly twice the rate of contributions from employers and workers combined.⁴⁶

If the dreaded bear market finally shows up in North America and sticks around for long, many pension funds that have struggled to remain viable will be threatened with depletion. Without a sustained boost from investment income, the retirement benefits of the baby-boom generation cannot possibly be funded by the contributions of the 'baby-bust' generation following in its wake. The younger cohort is much smaller to begin with, and its entry into the full-time labour-force has been delayed by chronically high levels of youth

WALLY SECCOMBE

unemployment and prolonged schooling. Most have been unable to obtain regular employment on a **year-round** basis and to become steady contributors to pension plans until their mid to late twenties.

There is a widespread perception among the elderly today that they are now receiving in benefits simply what they paid in during their working lives, plus a modest investment income. In most cases, this is inaccurate. If **they** have contributed to pay-as-you go plans which favour early cohorts, and if they collect benefits for more than a decade, they will use up their own contributions; from then on, their pension benefits and social security checks will be paid for by active employees and taxpayers. As the ratio of beneficiaries to contributors increases, the 'medical **breakthroughs**' that have prolonged life will prove to be costly for the children of the elderly, both in terms of their responsibilities for direct-care and financial assistance. If the stock market holds up over the next two decades, investment income will probably fill the growing retirement gap for most members of the older generation and the situation will be alleviated. If it does not, North Americans seem bound to experience an inter-generational financial crunch as the boomers retire in droves. Under these deflated circumstances, the primary institution of inter-generational support and solidarity – the **family** – will come under increasing strain.

Deregulating Capital, Destabilizing Families

Conservatives are loath to admit it, but the 'shareholder capitalism' they herald is fast undermining the traditional **family** they hold sacred. While they prefer to blame the family's ills on sexual permissiveness, moral degeneracy and creeping welfare-socialism, the truth is that unregulated capitalism is hard on families, even small, nuclear and 'sub-nuclear' families. In shortening all forms of commercial contract, the free market militates against the long-term obligations to one's partner, parents and children that enable families – in whatever form – to endure and provide reliable support, binding three generations together over the life-course. The more atomized, turbulent and rootless economies become, the more difficult it is to **justify** costly childbearing long-term monogamy, or taking time off work to care for one's elderly parents. In eroding the subsistence-base of the economy and commodifying every consumable, unfettered capitalism devalues the unpaid work done at home – overwhelmingly women's work – that provides for such elementary family pleasures as sitting down and eating a home-cooked meal together.

In a liberal-democratic state, the right to move around the country and compete for any job available is the foundation of free labour. But there is a vast difference between having the right to change jobs and being compelled to chase jobs all over the place simply in order to subsist. Quitting work and being sacked are not only very different experiences at the time, they have very different long-term consequences for people's lives and their capacity to keep families and communities together. Anything that renders employment more dislocated, temporary and irregular, anything that makes the **future** stream of labour income less reliable, destabilizes wage-earning families. The most obvious disruption is job loss, especially in conditions of mass unemployment where the competition for scarce jobs is intense. Across the OECD states (with the notable exception of the U.S.), the jobless rolls have grown enormously since the early 1970s. In Canada, the average rate of unemployment has risen for four straight decades. People who lose their jobs have a much harder time finding another. The average bout of unemployment was 14 weeks in 1974; by 1994, it had reached 24 **weeks**.⁴⁷ In the meantime, the contraction of the labour force in many industries has gone hand-in-hand with the scheduling of substantial overtime. **Paying** individuals in a shrunken **workforce time-and-a-half** is apparently cheaper than keeping more workers with benefits on the payroll. While the Right often blames this social perversity on high payroll taxes, it is worth noting that **Marx** observed the same combination 130 years ago:

The overwork of the employed part of the working-class swells the ranks of the reserve, whilst conversely the greater pressure that the latter by its competition exerts on the former, forces these to submit to overwork and to subjugation to the dictates of capital.⁴⁸

Recently, free-market advocates have been urging governments to make their labour markets 'more flexible'. This would be a blessing for working families if it meant that employees had more discretion in determining their working hours. But rather than flexibility for workers, more often it is a case of an obligatory flexibility of workers, bending to employers' demands in order to keep their jobs. What conservatives really mean by labour flexibility is that it ought to be easier for employers to:

- lay-off workers at any time;
- replace permanent staff with part-time workers who do not qualify for benefits;
- contract out corporate functions to specialized firms who hire

unorganized workers on short-term contracts and pay them much less;

- schedule more overtime to avoid recalling laid-off workers or hiring new ones; and
- transfer production to regions with fewer employment regulations and lower labour costs.

When companies are free to treat workers as dispensable commodities, they make the labour market less flexible for employees. Household routines are disturbed by changes in the way firms contract with labour and schedule shifts.⁸⁸ Just-in-time production schedules are organized to fill customer orders, tighten inventory levels, and secure technological efficiencies in batch processing. The result is that staffing plans must be finalized later – just-in-time – and workers are provided with less advance notice of their shift-schedules. In consequence, family events become that much harder to plan. Intensified competition in consumer markets fosters extended selling hours. As stores stay open later and Sunday shopping proliferates, retail employees must work more evening and weekend shifts. In Canada, nine-to-five days and the five-and-two week comprise a shrinking proportion of all employment. In 1976, 65% of Canadian workers put in a standard work-week; by 1995, only 54% did.⁸⁹

Changes in the labour market are shaking up the life-course as well. As the pace of technological change accelerates, occupational skills become outmoded more quickly and career employment paths are more difficult to sustain; promotional ladders are disrupted by corporate downsizing, mergers, takeovers, and plant closures. As middle-aged workers who have worked for the same company for years lose their jobs, employers and politicians propose 'retraining' and 'life-long learning' as antidotes to a growing sense of insecurity. Young people in their late teens and early twenties find it increasingly difficult to enter the full-time labour force and become self-supporting adults; between 1990 and 1995, the average income of Canadians aged 15 to 24 fell 20%.⁹⁰ High levels of youth unemployment have forced many young adults to return to school when their job prospects appear dismal and to live with their parents far longer than either generation would have wished. The whole process of 'growing up and settling down' – finding a mate, living together, forming families and having kids – is delayed, disrupted, rendered uncertain and reversible.

The mass influx of married women into paid work – due in part to disruptions in male employment – has eased the financial pressure on

households; but it has done so **by adding** considerably to women's work-loads and **making** the preservation of families more difficult in other ways. In multi-earner households, all members who are presently employed or are seeking jobs must be able to find suitable work close to home. The decision of one member to move to another location in order to accept a job offer there either splits the family or forces the rest to pull up stakes in order to stay together as a household, quitting their jobs and leaving schools and friends behind. 'Long-distance' families **proliferate**, where a breadwinner (usually male) migrates and leaves his family behind, often hoping to sponsor their eventual reunification at some point in the future.

The deregulation of the working day and the shift to a two-earner norm have complicated family time-management, exacerbating the trade-off between making money and 'making time'. The more hours the members of a household need to devote to paid work, the harder it is to set aside family-time together. When the work schedules of two or more members of the household cannot be synchronized, family meals together **during** the week are rare and sleep-times are **disparate**.⁵¹ The domestic work that directly sustains family life is thus forced to adapt to the pre-determined timetables of work and school. Since women still do the great bulk of unpaid family work even when they work outside the home, it falls to them, much more than to men, to try to reassemble what the demands of the external world have pulled apart – making-do with disjointed meal-times, feeding the kids while preparing to eat later with husbands, caring for people who are coming and going at odd hours. As it becomes much more difficult to co-ordinate the family's life together, time-management issues become a major bone of contention between spouses.

Employers may recognize and quite **genuinely** care about their employees' need to safeguard family-time. But when their own profit-maximizing imperatives are competitively enforced and driven by the short-term interest of shareholders, they find it extremely difficult to accommodate the **family** needs of their workers. For their part, wage-earners realize that as individuals they can best compete in the labour market by being responsive and flexible, willing to pull up stakes on short notice to go wherever **the** best job opportunities present themselves. As committed family members, however, they strive to **forge** out of this unsettled landscape as much residential stability and community rootedness as they can. Employees who focus on making more money and climbing the corporate ladder tend to sacrifice involvement with their families; conversely, familial devotion inhibits

the aggressive pursuit of market opportunities. Women have long been aware of this conflict; men who are trying to spend more time with their families now realize the magnitude of the problem.

At the core of the neo-liberal ideal of unfettered capital mobility and flexible labour markets lies an abstract individualism that makes it extremely difficult to keep families intact and communities pulling together. In the words of Edward Luttwak, 'turbo-charged capitalism . . . rewards acrobats at the expense of working stiff[s] who also happen to be fathers and stable members of the **community**'.³¹ Listen to the voice of one **working** stiff, a steelworker in Hamilton, Ontario, on the way in which de-regulated capitalism is taking its toll on family life:

You don't know if tomorrow you are going to have a job. . . . You don't know if your family is all of sudden just going to pack and leave on you because they are fed up with it. You know my kids will come home and I'll come home after like twelve hours of fighting and arguing with guys down there. . . and a kid looks at you and goes 'Dad'. You go nuts on him, eh. And you think 'Christ, if I don't get out of here I'm going to kill somebody . . . I'm going to beat up on the kids' . . . And that's why there is so much problems . . . because the parents can no longer cope."

Conclusion

As corporate profits and household savings continue to flood into financial markets at an unprecedented pace, the global structure of capital becomes increasingly top-heavy and unstable. A vast sea of speculative liquidity is now sloshing around the world in cyberspace, swollen out of all rational proportion to the base of productive capital whose **future** earnings it **presumably** foreshadows. **Driven by greed and fear** (the **ruling** emotions of financial markets), this protean super-structure is increasingly prone to unpredictable booms and busts, as strong herding tendencies develop and the normal two-way flow of funds can easily turn into a one-way stampede overnight. In the boom phase, the tide rises and the sea expands; investment flows from the financial centers of New York, London and Tokyo into 'emerging markets' as money managers sing the praises of the newest 'economic miracles'. As soon as their **glib prognostications** are shattered by some unexpected piece of bad news, however, they rush for the exits, fleeing to the relative security of their own, better regulated, financial markets.

As the governments and peoples of East Asia have recently discovered, the mass exodus of anonymous investors can bankrupt a capital-poor country in a matter of days, depreciating its currency,

THE SOCIALIST REGISTER 1999

ballooning its **foreign** debt, depressing its urban property markets and draining liquidity from its debt-ridden financial institutions. An avalanche of **deflationary** pressures soon force desperate governments into the arms of the World Bank and the I.M.F. whose officials typically insist – as a condition for lending them emergency funds – that governments 'push through fiscal austerity measures and 'structural reforms' designed to bring their economies into closer conformity with the preferred neo-liberal model. The resulting pain imposed on the broad mass of the population is declared to be unfortunate, but in the long run will do them a world of **good**, since 'tough medicine' is needed to 'restore the confidence of **foreign** investors' – the *sine qua non* of national prosperity in 'the new global economy'. In the meantime, the calamities that have suddenly befallen the country (whose virtues were widely touted until recently) are now discovered to stem from (take your pick) political corruption, 'entrenched cronyism', government mismanagement, or the nation's **baffling** cultural resistance to market incentives – anything but the international financial system.

Looking at the same destructive whirlwind from a very different vantage point, the readers of *Socialist Register* may be wondering why the deferred labour income of wage-earners from rich countries is fuelling finance capital's bonfire-of-the-vanities and burning the working people of poor countries – in Latin America **yesterday**, in East Asia today, and who-knows-where tomorrow. Seeking to explain working-class conservatism in rich countries, Lenin once argued that the upper strata of wage-earners had been bought off by the 'enormous **superprofits**' of imperialism, based upon the 'superexploitation' of the producers in poor countries. This enabled capitalists in the developed world:

to bribe the labour leaders and the upper layers of the labour aristocracy. . . This stratum of workers-turned-bourgeois. . . who are quite philistine in their mode of life, in the size of their earnings and in their entire outlook . . . are the real agents of the bourgeoisie in the workers' movement.⁵⁹

Shorn of its moralizing tone, this materialist analysis seems relevant in the current context. Ironically for **Lenin** – a fierce opponent of 'revisionism' – his argument subverts the strategic cornerstone of **marxist** orthodoxy: that the proletarians of *all* countries have a compelling interest in uniting to overthrow capitalism.

Marx did not foresee that the savings of wage-earners would one day become a major source of capital formation. He treated wages simply

WALLY SECCOMBE

as a fund for 'individual consumption'. Most working-class families in his day were mired in a day-to-day struggle for existence and Mam largely ignored the inter-generational dimensions of working-class reproduction. Fixating narrowly on workplaces as the sole sites of wealth-creation and class-based power, he left households – with their intimate dependency-based forms of domestic power – out of account. But households are the incubators of labour-power and the ultimate source of society's future wealth; we can never adequately grasp the intricate value-flows back and forth between the sexes, between the generations, and, finally, between labour and capital if households are not present in the analysis.

The problem we face today is not so much **Marx's** blind-spot, but the failure of contemporary socialists – staring this **demographic** reality in the face – to come to grips with it. With all its shortcomings, **Marx's** analysis of capitalism contains profound insights that can assist us in this effort. Consider, for example, his subtle notion of 'the metamorphosis of the value form' as explicated in *Capital*, wherein the surplus value pumped out of 'living labour' in the sphere of production disguises its origins as it becomes money-capital and then shows up mysteriously in the sphere of exchange as an alien, unruly force that acts back upon workers to secure their submission to capital in the anonymous form of 'market discipline'. Marx sees the extraction of surplus value as a double-barrelled alienation – the separation of labour from its wealth, and the loss of working-class power over the disposition of money-capital in the process.

The potential strengths of this analysis are vitiated when we focus too narrowly on exploitation 'at the point of production' and gloss over the distinct circuits of capital. As I have tried to show, the labour-savings circuit is configured very differently than the more familiar **corporate-profit** loop. It is schematic and misleading to assume that the latter furnishes an adequate blueprint for **apprehending** the broader crisscrossed field of capital accumulation, especially when this terrain spans the globe (in space) and encompasses all three generations (in time).

The wealth that wage-earners hand over to money managers through pension and mutual funds derives from wages, not from profits; ultimately it returns to workers (their spouses and children) in the form of investment income. These funds join the general pool of investment-capital and for the most part are managed no differently than other investments. But legally they remain labour's capital; they can therefore be reclaimed by their 'rightful owners' and put to alter-

THE SOCIALIST REGISTER 1999

native uses much more readily than other forms of capital can. By contrast, the wealth that employers extract from labour which shows up as profit on the company's balance-sheet is more decisively alienated and much harder to reclaim. Might labour's collective access to 'its own' capital-pool open up a new front of anti-capitalist struggle and provide a powerful point of leverage for an alternative economic strategy? The potential gains of extricating labour's capital from the alienated orbits of circulating capital and placing these funds at the service of labour-friendly co-operative endeavours are considerable. So too are the difficulties in **doing** so. While the legal barriers do not seem formidable (wherever alternative investment objectives are democratically determined and fund managers are held accountable), the chief obstacle in my view is the perfectly understandable desire of most workers to maximize their investments in preparation for a retirement of unknown duration where the provisions of the welfare state look increasingly uncertain. Non-maximizing deployment threatens this interest. However, the consequences of unions failing to exert collective control over their pooled savings and simply **leaving** pension fund managers alone to 'to do what they do best' are also considerable. Under a profit-maximizing investment strategy, the beneficiaries are deeply implicated in the private accumulation process, since this part of their future income-stream derives from capital's success in raising the rate of exploitation and favouring shareholders over workers.

The politics of the next few decades will be incomprehensible without paying careful attention to **demographic** trends and inter-generational wealth-flows. A huge cohort of baby boomers are now contemplating their retirement in the not-too-distant future. How will they live out their senior years? With an inexorable decline in the ratio of working-age contributors to elderly beneficiaries in pension plans, there are serious doubts as to whether there will be sufficient savings available in **any** form to prevent former wage-earners and their spouses from **falling** into abject poverty in their senior years.

Beyond the vexed issue of private pensions lurks the even thornier question of the public retirement funds promised by governments to their senior citizens upon reaching a specified age. In the face of projected shortfalls in these programs, the path of least resistance is to look for ways to raise the rate of return on their assets. In the U.S., for example, Republicans in Congress have been pushing for Wall Street's preferred 'solution' – to privatize Social Security **by** paying out the plan's accumulated assets to citizens who elect to opt out, so that they can invest their share as **they** see fit while releasing the government

from its obligation to provide for them in old age. Predictably, those whose future retirements will be cushioned by other sources of wealth can afford to take this risk and might well gain personally from it, while the poor who are completely dependent upon public provision would almost certainly stand to lose, either by taking private risks that they could ill-afford, or by **sticking** with a shrunken government program that was no longer defended with any **vigour** by the affluent. How will the Left respond to this challenge? Clearly there are huge stakes involved in the struggle over the nature of society's **publicly-funded** retirement contract with its senior citizens.

In an aging society, the needs of the dependent **elderly** place increasing demands on families and the welfare state. This raises unavoidable questions about the proper distribution of responsibilities for direct care and financial support between next-of-kin and public agencies on the one hand, and within families on the other (between daughters and sons, cohabiting members and kin living elsewhere, childhood families and in-laws, close friends of the sick and their own kin, etc.). The sinews of friendship and kin solidarity will be sorely tested in a money-driven society where market relations encourage a narrow calculus of personal interest and the sphere of interpersonal obligation has been steadily reduced, among most Westernized cultures, to the cohabiting members of the nuclear family. In sum, issues of class, gender and generation are all entangled on this terrain. How these issues get fought out, and the alliances that are forged to deal with them, will be critical to the prospects of reviving a **broadly-based** progressive politics in the early decades of the 21st century.

NOTES

- 1 Michael Winerip, 'He's Out of Step, but That's Fine with Canton's Biggest Employer,' *New York Times*, December 2, 1997, p. A1.
- 2 *New York Times*, December 2, 1997, p. A10
- 3 *The Economist*, October 18, 1997, p. 79.
- 4 *International Capital Markets, 1950-1995*, OECD publication, 1997, pp. 13-16; Joel Seligman, *The Transformation of Wall Street*, rev. ed., Northeastern University Press, 1995, p. 569; Stephany Griffith-Jones and Barbara Stallings, 'New global financial trends: implications for development,' in *Global Change, Regional Response*, Barbara Stallings, ed., Cambridge University Press, 1995, pp. 144-57. See also, Andrew Walter, *World Power and World Money*, rev. ed., Harvester Wheatsheaf, 1993; Jonathan Michie and John Grieve Smith, *Managing the Global Economy*, Oxford University Press, 1995.
- 5 William Greider, *One World, Ready Or Not, the Manic Logic of Global Capitalism*, Simon & Schuster, 1997, p. 234; *The Economist*, September 20th, 1997, p. 24.

THE SOCIALIST REGISTER 1999

- 6 'Turbo-charged' is Edward Luttwack's apt term. Cf. *Harper's Magazine*, May 1996, p. 38.
- 7 While these effects have been manifest far beyond the shores of North America, I shall confine **myself** here to the U.S. and Canada, and leave the global ramifications to be examined in a subsequent text.
- Michael Useem, *Investor Capitalism, How Money Managers are Changing the Face of Corporate America*, Basic Books, 1996, p. 65. For a closely-grained review of this battle, see the second chapter, 'When Investors Challenge Company Performance'.
- On these trends, see Michael Useem, *Executive Defense: Shareholder Power and Corporate Restructuring*, Harvard University Press, 1993; Michael Useem, *Investor Capitalism: How Money Managers Are Changing the Face of Corporate America*, Basic Books, 1996; Neil Fligstein and Peter Brantley, 'Bank Control, Owner Control or Organizational Dynamics: Who Controls the Large Corporation?', *American Journal of Sociology*, Vol. 98, 1992, pp. 280-307; Gerald F. Davis and Suzanne K. Stout, 'Organizational Theory and the Market for Corporate Control: A Dynamic Analysis of the Characteristics of Large Takeover Targets, 1980-1990,' *Administrative Science Quarterly*, Vol 37, 1992, pp.605-33; Mary Zey and Brande Camp, 'The Transformation from Multi-divisional Form to Corporate Groups of Subsidiaries in the 1980s,' *The Sociological Quarterly*, Vol. 37, #2, pp. 327-51.
- 10 Harper's Magazine, May 1996, p. 38.
- 11 In the words of Jack Welsh, the CEO of General Electric, one of the few North American conglomerates that investors still like.
- 12 David Sadtler, Andrew Campbell and Richard Kroch, estimate that the market value of companies spun off from their parents in Britain and the U.S. rose from \$17.5 billion in 1993 to more than \$100 billion in 1996. See *Break-Up! When Large Companies are Worth More Dead than Alive*. Capstone, 1997.
- 13 Michael Useem, *Investor Capitalism, How Money Managers are Changing the Face of Corporate America*, Basic Books, 1996, p. 164.
- 14 Cf. 'Excess Capital and Excess Population,' *Marx, Capital*, Vol 3, (Progress Publishers, 1971) pp. 250-9. Neo-classical economists have finally recognized this tendency – in their terms, the risk of firms overinvesting due to a surging cash flow in excess of **potential** investments with positive net present value. (See Michael Jensen, 'Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers,' *American Economic Review*, Vol. 76, 1986, pp. 323-329.) But whereas **marxists** situate the contradiction of excess capital investment at the macro-level, as a destructive effect of the competitive scramble for market share, neo-classical economists remain wedded to the theology of market equilibrium, identifying the problem as an 'agency cost' of managers who fail to maximize shareholder value.
- 15 Betsy Morris, 'The Holy Terror Who's Saving IBM,' *Fortune*, Vol. 135, # 7, April 14, 1997, p. 71.
- 16 From 1995 to April 1998, IBM spent **about** \$20 billion reacquiring its own shares. Despite revenues and profit margins that came in well below market expectations in 1998, the stock continues to set records because management continues to demonstrate its absolute devotion to shareholders by buying back more shares and raising dividends. See 'IBM plans steps to lift the share price,' in the *Globe & Mail*, April 29, 1998, p. B 11.
- Ibid*, p. 80.

WALLY SECCOMBE

- 18 Mark 11:15
- 19 'Executive Pay, It's Out of Control,' *Business Week*, April 21, 1997, pp. 58-66.
- 20 **Adolf Berle** and **Gardiner Means**, *The Modern Corporation and Private Property*, rev. ed. New York, Harcourt, Brace, 1932/1967. For a more recent rumination on the perennial issue of 'corporate governance', see Margaret Blair, *Ownership and Control: Rethinking Corporate Governance for the 21st Century*, Washington: Brookings Institute, 1995.
- 21 Calculated from the table on pages 58-9 of *Business Week*, April 21, 1997. Canadian trends lag behind, but are headed in the same direction. In a report on the 1997 annual incomes of the CEO's of Canada's largest firms, the top ten (in total compensation) averaged **C\$890,000** in basic salary, **C\$2.4** million in performance bonuses (mostly related to share-price appreciation), and **C\$9.5** million in stock-option gains. *Globe & Mail*, April 18, 1998, p. **B6**. Stock options permit managers to purchase shares from their companies at a bargain price. They must be exercised to generate the gains recorded in the compensation totals being cited here.
- 22 *The Economist*, June 28, 1997, p. 77.
- 23 The correlation between repurchase announcements and share appreciation has been noted in several studies. See Robert Comment and **Gregg Jarrell**, 'The Relative Signalling Power of Dutch-Auction and Fixed-Price Tender Offers and Open-Market Repurchases,' *Journal of Finance*, Vol. 46, 1991, pp. 1243-1271; David Yermack, 'Good Timing: CEO Stock Option Awards and Company News Announcements,' *Journal of Finance*, Vol. 52, 1997, pp. 449-476.
- 24 In the language of **neo-classical** economists, firms run the risk of overinvesting when they have a cash flow in excess of that required to fund all projects that have a positive net present value'. The buy-back disgorges the excess and mitigates the 'agency conflict' inherent in managers placing other objectives before the paramount one of maximizing shareholder value. For an empirically-based analysis of these trends, see George W. Fenn & Nellie **Liang**, 'Good News and Bad News About Share Repurchases,' a 1997 discussion paper distributed by the U.S. Federal Reserve, and available on the Fed's web-site.
- 25 Doug **Henwood** has shown that 'far from turning to Wall Street for outside finance, nonfinancial firms have been stuffing Wall Street's pockets with money.' (*Wall Street*, Verso, 1997, p. 73).
- 26 This estimate is based on the industrial companies in Standard and **Poor's** 500 index, as reported by Tom Galvin, chief equity strategist at *Donaldson Lufkin & Jenrette*. 'Stingy capital spending pays off in stock prices,' *Globe & Mail*, March 23, 1998, p. **BG**.
- 27 *Globe & Mail*, 'Mergers Hit Fever Pitch', Dec. 22, 1997, p. **B1**; Charles V. **Bagli**, 'A New Breed of Wolf at the Corporate Door,' *New York Times*, March 19, 1977, p. **B1**; 'America Bubbles Over', *The Economist*, April 18, 1997, p. 67.
- 28 *The Economist*, March 28, 1998, p. 68.
- 29 'Last of the Big-Time Spenders', *Toronto Star*, August 5, 1997, p. **D1**. and Maria **Ramirez**, 'Americans at Debt's Door', *New York Times*, Oct. 14, 1997. See also, *New York Times*, Feb. 11, 1998, 'Share of Wealth in Stock Holding Hits 50 Year High', p. **A1**.
- 30 Maria **Ramirez**, 'Americans at Debt's Door', *New York Times*, Oct. 14, 1997.
- 31 The savings decline may well be halted or reversed in the next decade, as baby boomers save in earnest for their retirements; but thereafter, it seems destined to

resume its fall as the proportion of the population 65 years and older rises sharply. The prospect of an aging population draining the global pool of capital-savings in the next fifty years is clearly ominous, and has attracted the attention of the West's major research institutes. See, for example, Barry Bosworth, *Savings and Investment in a Global Economy*, The Brookings Institute, 1993; and the 1997 OECD report *Future Global Capital Shortages: Real Threat or Pure Fiction?*

32 As of March 1, 1998.

33 Michael Uscem, *Investor Capitalism*, p. 26; *New York Times*, Sept. 25, 1997, p. C2.

34 *Globe & Mail*, January 3, 1997, p. B9; *Toronto Star*, January 16, 1997, p. E1.

35 *Globe & Mail*, March 18, 1977, p. B1.

36 See Robert Clark's 'The Four Stages of Capitalism: Reflections on Investment Management Treatises,' *Harvard Law Review*, 94, 1981, pp. 561-82.

37 This includes assets held by individuals, plus pooled investments such as mutual funds and pensions. *The Economist*, March 28, 1998, p. 18.

38 See *Pension Funds, Retirement-Income Security and Capital Markets, An International Perspective*, E. Philip Davis, Clarendon Press, 1995; *Pensions, Labor and Individual Choice*, David A. Wise, ed., University of Chicago Press, 1985; *Pension Plans in Canada 1996*, Statistics Canada, Cat. No. 74-401, 1997.

39 Doug Henwood, *Wall Street*, Verso, 1997, p. 67. Unlike the thousands of authors who write homages to Wall Street and supply hot tips that promise to make you a million, Henwood, the editor of the *Left Business Observer*, is a trenchant critic of the Street who proudly offers no advice on playing the market. I found *Wall Street* an illuminating read, particularly Henwood's analysis of the self-sufficiency of non-financial corporations who, far from sucking investment money in, have been paying it out, 'stuffing Wall Street's pockets'. My main objection is that he belittles the magnitude and importance of the flood of wage-earners' savings into the markets in the past decade via mutual funds and pensions. This permits him to preserve the comforting left-wing delusion that financial markets simply redistribute income among the wealthy and have not snagged a rentier interest among the ranks of the fully employed working-class.

40 *New York Times*, February 11, 1998, pp. A1, C4.

41 Some of the more promising ones are reviewed by Richard Minns in 'The Social Ownership of Capital,' *New Left Review*, # 219, September 1996.

42 Quoted from the President's Address, cited in the OTPP's mailing to members, *Highlights of the 1973 Annual Report*, p. 12.

43 *Globe & Mail*, March 23, 1996, p. B1.

44 Under the former agreement, about half of all active teachers were due to retire in 15 years. But just as this text was being finalized, the teachers' federations agreed to a new early-retirement deal with the government that will increase this proportion considerably.

45 *1996 Report to Members*, Ontario Teachers Pension Plan Board, p. 9.

46 See *Trusteed Pension Funds, Financial Statistics, 1974*, Statistics Canada, 1996, Cat. No. 74-201, p. 15.

47 *Globe & Mail*, January 3, 1997, p. A4.

48 *Capital*, (Progress, 1971), Vol. I, p. 595

49 See Manfred Garhammer, *Time and Society*, vol. 4, # 2.

50 From a *Statistics Canada* study by Mike Sheridan, Deborah Sunter and Brent Diverty, reported in the *Globe & Mail*, September 2, 1996.

WALLY SECCOMBE

- 51 'Canadians **got** poorer in the **90s**,' *Globe & Mail*, May 13, 1998, p. A 5.
- 52 The commodification of food and the devaluation of the home-cooked meal proceed apace. Over forty cents of every dollar Americans spend on food now **goes** to restaurant meals and take-out. Cited in Jane **Brody**, *New York Times*, June 16, 1998, p. **B10**.
- 53 *Harper's Magazine*, May 1996, p. 38.
- 54 'Down there' is **Stelco's Hilton Works**, and '12 hours' refers to the **plant's** new shift-schedule. This interview is from a study conducted by the author with Meg **Luxton**, June **Corman** and David Livingstone.
- 55 From the preface to 'Imperialism, the Highest Stage of Capitalism', *Lenin, Selected Works*, Volume 1. Moscow: Progress Publishers, 1963, p. 677.