The Organisational Revolution

Luiz Carlos Bresser-Pereira

Chapter 6 of *The Rise and Fall of Neoliberal Rentier Capitalism* to be published in 2024.

Capitalism would only turn managerial – a social organisation in which capitalists start sharing power and privilege with the managerial class – in the 1940s, after the Great Depression. But the rise of such class begins in the turn of the nineteenth to the twentieth century, when a main historical new fact, the Organisational Revolution – usually called Second Industrial Revolution – gave rise to the great corporations and the basic unit of production ceased to be the family enterprise to become the private corporations.

In the words of Harry Magdoff, "the shift from a capitalism characterised by dispersed small competitive units to one in which large concentrations of economic power dominated the industrial and financial scene".[i] In liberal capitalism the entrepreneurs were in the centre of the stage, but in the end of the nineteenth century liberal capitalism was not competitive but monopolistic capitalism. This was the time of the steel industry, the oil industry, and the chemistry industry. In the US, it was the time of the "robbers barons" – the "heroes" that created monopolies, innovated, commanded the economic development of the country from the Civil War to the Great Depression. I refer to entrepreneurs like Andrew Mellon (oil and finance), Andrew Carnegie (steel), John D. Rockefeller (oil) and Cornelius Vanderbilt (railroads, water transport), who engaged in unethical and illegal business practices, but imposed some order (monopoly) in an economic chaos.

In the three initial decades of the twentieth century, an entrepreneur, Henry Ford, became an emblematic figure with his proposal of a mass consumption capitalism, while a first top manager, Alfred P. Sloan, entered the history of the US by managing General Motors and devising the matrixial model of business organisation. Later, already in the time of managerial capitalism, other managers also turned key figures of their time. I refer, for instance, to Charlie Wilson, former GM's CEO who famously said, "What's good for GM is good for America" and later became secretary of defence to President Eisenhower, and John F. Welch Jr, who was the prestigious chairman and CEO of General Electric between 1981 and 2001.

The Organisational Revolution triggered the emergence in the rich world of a third major social class besides the capitalist and the popular classes – the managerial class. A public technobureaucracy was already important before, but the discussion of a third class only began after the Organizational Revolution and the rise of this class in the private corporations. Half century later, with the crash of the New York Stock Exchange in 1929 and the Great Depression of the

1930s, the capitalist class lost some power while economic liberalism lost legitimacy opening room for the rise of the managerial class and for a second developmentalism.

Not per accident, in 1931, Adolphe Berle and Gardner Means published the results of a major research on the separation of property from the control of the corporations – the book *The Modern Corporation and Private Property* which founded the studies on the rise of the new social class. This separation opened political room for the new managerial class to become part of the ruling class, an emerging class sharing power and privilege with the bourgeoisie while competing with it. This was a kind of repetition of the experience of the emerging bourgeoisie which was at the same time an associate and an adversary of the dominant aristocracy. In the turn of the nineteenth to the twentieth century, the Second Industrial Revolution – the start of electricity, the combustion engine, the assembly line, and scientific management, which took place – gave rise to the great private corporations. Since then, a private and a public managerial class is emerging in the corporations, the expanding state organisation, and the international organisations.

In the 1970s I published two basic papers on the rise of the new class.[ii] In the 1972 essay on the rise of the managerial class I used rather the Marxist concept of social class than the functionalist concept of social strata, but I didn't discuss the respective new relation of production. I would only make this in my second essay on the technobureaucratic or managerial mode of production, which, in the communist countries, turned statist. In the two essays, which were not published in English, my basic contention was that the transition from capitalism to the managerialism was a necessary consequence of the change of the strategic factor of production from capital to technical and organisational knowledge.

Yet, in the 1990s, in the Neoliberal Years, I saw that capitalists had recovered part of its influence and I have moderated my prediction on the substitution of the managerial for the capitalist class now represented by the rentier capitalists and the financiers. But, as we will see in the last part of this book, neoliberal capitalism faced a terminal crisis in 2008, the rentier capitalists are an idle class which proved unable to command the process of capital accumulation and innovation, and managers have deepened their command of the corporations. Thus, rentier-financier class coalition was short-lived, and the more advanced countries led by the US are back to a form of managerial capitalism in which the managerial class will have more influence than it had in the Golden Years of social-developmental capitalism.

In my two essays on the rise of the managerial class and of the organisation I didn't discuss the problem of democracy. I discussed the consolidation of democracy in countries that realised their respective capitalist revolutions in the last chapter. In this chapter I only remark that, as was the case of capitalism and liberalism, managerialism was originally authoritarian, but under the pressure of popular classes and realizing that democracy is consistent not only with capital but also with organisation, managers also learned to accept if not prefer democracy.

The rise of a new class

The rise of the managerial class was a gradual process in capitalist countries. A gradual and successful process, while was a radical change in Russia where it was born from the 1917 revolution – originally a socialist revolution but that soon changed into statism and fail. In the advanced countries, the managerial class rose in the private corporations, but it also prospered in the state as it increased after the Great Depression to become a welfare and developmental state. Today, it is a considerable force in all capitalist countries, holding sway in government and corporate enterprise. Before 1980, it seemed that the managerial class would inevitably become the main dominant class, but the Neoliberal Turn stopped for some time this historical transition. The rentier-financier class coalition and the neoliberal ideology that turn dominant around this year was not only oriented to the popular classes and their wages but also to the managerial class and its association with the ideas of planning and management.

A few new historical facts explain the rise of the managerial class and a second developmentalism in advanced countries – managers' social-developmental capitalism, which is also called the Golden Years of capitalism. Four of them are worth emphasizing.

First, the Organisational Revolution – the moment when the basic unit of production ceased to be the family or the family enterprise to become the bureaucratic organisations – the modern corporations. This means that most production, except agricultural, is no longer conducted mainly by an informal social system (the family itself or family businesses) but carried out mainly by bureaucratic organisations managed according to the criteria of efficiency. Such predominance could only be possible if there were a series of technical and administrative developments making large scale production more efficient, like (i) the assembly line, automated production by continuous process, automated production controlled by computers as the Japanese "just in time" system[iii] and robotised production; (ii) the introduction of specific technologies, such as blast furnaces in modern steel production that demand very high minimal investments; (iii) the development of organisational techniques such as the model of functional-decentralised or matrixial organisation created by Alfred Sloan in the beginning of the twentieth century and classically described by Alfred Chandler (1962); (iv) the development of additional administrative techniques such as management by objectives, administrative competition among divisions of the same corporation, integration between assembly companies and suppliers as the just-in-time technique;[iv]and (v) the development of digital information systems, and the establishment of internationally known brands through advertising.

Second, following Adolphe Berle and Gardiner Means (1932), the rise of the new class derived from the *separation* between control and ownership, or, more precisely, the separation between management and ownership, i.e., the professionalization of the corporations, as professionals replaced business entrepreneurs in their management. Several studies followed confirming this view.[v] Other studies, such as those of Maurice Zeitlin (1974), which emphasises minority control, Jorge Niosi (1980) on Canadian companies, and John Scott (1979) on Scottish corporations, rejected the managerial thesis but they didn't succeed in proving false the historical tendency shown by Berle and Means.

The separation of ownership and management in the large corporations is today consensual. Doubtlessly the hurried conclusion that capitalists have lost *all* their power to managers is untenable. The top executives replaced the business entrepreneurs in the management of the corporations, not in their ownership. This second separation would happen only when, after the Neoliberal Turn, the rentier capitalists turn for some time to the ruling class. As Scott and Zeitlin both emphasise, control through a "constellation of interests" and through minority control, where a group of shareholders maintains effective control of the corporation, remain important. Even when there is effective management control, the managers are still formally the representatives of the shareholders. Moreover, the logic of their action does not fully change since the corporations operate in a capitalist market and must realise a satisfying profit. But change is still important – change in the way corporations are managed, their objectives, on how much emphasis is given to profits or to dividends.

Third, technical and organisational knowledge have become the new *strategic factor* of production, supported by intellectual rather than practical knowledge. According to John K. Galbraith (1967), power belongs to whoever has control over the factor of production that is scarce at the margin. Given this definition, the new strategic factor of production is obviously technical and organisational knowledge. Daniel Bell (1973), in turn, noted that technological innovation no longer has a dominant empirical foundation. Theoretical or scientific knowledge now has become more important for entrepreneurial decision-making. These two new historical facts are linked. On the one hand, new techniques save more and more capital and are more technologically sophisticated. As a result, the price of capital goods falls in relation to their productive capacity while the technical knowledge incorporated in them becomes more sophisticated. In the computer industry, for instance, hardware has become cheaper while software has become more important. On the other hand, this technical development begins to no longer have only empirical bases. Until the end of the nineteenth century, for example, decisive innovations such as electricity and the telephone had only an empirical base. Today, it is almost impossible to have an important technological advance without a solid scientific base.

Fourth, economic development has become an explicit goal of modern societies, and the state has taken on the main responsibility for the fulfilment of this goal. Marx once said that historically people establish objectives for themselves when they have a chance of achieving them. This is particularly true in relation to economic development. It was only in the second part of the twentieth century that economic growth became an *explicit* and major objective of societies. This was possible when modern societies understood that, through the deliberate action of the state, through long term economic and social policies it was possible to promote growth, the increase of the standards of living and some reduction in inequality. Before that, in the end of last century, the major role of the state in promoting capitalist economic growth was demonstrated in the cases of Germany and Japan. Analysing the backward industrialization of Eastern Europe in this period, Gerschenkron (1962) developed a theory according to which the later the industrialization in relation to England's and US' industrial revolution, the larger will be the role of the state. In the 1930s Keynesian economics and, in the 1940's and 1950's, development economics endowed countries of practical policies to achieve economic stability and growth.

These four historical facts explain the rise of the managerial class and the configuration of the social, democratic, and developmental Golden Years. In the words of Alfred Chandler (1977), the "visible hand" of management had partially replaced the invisible hand of the market.

Managerial or knowledge capitalism?

I call this new class managerial and the social formation in which this new social class is part of the ruling class at the side of the capitalist class I call managerial or knowledge capitalism. It is managerial because the managers are in the centre of the stage, they manage the organisations, they have technical expertise, they are professionals that combine technical and administrative knowledge.

It is a knowledge capitalism because, as Galbraith showed in his book on American capitalism, *The New Industrial State* (1967), knowledge replaced capital as the new strategic factor of production, but capitalists and professionals remained the two ruling social classes. From the World War II, the world experienced an unprecedented technological development – the Information Revolution – which continues and gains momentum in the twenty-first century. I understand that managerial and knowledge capitalism are identical, but we may view knowledge capitalism as the second stage of the rise of managerial capitalism as it supposes corporations where professional managers are in command but where the information experts are network connected and would have higher weight in changing capitalism.

Managerial capitalism emerged in the framework of the Organisational Revolution, while knowledge capitalism, in the framework of the Information Revolution. When I say Managerial, I am emphasizing the new social class; when I say Knowledge Capitalism, I am adopting as the criterion the strategic factor of production in modern societies – knowledge – which, with the information and commodity technology revolution gained a spectacular pace and dimension.

Knowledge capitalism is originated from John Kenneth Galbraith's (1967) identification of knowledge as the new strategic factor of production, and from Peter Drucker's (1968) proposal of calling contemporary capitalist societies, the "knowledge society". In fact, knowledge has empowered its holders from the turn of the nineteenth to the twentieth century, but the Information Revolution produced an extraordinary increase in the amount of information available and allowed a new and significant advance in the process of automation including robotization and the development of artificial intelligence. With the Neoliberal Turn, neoliberals attacked managers and organised capitalism, not the experts endowed of managerial and technological knowledge. Making this distinction, we have a managerial phase, which had behind the rise of great corporations and the rise and complexity of the business management literature, from a knowledge phase founded in information technology.

In the time of Marx and entrepreneurs' capitalism, capital was essentially and effectively the strategic factor of production, and the accumulation of material capital was the dynamic factor of development. Not anymore in knowledge capitalism. The introduction of digital technology represented a qualitative jump which was decisive to the old mechanical technology.

The mastery of technology by a relatively reduced number of humans conferred increasing importance upon their highly specialised work, while we have now to distinguish material from "immaterial" or "intangible" capital – the later one understood as human capital, research and development, and intellectual property. Following Abramovitz and David (1996), who used the concept of total factor productivity as a tool to distinguish how much the increase of productivity was originated from capital or from technology, the later that we can understand as knowledge capital represented around 70 percent of the increase of productivity in the US.

The concept of a "knowledge-based economy" or even of "intellectual capitalism", which Galbraith and Peter Drucker introduced, received more recently the contribution of economists and sociologists associated with the French regulation school, among whom Carlos Vercellone, Mouhoud El Mouhoud, Yann Moulier-Boutang, and El Mouhoud and Plihon. These studies show why knowledge has become even more strategic.[vi] The pace of scientific discovery applicable to production is increasing geometrically.

El Mouhoub pointed out that knowledge capitalism followed Fordism and remarked that knowledge capitalism is associated with an increase in immaterial consumption, and especially a "cognitive productive logic" that would not have replaced, but added to the Taylorist logic, which, in turn, would have also changed, becoming more flexible. He concluded: "knowledge becomes the primordial input: its production and its control obey a cumulative logic that engenders growing inequalities between individuals and between territories." El Mouhoud and Plihon argued despite the radical financial speculation to which financialisation is associated, "the financial systems have allowed to valorise and to finance the knowledge economy". The stock exchanges channelled financiers' capital to today's major digital companies and platforms – Google, Facebook, Amazon, Alibaba, Microsoft, Apple, Huawey, Netflix, Tencent – assuring them capital while they were not making profits, but the expected profit rate and expected valorisation of its capital were huge.

Whereas at the beginning of the First Industrial Revolution, machines were simple imitations of manual production processes, and production techniques were extremely simplified, so that workers with only elementary education could master them, after the Second Industrial Revolution (which coincided with the Organisational Revolution), the new machines required engineers to control them. With the Third Industrial Revolution or Information Revolution, they turned so complex that not even engineers educated in institutes of higher education can deal with the task, which often requires highly specialised engineers and scientists formed in graduate programs which are supposed to work as a team of technical expert. In a first phase, the Information Revolution was the revolution of the computer, the personal notebooks, and automation; in a second phase, the revolution of the internet, the great digital platforms, the Wikipedia, nanotechnology, quantum computing, the internet of things, autonomous vehicles, and artificial intelligence.

In a report by the United Nations Department of Economic and Social Affairs (2005) the idea of a knowledge society characterised by the "mass production of knowledge" is present, but it is debatable that the revolution in information technology and communication has produced so much knowledge, because what was massively produced was information and big data. The technological revolution represented by information technology and the internet was remarkable, but historically we know that since capitalism was born, it was characterised by accelerated technical progress. The fact that this progress has been for some time spectacular regarding information and communication and that the production of intangible goods or marketable "content" has become a reality is impressive but has not changed the nature of capitalism.

The greater importance of technologically sophisticated services that require more knowledge has occurred, but the nature of the managerial-capitalist corporations remains the same. They are organisations which are owned by capitalists entitled to dividends but managed and controlled collectively by its managers who are remunerated by salaries and bonuses. They are corporations focused on capitalist profit and managerial expansion of bureaucratic positions. And the fact that capital accumulation incorporating technical progress is the condition of survival of firms in markets is present equally in managerial and knowledge capitalism. In the phases of capitalism that I discussed in Chapter 4 of this book, the main classification criterions were the strategic factors of production and the class coalitions; thus, I didn't distinguish two phases, one managerial, the other a knowledge capitalism; they are the same phase. The networked community of information technology is a relevant social group but cannot be viewed as a social class. On the other hand, the same strategic factor of production – managerial knowledge and technological knowledge – defines managerial as well as knowledge capitalism.

The Information Revolution is far from having come to an end. It continues to change everything and to impulse the rise of the managerial class. The works of Randall Collins (2013) and Paul Mason (2013) among others emphasises this fact. The Neoliberal Turn reduced the political influence of managers, not their economic and social relevance. This is one of the explanations for the emergence of the democratic developmentalism that I will discuss ahead in this book.

The next ruling class is a third new class

The fact that was not the working class but the managerial class that is replacing the bourgeoisie in the command of societies is not so surprising if we consider that, historically, the dominated class does not become the ruling class in the following mode of production. Slaves did not become masters after the slavery empires collapsed, nor did the serfs become the rulers after capitalism replaced feudalism. The new dominant group generally arises from a class apart, a "third" group that differentiates itself from the rest of the dominated class. If this third group assumes the control of the new strategic factor of production that is emerging, it will become the new ruling class in the new form of social organization. In the passage of feudalism to capitalism the bourgeoisie was a third class that originated in the serfs of the feudal estate. Around the tenth century, as France, England and Belgium developed a technology that turned efficient agriculture in high lands, they created an economic surplus that allowed for the construction of the medieval cathedrals, the development of trade, and the emergence of bourgeoisie, which set itself apart from the serfs, defining its own area within the structure of production and creating a differentiated socio-economic group, adopting values, beliefs, customs, and patterns of its own. This bourgeoisie was far from being the dominated class. It served the aristocracy while it strengthened itself politically and economically. Economic interests took precedence over political ones, but both finally converged. Class-struggle took place between the emerging bourgeoisie and the decadent aristocracy, but this struggle was not always clear or well-defined. On many occasions, the bourgeoisie actively cooperated with the aristocracy to the extent that this cooperation served its interest. For the formation of the nation-states, the absolute state was, essentially, the materialization of a class coalition associating the monarch, the patrimonialist courtesans, and the high bourgeoisie.

In the transition to managers' social-developmental capitalism, not only active capitalists, the entrepreneurs lost relative power; the working class also. As the process of mechanization and automation advances, the number of unskilled workers in the manufacturing industry diminishes in relative and absolute terms. This is one of the reasons why we have witnessed since the beginning of the twentieth century the decline of the working class, while managers replaced business entrepreneurs in the management of the corporations. In this transition of phase, as already had happened in the transition from mercantilist to entrepreneurs' liberal capitalism, the role of intellectuals was important. In the first transition, Miroslav Hroch argues the nationalist intellectuals were particularly relevant in the formation of the nation-states.[vii] Many intellectuals also participated from the rise of managerial class, but few have turned ideologues of the new reality.

Managerialism was not a utopia and attracted progressive intellectuals much less than socialism. Liberals rejected it because it was associated to developmentalism, that is, to a moderate intervention of the state in the economy that the more radicals call "socialism". Socialists rejected it because what they expected and worked for was the socialist revolution. In the last 150 years, the most generous and morally legitimate aspirations of a great number of intellectuals have been devoted to the cause of socialism. Eventually, socialists supported managerialism and the construction of the welfare state.

The middle-class century

According to the Marxist tradition, social classes are defined by the relations of production – in capitalism, by capital. Thus, we would have only two social classes, the bourgeoisie and the working class, and the class struggle together with technical progress would be the dynamic factor behind the historical process. Yet, things became more complex as the managerial class emerged. The response given by the American functionalist sociology of Talcott Parsons and Lloyd Warner was a class theory identified as social strata or social layers, having as reference a functionalist Max Weber that never existed.[viii] Social classes would, really, be social layers not defined by the relations of production but by income, education, and social prestige.

Although the two theories diverge in ideological terms because one assumes the class struggle and the socialist revolution, and the other the social, cooperation and a capitalist society of mass consumption, it is possible to combine them to have a better understanding of the social structure of modern societies. Within the three social classes there are layers – an upper and a lower layer: within the bourgeoisie – a higher and a lower capitalist class, the latter, a capitalist middle-class; within the managerial class, a top and a lower managerial class, respectively the upper or new and the low middle-class; and within the popular classes, the working class, and the poor. Erik Olin Wright (1989), who studied extensively social classes on a Marxist point of view, observed class analysis should include the structural complexity of modern societies, in special the middle-classes.[ix] John E. Goldthorpe (1968) made previously a similar contribution on a Weberian perspective.

While the nineteenth century was the century of the working class and of the idea of socialism, the twentieth century was the century of the middle-class and the reality of managerialism. Göran Therborn (2020) suggested recently the twentieth century was the century of the "middle-class dream" – of a social class defined by its consumption, not its relations of production, which would be a warrant of democracy and political moderation. The nineteenth century, besides a century of the working class, was also the century of a small upper middle-class – of the university educated middle bourgeoisie that, in 1829, James Mill defined as "the most wise and the most virtuous part of the community".[x] The twentieth century was the time of the new middle-class – the managerial class.

In each social formation the ruling classes searches to monopolise political power and to appropriate the economic surplus, and, in this way, to reproduce indefinitely the social system. In the pre-capitalist societies, the oligarchy appropriated the economic surplus by controlling directly the state, while in capitalism Marx showed that profits are achieved in the market through the exchange of "equivalent values" – through the exchange of labour force for wages and the realization of profits. In managerial capitalism, high salaries and bonuses are and additional means to such appropriation. The post-war Golden Years were the great moment of the managerial middle-classes in advanced countries. As Olivier Zunz (2002: 2) remarked, it was the moment when the "social contracts" were headed to a major advance of the middle-classes through "the merging of the working and the middle-classes into a large although differentiated middle-class". Under a different point-of-view but considering the increasing complexity of the social structure, Klaus Eder (1993) understands that we are seeing "the increasing decoupling of class and collective action". He does not mean that social classes have become politically irrelevant in modern capitalism, nor that collective action turned independent from the class structure. He argues that "culture", which he defines as "any kind of symbolic expression that makes sense of the world, of society, and of oneself", is the intervening variable between class and political action.[xi]

Eder is not adding something new to class theory. His definition of culture corresponds to the definition of ideology, as we know well since the definitive contribution of Marx and Engels in *The German Ideology* (1846) and of Gramsci in the *Prison Notebooks* (1934). Eder brings Pierre Bourdieu and his theory of social classes to the fore. Bourdieu (1979) defines the dominant class by the ownership of cultural and economic capital and for a refined aesthetic taste which is expressed in the ability of each individual and his family, given its cultural capital and education, to conceive the world in terms of the distance from a lower and less prestigious social class – an approach which combines the Marxist and the functionalist theory of social class.

Jean Lojkine is critical of Bourdieu on that matter. For him, the notion of "cultural capital", that Bourdieu uses, reduces the working class to consumers and to a question of income distribution; and adds that "the old class frameworks of social representation do not hold anymore; 'working class', 'managers', middle-class – these categories don't explain satisfactorily the imbrications of the working class and the rest of the salaried classes with the information technology and the process of precarization of labour". [xii] Indeed, technological change, class struggle as well as identity struggles and the demand for recognition are permanently changing social classes. The emigration of the poor to advanced countries, for instance, which accelerated in the 1990s,[xiii] has had this transformative character; it involved change of the class identities and the crisis of the social democratic political parties, as part of the working class' fear of losing their jobs either to immigrants or due to difficulty of the local companies to compete with firms of low wage developing countries.

Dylan Riley is equally critical. For him Bourdieu is a "new Durkheim" who "misunderstands the program of Marxist political sociology." He associates the social classes to a key concept of his sociology, the *habitus* – a system of dispositions and practical competences which derives from the volume and structure of the capital the individual owns. But, for Ryley, given the absence of a clear concept of class, any difference in taste that accompanies any social dimension recorded in Bourdieu's surveys becomes evidence of the class difference in *habitus*.[xiv]

Marx's structuralist concept of social classes is permanently under trial as the social and economic conditions are permanently changing, but class theory keeps predictive power for its simplicity and the way it relates political behaviour, economic interests and the forms of property. Yet, the social structure of contemporary capitalism is not just economic; there are also hierarchies of prestige, stiles of life, and the position occupied by each individual in the public and private organisations. Major sociologists searched to give to their class analysis these additional dimensions.

Norbert Elias (1939) worked with the concept of "etiquette" and Bourdieu (1994), with the concept of "habitus", which enriched sociology; they showed how the elites distinguish themselves from the rest. On the other hand, to the extent that we define a new form of social organisation – managerialism – and organisation as the respective relation of production – what I will do in the next chapter – we have a structural explanation for the managerial class, and the class approach gains complexity and additional explicative power of political behaviour. Besides, we have fractions in each social class. Thus, we have no alternative than to combine class and strata analysis.

In the capitalist class we have the top and the middle entrepreneurs and the top and the middle rentiers; in the managerial class, top and middle managers; and in the working class, the middle and low qualified working class. The managers with university education and the middle entrepreneurs compose the upper middle-class or "traditional middle-class", which tends to be associated to the top capitalist class. This, however, is not the only truth. In France, the middle-class public servants, and intellectuals, who are part of the managerial class, show a greater commitment with the demand for equality and with the centre-left tradition than the popular classes.[xv]

The major survey of the British social structure that Mike Savage conduced in 2011, reflected this complexity. From the survey came out seven social classes which are resumed in Table 6.1. He used income, economic capital, social contacts or social capital, and cultural capital as criteria to distinguish the social strata. In the elite, the main participants are the chief executive officers and the information technology managers; in the established middle-class, the engineers and the public servants; in the technical middle-class, the medical radiographers, aircraft pilots and higher education teachers; in the emerging service workers, the health care personnel, the chefs and the assembler and routine operatives; in the new affluent workers, the checkout operatives, the electricians, the sales and retail assistants; in the traditional working class, the secretaries, the electric and electronic technicians, and the care workers; and in precariat, the cleaners and van drivers. In this classification, the managerial class is present in the three first groups but mixed with the bourgeoisie.

Table 6.1: British class structure in 2011

Social class	% Pop.	Description
Elite	6	Very high economic / very cultural capital / high social contacts
Established middle class	25	High economic capital / high social contacts / emerging cultural capital
Technical middle class	6	High economic capital / very high social contacts / moderate cultural capital
Emergent service workers	19	Moderately poor economic capital and social contacts / high cultural capital
New affluent workers	15	Moderately good capital, moderately poor social contacts, emerging cultural capital
Traditional working class	14	Moderately poor economic capital / poor social contacts and cultural capital
Precariat	15	Poor economic contact and lowest in the other two criteria

Source: Savage et al. (2013: 230).

The middle-class plays a major role in stabilizing capitalism as it breaks up the classical opposition between the rich and the poor, or the capitalist opposition between the capitalists and the workers. A solid or organic society is a society that has a large middle-class. Since the industrial revolution, the rise of the middle-class – in the nineteenth century a middle-class of entrepreneurs, in the twentieth century, a middle-class of managers – is an explanation for the resilience of capitalism despite the inequalities that go together with it.

But when inequality increases dramatically as it happened in the advanced countries and particularly in the US during the Neoliberal Years of Capitalism, the middle-class shrinks, discontent mounts, and society turns divided and suffers an endemic crisis. Peter Temin, who wrote a book with a significative title, *The Vanishing Middle-class*, shows that “the middle-class defined as the households earning from two-thirds to double of the median American household income, went from earning over three-fifths of total national income in 1970 to earning only just two-fifths in 2014".[xvi] He uses these data to conclude that the American society turned a "dual" or high polarised society, and in the end of the book he adds information on the other countries where we can see the same phenomenon, although less accentuated than in the US.

To understand contemporary capitalism, we must consider the middle-class, which would be more appropriate to call middle-layer. Robert Perrucci and Earl Wyson, who wrote an excellent book on social classes in the US, decided to divide the American society in only two social class, the privileged class, comprising the 20 per cent richer families and owning 91 per cent of the financial wealth in the country, and the working-class, comprising the 80 per cent of Americans but owning just 9 per cent of the financial wealth. In doing that, they got rid of the "middle-class", which may convey the idea of a well-ordered society where the middle-class is a large stratum that "encourages the acceptance of the enormous material inequality existing in American society", while searches to maintain alive the false "American dream" of a society endowed of high social mobility in which "everyone may become rich and famous."[xvii] Recently, Göran Therborn confirmed critically this view and added: "in today's discussion, the middle-classes are overwhelming defined in terms of consumption… never with reference to labour." [xviii]

Capital and organisation

The rise of the managerial class was the object of much debate in the 1970s. Marxists originally refused the idea of a new class not foreseen by Marx, either because they did not accept that the communist countries had become statist, or because they were reluctant in admitting that a new class had interposed itself between the capitalist and the working class. In practice, the Soviet statism collapsed, while within capitalism the new class became an undeniable reality. Paul Sweezy rejected "the illusion of the managerial revolution" (1942), but in *The Post-Revolutionary Society* he adopted a more realistic position. In this book, where he acknowledges the existence of a new ruling class in the Soviet Union, based on control of the state organisation (1980: 147), Sweezy does not make the theoretical link to a corresponding new managerial middle-class in the capitalist countries. Yet, once the emergence of a new class was recognised in the communist societies, it made no sense to deny the existence of a new managerial middle-class in capitalist societies, in the public as well as in the private bureaucratic organisations.

Eventually, the Marxist position against the rise of a third social class was overcome. The weight of the evidence prevailed over the orthodox belief that the alternative to the bourgeoisie is necessarily the proletariat. An expression of this fact is Val Burris' (1980: 18) contention that, "unlike intermediate groups, such as the petty bourgeoisie, this new middle-class does not exist as the receding periphery of capitalist production but emerges within the very centre of capitalist economic relations". Along these same lines, Harry Braverman (1974: 407) has acknowledged the existence of the new middle-class which occupies an intermediary position between the bourgeoisie and the workers in the process of capital accumulation.

With the rise of the managerial class, the bourgeoisie first rejected and finally associated itself with the new class. The substitution of business entrepreneurs for top executives in the management of the corporations began in early twentieth century, but the capitalist class still remained strong for one century. According to Maurice Zeitlin (1989, pp. 7-9), "bureaucratic management does not mean bureaucratic control; it is necessary to consider the control centres at the top of the system or outside the bureaucracy itself. "

In managerial capitalism, capitalists and managers share power, privilege, and consumption habits and, at the same time, fight with each other to gain a greater share of that power and privilege. They are two distinct classes and not, as Zeitlin suggests, "members of the same social class." For this statement to make sense, it would be necessary to ignore the historical roots of these two social classes, the different relations of production that originate them, and the different logic that animate them – the capitalists, the logic of capital, innovation, and profit, the technobureaucrats, the logic of organisation, expansion of the number of managerial positions, salaries, and bonuses. [xix]

Today, the discussion on the new class is over. It is impossible to ignore or reject the emergence of the managerial class and the corresponding relations of production. In capitalism, capital (the private ownership of the means of production) is the specific relation of production; in managerialism the specific relation of production is the "organisation" – the collective ownership of the means of production by the professionals. While in capitalism the bourgeoisie is the ruling class, in managerialism the respective ruling class is the managerial class. When a social formation is "purely" managerial, it was "statist". Soviet Union and the other "communist" countries were examples of statism because bourgeoisie had been expropriated and the only ruling class was the managerial class. When we have the two ruling classes together in the same social formation, but the capitalist class is the dominant class, we have managerial capitalism – the Golden Years of capitalism. When the managerial class turns the leading social class, but the bourgeoisie continues to exist, we have managerial developmentalism – a transition from capitalism to managerialism.

These claims suppose a new theoretical framework – a theory of managerial developmentalism and managerialism in which I have been working from the 1970s. In managerial capitalism, the managerial class is part of the ruling class, but the main dominant class continues to be the capitalist class. When this hierarchy is inverted and the dominant class is the managerial class, we have for some time a phase which may be considered capitalist. This is what is happening today, after the 2021 collapse of neoliberalism that I will discuss in Chapter 21. Managerialism will never be a "pure" managerialism as capitalism never was a pure capitalism; it always involved class coalitions. A "pure" managerialism, in which a revolution expropriated the bourgeoisie and the ruling class and the dominant class are the same, is a social formation that didn't exist even in the Soviet Union. There the social formation was so near to this condition that I have called it a "statist" form of social organization. In managerial developmentalism – the phase of capitalism in which we are since the collapse of the neoliberal rentier-financier class coalition, the managerial class is in the process of becoming the main ruling class, but the capitalist class continues dominant.

In capitalist as well as in managerial social formations the two relations of production are present: “capital”, the private property of the means of production by the capitalist class, and “organisation”, the collective ownership of the means of production by managers. As the strategic factor of production changed from capital to technical and administrative knowledge, the organisation tends to become the decisive relation of production. Social formations involve class coalitions. In managerial capitalism, the managerial class was the second class, and the capitalist class the capitalist class remained the dominant and the ruling class, but the managerial class was already part of the ruling class. In rentier-financier neoliberal capitalism, there was an attempt to expel the managerial class from this position, but this was unrealistic and failed.

The manager is a type of expert who controls and “owns” the bureaucratic organisations. In contrast to what happened in liberal nineteenth century capitalism, where the capitalist directly owned the means of production, that is, capital; in managerialism the manager only owns the means of production through the organisations. The organisation owns the means of production, the raw materials, and the working capital necessary to create jobs, manufacture goods and deliver services. The managers' specific form of ownership, that is, their effective control over the organisation, is not exercised individually as in classic capitalism, but collectively, by a group of managers. For some time, neoliberalism interrupted the rise of the managerial class, but since the 2008 financial crisis the managers and state intervention are back. However, what is now happening is not a return to the managerial capitalism of the Golden Years, but the rise of democratic developmentalism.

While the logic of capital is the logic of profit and accumulation and the logic of the organisation is expansion and the occupation of positions in the state apparatus and in the private corporations, we will see ahead that the logic of democracy is the logic of equality defended by the popular classes. The two ruling classes and the two corresponding relations of production are in conflict for power and for the appropriation of the economic surplus, which, in capitalism is the profit itself, and in statism is the high salaries and bonus. They are in conflict, but they know that they are interdependent, and, so, they share power and profits, the professionals more oriented to power and to enlarging the bureaucratic organisation, the capitalists, to profit and to luxury consumption. Whereas the capitalist's *raison d’être* is to accumulate capital and extract more surplus value, the manager's basic motivation is to expand the organisation.

The organisation is an *abstract-concrete* reality, is a web of relations between people and things formally established according to the rational criterion of economic efficiency, is an arena for labour, and a power platform for managers. Marx taught that the foundation on which the capitalist form of social organisation rests is capital and a reified and fetishised commodity, transformed into a phantasmagorical object. In the case of the managerial mode of production, its foundation lies in Weberian organisational and legal-rational domination. Bureaucratic authority, as it happens with commodity, is transformed into a fetish, despite all its supposed rationality.

Managerial alienation is fundamentally an alienation to formal authority. The worker in the capitalist form of social organisation is alienated from his instruments of labour, from his own labour, and from its fruits, because his labour was transformed into a commodity. The workers and the salaried classes in the managerial form of social organisation are alienated from his own intelligence and individual abilities because his work is submitted to bureaucratic and fetishised authority. His labour is no longer a commodity but rather a productive input to be used in the logistic of production. His alienation is founded on the fetish-like nature of authority, which, combined with a system of incentives and sanctions, leads the subordinate to obey the rules even when reject them. It is significant to observe that this bureaucratic alienation involves not only the workers but also the salaried classes. They are also victims of the fetishist nature of authority, to the extent they obey without knowing why, accepting even irrational superior authority as long as it is "rationally", i.e., legally, formally, defined.

In a 1977 paper already referred I needed a name for the new relation of production proper to the form of social organization that was emerging – the technobureaucratic or managerial form of social organisation – and I called it "organization" – the collective property of the means of production – by the new managerial social class. Forty years later, in 2007, I was happily surprised when I read two distinguished French Marxists, Jacques Bidet and Gérard Duménil to use the word organisation as a "means of regulation" specific to managerialism, as the market is the specific institution that regulates capitalism. Capitalism experienced a renovation after Marx that "was supported by devices of organisation" which were able to overcome capitalism's anarchy and form organised or managerial capitalism. Our two authors continue: "with the managerial revolution in the US, the ownership of capital under the form of financial capital was separated from its management" which was delegated to the professional managers. Thus, organisation is for the managerial class what capital is for the bourgeoisie. Yet, they understand that "the organisation is an ambiguous reality, and, so, they propose that the social relation or production parallel to capital is called "managerial relation".[xx]

It is clear today that statism is not a real alternative to capitalism because it is inefficient, but, as we will see ahead in this book, managerialism is a developmental form of economic organisation of capitalism that, if capably adopted, will be efficient, while the liberal form may be effective in making a macroeconomic adjustment in the short-term, but is in the long-term is unable to assure satisfying rates of growth and human progress. In a dominantly managerial social formation to which capitalism is heading, I will argue the capitalist class will still be present, and the market will coordinate the competitive sectors of the economy, while the state will coordinate the non-competitive sectors. And the political regime will be democratic because democracy proved lively and strong in facing the authoritarian challenge of neoliberalism and the threats of right-wing populism.

The legitimation of the managers is based on their technical competence, their ability to manage organisations efficiently. The managers are presumed to be capable of continually increase the efficiency of the organisations he/she manages. The assumption is that he/she holds the monopoly of technical, organisational, and communicative skills. In a world where the remuneration of capitalists, managers and workers depends upon the overall productivity of the economy, those who demonstrate ability to manage or advise bureaucratic organisations and command the process of capital accumulation and innovation will control a substantial share of the national income. Thus, organisation is now a central factor in capitalist societies, side by side with capital. In modern societies, power and income depend on the control of capital and on its management in organisations.

In the late 1970s, while under closed attack of the major neoliberal intellectuals of the time, like James Buchanan, Milton Friedman and Fredrich Hayek, managerial capitalism was still dominant. Buchanan led a radical neoliberal theory – the public choice school – which started from the *homo economicus*, using the hypothetic-deductive method, to build a "model of state" in which the officials (elected and non-elected) are pure rent seekers. That made them still more adverse to managers of all kinds – public as well as private managers.

In the other side of the ideological spectrum, most progressive intellectuals were equally critical of managerial class. More interesting were the analyses of Michel Aglietta (1976), Claus Offe (1984, 1985), and Pierre Rosanvallon (1981), who realised the crisis of the welfare state or "organised capitalism" (which corresponds to what I am calling social-developmental managerial capitalism) were, at the same time, a prediction, and an early discussion of Neoliberal Turn. The same applies to Scott Lash and John Urry who published in 1987 the book, *The End of Organised Capitalism*, in which they made an early analysis of the major social change that was happening: the deregulation of labour contracts, the decline in the number of workers in relation to the total population and the number of unionised workers in relation to the force of work, the growing independence of large companies from their nation-states, and the fall of organised capitalism. They criticised managerial capitalism but had difficulty in acknowledging the emergence of a new social class and the respective relation production. They saw in the relative crisis of the 1980s the increasing conflict between the managers and the capitalists.

The changing concept of capital

Marx defined capital as a relation of production which grew out of workers' separation from the means of production and its private ownership by the bourgeoisie. In this definition, the capitalist class is essential. If we don't consider this constraint, "capital" would have been present in Soviet statism and would lose historical significance. Capital would be defined in a so high level of abstraction that it would be an empty concept void of historical content.

Since Marx defined capital, it was clear that it should not be confused with the means of production or with capital goods. Capital is the *property* of the means of production. Within this broad definition, however, the measure of capital has been changing through time. I am not referring to the complex and inconclusive discussion of the 1960s between the two Cambridges on the value of capital. Economics, in such debates, have got near metaphysics – an approach that does not fit my more historical and pragmatic concerns. I refer to the financial value of capital, the market value of corporations in stock exchanges as financiers are permanently evaluating it. In the times of industrial entrepreneurs' capitalism, up to mid twentieth century, the capital of a business enterprise was measured by its net worth as it appeared in the balance sheets. Some corrections could be made, the value of intangible assets could be considered, the accounting valuation of given capital goods could be adjusted, but, eventually, the value of the enterprise was the sum of total assets less liabilities.

For the first classical economists, capital was *circulating* capital, was essentially the capacity to hire workers by paying them before the result of their labour could be sold in the market. For Marx as well as for neoclassical and Keynesian economists, who lived in a time where fixed capital had become the dominating factor, while pre-paid wages ceased to be required due to the increase in the standards of living, capital was principally the ownership of plant and equipment. In recent times, when software prevails over hardware, and when operational knowledge becomes the strategic factor of production in the corporations displacing capital goods, capital is the *capacity* of the company to achieve profits in the present and next future; it is the discounted profits that the corporation is supposed to realise, which, in principle, is equal to the market value in the stock exchange.

This definition of capital as the capacity of the corporation to realise profits doesn't represent just an improvement of methods of analysis; there was a historical new fact that prompted such change, which is associated to managerial capitalism. First, because the knowledge embodied in the organisation, its personnel and its software, is, today, the most important asset of corporations. Thus, it makes no sense to measure the value of a company by its net worth. Second, after managerial knowledge became strategic, financial market analysts verify every day that the value of a corporation varies dramatically according to the *quality* of its management. A new chief executive officer or a more competent, or an incompetent group of executives running a corporation may change its flow of profits dramatically in a relatively short period. In this circumstance, the old net-worth concept again stops making sense, while the discounted flow of profits turns the only rational alternative. Thus, the discounted value of the flow of profits or the value of a corporation depends heavily on the quality of its top management and of its organisation.

As the remuneration of top professionals in the form of salaries, bonuses, and stock options, depends on the profits and the value of the corporation in the financial market, to forge good results is a temptation to which many are unable to resist. It perversely explains why abuse and corruption, particularly in the form of fake accounting statements, as it happened with Enron, became so common in contemporary managerial capitalism, leading Galbraith to speak ironically about "the economics of innocent fraud" – the title of his last book (2004). On the other hand, this strategic role of top management, coupled with a still limited supply of highly capable managers, despite the enormous increase of graduate courses in business administration and correlated areas, and the striking acceleration of technical progress embodied in the digital information technology, also explain the concentration of income that characterises contemporary capitalist economies since the mid-1970s.

Besides changing the way of measuring capital, managerial or knowledge capitalism opened room for the definition of a new type of "capital" – human capital. The two neoclassical economists who formulated this theory (Schultz, 1961, 1980; Becker, 1962, 1964), assured themselves the Nobel Prise in Economics. And they merited it, because, instead of just using the hypothetical-deductive method, they acknowledged the existence of a new historical fact: that knowledge had become similar to physical capital in importance, and that the investment in education is how individuals ‘accumulate’ such asset and from it derive earnings or returns. What they did not stress was that the education of many individuals, the generalization of education to a whole society, brings positives externalities, spillovers and crossovers that open room for innovation and an increase in efficiency at social level, in such a way that the total human capital created is greater than the sum of the capitals accumulated by each individual.

[i] Magdoff (2003: ???).

[ii] Bresser-Pereira (1972; 1977).

[iii] Daniel and Wormack (l985).

[iv] Crisciuma (1986).

[v] See Goldsmith and Parmelee (1941), Robert Larner (1966), John Palmher (1972), and Edward Herman (1981).

[vi] Vercellone (2002), Mouhoud (2003: 136), Moulier-Boutang (2007), El Mouhoud and Plihon (2009: 9).

[vii] Hroch (2005).

[viii] On the Weberian tradition see Parsons (1940; 1960), Lloyd Warner (1953), Dahrendorf (1957) and Lenski Jr. (1966).

[ix] Wright (1989).

[x] Mill (1829) quoted by Therborn (2020: 123-124).

[xi] Eder (1993: 1).

[xii] Lojkine (2006: 15).

[xiii] See United Nations' *World Migration Report 2020*, Table 1: International migrants, 1970–2019, p. 21.

[xiv] Ryley (2015: 264; 2017).

[xv] For instance, in 1956, the working-class delegates to the national congresses of the French Communist Party represented 58,8%; today, only 7.6%of total delegates. (Source: Martelli, Vigreux, and Wolikow (2020).

[xvi] Temin (2017: x).

[xvii] Perruci and Wyson (2008: 181; 38).

[xviii] Therborn (2020: 65).

[xix] Among the early contributions to this theme, besides pioneers as Berle and Means (1932), Bruno Rizzi (1939), James Burnham (1941) Cornelius Castoriadis (1949), Wright Mills (1951), and John K. Galbraith (1967), we should consider Peter F. Drucker (1968; 1993) and Bresser-Pereira (1972; 1977).

[xx] Bidet and Duménil (2007: 64; 71;91).