

Boosting, then trampling the Moral Contract: How financialized globalization gave birth to “Corporate Social Irresponsibility”¹

Jean-Marc Figuet is Professor of Economics at Montesquieu Bordeaux IV University,
& Bernard Sionneau, is Professor of International Relations and Strategic Studies at Kedge Business School

Introduction

In the United States of America, the "*Progressive Period*" stretching from the 1890s to the 1920s saw the adoption, by many large stock-listed firms of paternalist, then welfare capitalist managerial solutions which later became ordinary practices in *the liberal consensus era* after the Second World War. Providing their workforce with welfare benefits (health and pension plans, etc.) the management of which was nonetheless left to employers' discretion, and allowing their leadership to escape the straitjacket of labor change imposed by legislative action, these firms' managerial choices marked the "*privatization of workers' welfare*" (Abraham Epstein, 1926), the triumph of welfare capitalism and the defeat of welfare statism.

That situation, which, in the United States, allowed welfare capitalism to surpass welfare statism at one point, also helped to explain, why and how in this country, the content and practices of what would become later "*corporate responsibility*", was designed as such. Bearing *the stakeholder model* as a beacon of corporate global commitment to the social well-being of the nation, it would later enter a collision course with *the shareholder model* legitimated by the monetary and financial deregulation process started by the USA in the 1970s to combat stagflation, energy crises and a decrease in U.S corporate competitiveness. Legitimated by scores of academic authors calling for the privileging of shareholders' profitability expectations over top executives' own vested interests, the shareholder value model rested on the belief that by aligning more closely shareholders' interests with those of top firms' executives, the control of the former ones over corporate strategy would be stronger and the profitability of stock-listed firms would swell automatically, as would the competitiveness of the whole country.

However, as the economic deregulation process increased over the 1980s and the 1990s, the succession of always bigger corporate, banking and hedge-funds management scandals revealed, simultaneously, the deep flaws of the shareholder model, in a *real economics* setting where tax havens-based financial strategies of global players, shady dealings, shoddy supervision practices explained by "*the flow of individuals between Wall Street and Washington*" (Simon Johnson, 2009) contradicted regularly the dominant discourse on transparent and always more efficient market operators submitted to the guidance of an active and enlightened "*corporate governance*". By the same token, in a post-subprime environment where the lobbying practices of bankers and fund managers have been preventing any real implementation of former or new financial regulation, the discourse of large stock-listed corporations over their commitment to corporate social responsibility has been failing to convince their most vocal civil-society critics.

¹ In H. Bonin and P. Thomes (dirs.), *Old Paternalism, New Paternalism, Post Paternalism (19th-21st centuries)*, Peter Lang, Brussels, 2013, pp. 305-332.

<http://www.peterlang.de/index.cfm?event=cmp.ccc.seitenstruktur.detailseiten&seitentyp=produkt&pk=75038&cid=448>

1. Boosting the “corporate family” in the age of “liberal consensus”

The evolution of corporate mindsets allowed business interests to modify the terms and content of the private welfare system with a “new private deal” that they manufactured, following the economic restructuring of the late 1980s and early 1990s, under the aegis of globalised finance. In that system which privileged costs cutting in order to satisfy shareholders’ profitability expectations, employers transferred an ever-increasing portion of benefit expenses (health, pensions, etc.) to employees. Regarding pension plans, that trend saw the decline of “defined benefit plans” in which employers participated financially and workers knew exactly the amount of money they would be given when retiring, and the rise of “defined contribution plans” in which workers contributed the majority – and sometimes all of retirement savings – without ever knowing the amount of money they would get for retirement, as the latter depended on the stock exchange performances and those of their own companies’ upon leaving them. From then on, “Moral Contract Capitalism” was dead and the shortcomings of the private welfare system became obvious as whole populations of “reengineered” and “right sized” workers and middle managers – the prime targets of cost-cutting to boost profitability – lost job security and the welfare benefits tied up to it. Large stock-owned multinational companies, their shareholders, top managers and executives settled into the routines of profit maximization and next quarter benefits defined as their corporate compasses’ main course for securing rising value and dividends for their shareholders, fattened bonuses and increased stock option plans guaranteed by golden parachutes for themselves.

If Corporate Social Responsibility (Act I) was first the marker for welfare capitalist practices in large firms providing workers with an assortment of individual benefits (1920-1960), it lost this initial meaning with the advent of financialized globalization. Revisited by “organic intellectuals” as a means to soften the rough edges of brutal reengineering plans in the 1980s and 1990s, its “Act II” version lost progressively its soul, as it never questioned the logic, nor did it question the finalities driving that new kind of capitalism. Building on the former implicit postulate of welfare capitalism (widely shared among American CEOs) according to which private economic agents’ self regulating policing and mechanisms were preferable to government-administered ones, CSR, in its Act II, strove to convince the civil society that the *a-moral* (“beyond good or evil”) posture defended by libertarian supporters of a financialized economics free of State intervention² was compatible with the struggle to minimize negative corporate societal externalities while improving the defense of fundamental human and labor rights. The result was a huge confusion surrounding the debate on the role of economics and business in society, as the succeeding monetary and financial crises since the 1970s demonstrated a propensity from major corporate, banking, auditing, and financial investment establishments to misbehave when their activities were poorly supervised (as existing rules were not applied)³. But the confusion went deeper as the systems’ faults were hidden by a dominant economic paradigm drenched in a libertarian⁴ ideology that legitimated the belief, among corporate

² Bernard Sionneau, “Legitimizing corporate global irresponsibility: Origins, contexts and vectors of the market modern newspeak”, *Journal of Global Responsibility*, Volume 1, n°2, pp. 330-365.

³ See Jean-Marc Figuet & Bernard Sionneau, “Acteurs, stratégies et impasses des paradis fiscaux”, *Annales de l’Université de Toulouse 1 Capitole*, tome LII, 2010-2011, Presses de l’Université Toulouse 1 Capitole, 2010, pp. 309-348.

⁴ The “libertarian” intellectual trend can be divided into two main currents: one the one hand, an anarchic-libertarian trend which asserts that any kind of government is illegitimate. As supporters of this trend, one can find economists such as David Friedman, son of Milton, who reproaches his father and Friedrich A. Hayek not to be as radical in their rejection of State. On the other hand, another trend that has been called “minarchist” libertarian, whose proponents state that government should limit its intervention to the protection of individuals, defense and law enforcement (especially regarding the respect of contracts). “Anarchic-libertarians” think that “minarchists” conceptions on the role of government are too encompassing and that most of its functions should be assumed by the private sector”, in *Dictionnaire de la Pensée Politique : Hommes et Idées*, Hatier, Paris, 1989, pp. 458-459.

chieftains, that the free expression of the “natural laws” of economics were the only laws worth supporting as their scientific and a-ethical content went beyond “good or evil issues”, addressing only issues of cold-blooded business rationality which contributed to always greater economic efficiency and thus widely shared and extended prosperity.

A. Growing opposition to the social legacy of the New Deal

If the 1920s-1930s gave birth to welfare capitalism in large stock-listed American corporations and a privatized version of the New Deal in the United States, it also gave birth to what would be called a “liberal parenthesis”⁵ and a “liberal consensus” that would last until the end of the 1960s. That period is very important, as it contributed to validate a specific kind of capitalism whose legitimacy rested on its shared support by leading stock-owned businesses, political and union circles and its capacity to bear out a specific kind of corporate management that privileged stakeholders over shareholders’ interests in large firms. The liberal consensus happened in the aftermath of the Great Depression following the financial crash of 1929, then coincided, after WWII, with the United States’ accession to economic and world superpower and to the advent and the making of a strong middle class in this country. That liberal parenthesis was born with the formerly cited reforms made by Democrat president Franklin Delano Roosevelt (FDR) and his “brain trust” in the New Deal (1933-1938). With the New Deal, Roosevelt introduced a kind of American version of the “Welfare State”⁶ that augmented the size and the reach of the Federal State and introduced “Keynesianism” in the U.S. economy without endangering the control that large corporations, their leading families and executives retained on their workforce, thanks to the integration and practice of welfare capitalism.

However, Roosevelt's New Deal measures were considered, from the start, a “heresy” by some intellectual, political and business circles that coalesced into what became known as the “Old Right” (between the 1930s and the beginning of the 1950s). That intellectual and political trend gathered, at the time, all those who worried about the concentration of too much political and administrative power in the hands of the Federal State and called for a return to “Republicanism” (decentralisation, limited government, active checks and balances, respect of individual freedom and autonomy) as stated in Thomas Jefferson’s⁷ writings. They interpreted American political alternative in the following terms: either the United States remained a country of limited government protecting individual freedom and initiatives; or it chose to submit to an Executive centre with exorbitant powers (given to Federal State or giant corporations), eager to commit the country to some kind of “collectivism” inside its borders and to “imperialism” (through interventionist policies)

⁵ A precision should be made here: “liberal” in conservative United States is equated with “left-wing progressivism”, “socialism” or even “communism”.

⁶ In 1933, after the 1929 stock market crash, nationwide commercial bank failure and great depression, the proposal and vote of the Glass-Steagall Act (GSA) separated investment and commercial banking activities, as the commercial bank involvement in stock market was seen as responsible for the financial crash (commercial banks were accused of having taken too much risk with their customers’ money). The Glass-Steagall Act (GSA) was abrogated in 1999 under President W. Clinton’s presidency and replaced by the establishment of the Gramm-Leach-Bliley Act. The latter eliminated the GSA restrictions against affiliations between commercial and investment banks. Moreover, the Gramm-Leach-Bliley Act allowed banking institutions to provide a broader range of services, including underwriting and other dealing activities.

⁷ After the vote of the Constitution of 1787 (largely inspired by James Madison) which instituted a double sovereignty system balanced between a central Federal State and that of the 13 original States, two sides dominated the debates relating to this fundamental text’s interpretation. Their memory should be recalled, as their ideas and contending points still permeate American political debates. One side, led by “Hobbesian” Alexander Hamilton, John Jay and James Madison, known under the label “Federalists”, was in favor of a strong Federal State inspired by the British aristocratic tradition. The three men wanted to provide the young country with strong national institutions, a central bank and a strong currency while protecting the domestic market. Their opponents, led by Thomas Jefferson and John Taylor, under the label of “Republican Democrats” (the ancestors of the Democrats), shared a less pessimistic vision of man and politics, inspired by the French philosophers of the Age of Enlightenment. Believing in the good nature of man and in the corruptive and oppressive power of expansive societies prone, according to them, to overregulation, they wanted to create an agrarian Republic organised around autonomous communities of subsistence farming and charged the Federalists with being too close to the North-Eastern trade and business interests, in P. Lemarchand (ed.), *Atlas des Etats-Unis. Les paradoxes de la puissance*, Brussels and Luxembourg, Editions Atlante/Complexe, 1997, pp. 31-33.

outside its borders⁸. Very quickly, the opponents to FDR's policies got called "conservatives" as, at the time, their arguments seemed to defend a social and economic status-quo associated with policies responsible for the financial crisis and the great depression, while FDR's policies were deemed "progressive" as they broke with the past and bore an egalitarian ideal thanks to an interventionist State. For the "Old Right" opponents to the New Deal, this was a serious misunderstanding as they argued that it was the New Deal policies that were "conservative" for their defence of a kind of economic status quo that was favourable to big businesses and their political pull (especially to old families and money from the East coast).

Notwithstanding the advent of the "Old Right" as an opponent, though not coherent group to FDR's policies, its supporters were not very successful for economic, political and social reasons. First, New Deal policies, despite a recession between 1937 and 1940, were responsible for an economic upturn that the WWII American effort confirmed. Military spending even allowed supporters of the Roosevelt administration to state that public intervention was a good stimulant for economic growth. And progressively, with the social reforms set up by FDR's administration, a general consensus formed within the USA about their relevance. Under the label "liberal consensus" or "cold war liberalism"⁹, it thwarted the ambitions of Old Rightists to impose their vision of a government strictly limited to the defense of private property or their plea to abolish the New Deal and its version of an American welfare State, as they appeared totally disconnected from the population's expectations. However, the advent of the Cold war (1946-1947) gave a new impetus to some ideas of the "Old Right" rejuvenated into a "New Right". At the beginning of the second part of the 20th century, fear of a nuclear war and of a global alliance of communist regimes in the world, plus fear of domestic communist or socialist destabilisation added to that historical inheritance and generated new fears in the US and opportunity for the reconstruction of a "New Right".

B. The evolution of corporate and business social mindsets

Despite support from business organisations such as the National Association of Manufacturers (NAM) or from mid-west and western small and medium firms represented within national and local networks of the Chambers of Commerce, American business and intellectual leading circles did not approve of conservative, new-rightists' ideas, that were, then, associated with a dangerous extremism. The "Liberal consensus", comforted by the largely privatised New Deal contained in welfare capitalism, still dominated American politics and was favoured both in Democratic and Republican leading political circles.

As far as corporate America was concerned, Sanford Jacoby quotes a 1956 study of post-war business ideology which clearly privileged a "stakeholder philosophy of governance, in which shareholders were just one of several groups recognized by managers"¹⁰. In that creed, top corporate managers acknowledged "four broad responsibilities: to consumers, to employees, to stockholders and to the general public, [...] each group on an equal footing, the function of management [being] to secure justice, for all and unconditional maxima for none [...] as] profits above a 'fair' level are an economic sin"¹¹. The CEOs of large companies made this view largely known around them. David Packard, co-founder of Hewlett Packard (HP) during a conference he was attending at the end of the 1940s, stated that "business

⁸ Sheldon Richman, "New Deal nemesis: The Old Right Jeffersonians", *The Independent Review*, Volume I, n°2, Fall 1996.

⁹ Jerome L. Himmelstein, *To the Right: The Transformation of American Conservatism*, Boston, South End Press, 1990.

¹⁰ Francis X. Sutton, Seymour E. Harris, Carl Kaysen, and James Tobin, *The American Business Creed*, Harvard University Press, Cambridge, 1956, quoted in Sanford M. Jacoby, "Corporate Governance, risk and inequality in Japan and the United States", *Challenge: The Magazine of Economic Affairs*, volume 48, July-August 2005.

¹¹ Sanford Jacoby, *op.cit.*

had responsibilities beyond making a profit for their shareholders” and, according to him, those responsibilities extended to “our employees, to our customers, to our suppliers and to the welfare of society at large”¹². Ralph Cordiner, CEO of General Electric through the late 1950s confirmed that stance, arguing that senior executives were responsible for managing the enterprise “in the best-balanced interests of shareholders, customers, employees, suppliers and plant community cities”¹³. As far as business went, that new stakeholder philosophy became a long trend in large stock-owned businesses, lasting from the 1950s through the 1970s, a period which, according to S. Jacoby, was also the “highpoint of corporate social responsibility in the United States”¹⁴.

So, the liberal consensus era, which was also the corporate social responsibility (Act I) era, was a time when workers were considered as stakeholders in large stock-owned firms and had “a status within the corporate family”. That status meant that employment was considered “a quasi-permanent relationship that endured through bad times and good”¹⁵. Corporate management made sure that the workforce were sheltered from risk in a variety of ways as the latter were then considered as “investments” rather than “commodities”: through the provision of pension and health plans, the smoothing of wages rather than their raising or lowering them when business activity peaked or slumped, the avoidance of brutal white or blue-collar layoffs followed by rehiring according to business fluctuation, the admittance (albeit reluctant) of collective bargaining as legal and social responsibility, the rising share of national income going to wages and salaries – all measures which, from the 1950s to the 1970s contributed to the advent of a strong middle class and the “contagion of prosperity” within the US.

2. Legitimizing the trampling of the Moral Contract

If, as we are going to see, the 1970s global and domestic crisis context contributed, with the pull from conservative and libertarian networks¹⁶, to do away with welfare capitalism and the New Deal welfare State in the United States, several authors had already, during the liberal consensus era, openly questioned the separation of control and stock existing in large corporations as, according to them, this could prove to be beneficial to corporate executives but detrimental to corporate performance and to stock holders. Those ideas, which were not popular in the “liberal consensus era”, would become, half a century later, the mantra for a new age in corporate management. Actually, if the 1930s saw the advent of an “Old Right” as an opposition to the intervention of State in economic affairs and to associated formulas of welfare capitalism¹⁷, that decade also motivated the first academic questioning of the corporate world whose weaknesses had already been made visible with the advent of big groups like the 19th century railways companies.

In the early 1930s, Adolfe Berle and Gardiner Means had thus argued that the separation of ownership and control allowed by corporate law in the United States had negative consequences for stock owners¹⁸. Because of the dispersal of shareholding ownership in big corporations, those who had direct control over corporate daily affairs i.e. the directors and management, had the capacity to organize the resources of companies to their own advantage, without effective shareholders’ scrutiny as the latter were not involved in the

¹² Quoted in Terrence E. Deal, Allan A. Kennedy, *The New Corporate Cultures: Revitalizing the Workplace after Downsizing, Mergers and Reengineering*, Cambridge, MA, Perseus Publishing, Cambridge, MA, 2000, p. 44.

¹³ Quoted in Terrence E. Deal, Allan A. Kennedy, *Ibidem*, p. 44.

¹⁴ Sanford Jacoby, *op.cit.*

¹⁵ Sanford Jacoby, *ibidem*.

¹⁶ Bernard Sionneau, *op.cit.*

¹⁷ *Ibidem*,

¹⁸ Adolf A. Berle, Gardiner C. Means, *The Modern Corporation and Private Property*, Transaction Publishers, 1932.

day to day affairs of companies. So, in stock owned companies, with the separation of ownership from control, and as all profits were earmarked for security holders, the interests of owners and controllers could diverge. Salaried directors and managers, because of the power they were given over the fate of their corporations, and because their own wealth was not necessarily invested in their corporation, had the capacity to enlarge considerably their status and income without really being held accountable to shareholders. So there was a possibility that corporations were not managed at their best level of efficiency and profitability. As long as stockholders were moderately satisfied regarding the directors' and managers' results, the latter could focus their efforts on enlarging prerogatives and perks for their own benefit.

That analysis was completed by political theorist James Burnham in a 1941 book where the author argued that the power over large corporations was held by an oligarchy of managers whose technical skills gave them control over the means of production and motivated them to achieve social dominance as a new ruling class¹⁹. Quoting the Berle and Means' exposé of the separation of control and ownership in modern American corporations as an important contribution to economic thinking, ex-Trotskyist turned conservatist Burnham²⁰ charged that it was what he called "New Dealism", "statism" and "plannism" vs. individual choices and private enterprise, which had contributed to precipitate American capitalism into the grasp of a new managerial caste and contributed to undermine the public trust in capitalist ideas and institutions. Burnham dated that conquest from WWI onward and explained the advent of that new social group or class as the result of similarities that had existed between the economic situation of Nazi Germany, Stalinist USSR and Rooseveltian "New Dealism" where an overemphasis was placed by governments on central planning versus private enterprise, collective security against individual initiative, human rights over property rights, etc.

"Libertarian economist Milton Friedman added his voice to that intellectual trend. As early as 1962, he took a firm stance against the Welfare State public intervention in economics and what he considered as an excess of taxes and regulations²¹. His advice was sought by Republican presidential candidates (ultra-conservative Barry Goldwater in 1964, Richard Nixon in 1968 and Ronald Reagan in 1980) and he expressed his ideas regularly in an economic chronicle of *Newsweek*. But he had to wait until the 1973 crisis to become famous. Actually, the crisis seemed to prove him right on several issues such as: the negative impact of reflationary policies, too high salaries and fixed exchange rates on American competitiveness²². This fame saw his ideas triumph with Reagan's "Reaganomics" and his being invited by General Augusto Pinochet with other "Chicago Boys" to shape the new Chilean economic policy after the deposition of former elected president Salvador Allende. So, Friedman was always a harsh critic of State and public intervention (a theme widely expressed by his followers supporter of free-market solutions) and early active advocate of the "social duty-free corporation" as illustrated by this often quoted 1962 passage: "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible."²³ Actually, his opinion, which never changed on that subject, was that "a corporation has an

¹⁹ James Burnham, *The Managerial Revolution: What is Happening in the World*, New York, John Day Co, 1941.

²⁰ See Bernard Sionneau, *La construction du conservatisme moderne aux États-Unis*, to be published.

²¹ Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962.

²² Friedman got late recognition for his works on "Money and Spending" (Prize in Economic Sciences in Memory of Alfred Nobel in 1976) with co-author, Anna Schwartz, in the monetary history of the US.

²³ Milton Friedman, *Capitalism and freedom*, op. cit.

obligation to its owners and stockholders to make as much profit as it can while not violating its owner's ethical concerns [or] practicing deception of fraud”²⁴.

Economist John Galbraith developed an argumentation which, even though it could not be associated with Burnham’s conservatism or Friedman’s libertarianism – as Galbraith was a liberal supporter of Keynesianism and a militant for economic and social justice – was not far from the above-mentioned authors’ main ideas regarding the impact of the divorce, in large firms, between stock ownership and control with such consequences as real control being assumed by new elite. In a 1967 book, Galbraith argued that the large firms comprising what he called an “industrial system” were controlled by a “technostructure” rather than by shareholders²⁵. That particular structure gathered CEOs, supervisory personnel, engineers, scientists, designers and sales executives (all those in group or committee decision-making). They held the real power as only they, were able to have access to the technical virtuosity and complex inside information necessary to pilot large groups or conglomerates’ activities. In this setting, stockholders’ representatives at board meetings did not so much exert real power as acquiesce to decisions already made by the technostructure. The only time when the latter’s autonomy was threatened was when it experienced losses or meager earnings and made retained profits insufficient. In order to avoid a related scrutiny by shareholders and maintain its power, the technostructure vied for modest growth measured in sales volume (more than dividend growth) as it represented the best way to maximize its pecuniary returns (via related promotions and greater remuneration). Last element worth mentioning, the growth-related strategies of the technostructure main firms generated some unwelcome consequences: their market sharing agreements which suppressed competition, their manipulation of demand through advertising, their capacity to impose the wares crafted by production that neglected essential needs (lodgings, transports, etc.) but multiplied unnecessary goods, the symbiotic relation with branches of government and the administration – all these elements left consumers, citizens as well as shareholders powerless versus the technostructure.

The global context of the 1970s paved the way to a new form of capitalism legitimated partly, by the above-mentioned ideas. Context and concepts drove, then, the financialized globalization process of the 1980s and a complete change in management practices that did away with welfare capitalism and corporate social responsibility (CSR) as the latter had existed until then. Actually, that decade saw a combination of domestic and international shocks that led US political and economic elites and successive administrations towards new ideas (and policies) regarding Economics, the role of State and that of private economic agents. These ideas justified the superiority of the private sector and initiatives over public ones, an unrestrained and self-regulating economics and finance, and their agents (multinational companies and banks, investment funds, etc.) as natural prosperity contributors, State and the administration as facilitators to private economic expansion²⁶.

3. Dumping the corporate family in the age of “Turbo- or Super-Capitalism”

The 1970s were a decade of crises for capitalist economies and their leading American superpower. A crisis, first, of the US industrial system that saw a fall in businesses’ profit rates due, partly, to the stagnation of companies’ productivity gains and a rise in employers contributions. A crisis, secondly, of the international monetary system starting in 1971 and seeing its deregulation with the Jamaica agreements of 1976 and motivated by divergent readings and much arms wrestling between its main contenders: with American

²⁴ Quoted in Robert Marks, “Milton Friedman”, *AGSM Magazine*, Issue 2, 13 December 2006.

²⁵ John K. Galbraith, *The New Industrial State*, Boston, Houghton Mifflin, 1967.

²⁶ See Bernard Sionneau, *op.cit.*

producers and the US government complaining that “American workers were being priced out of jobs because the yen and D-mark were being held at artificially low levels”²⁷, while “the Europeans and the Japanese argued that the U.S. was exporting inflation to the rest of the world and abusing the international monetary system in order to sustain their military adventurism (at that time in Vietnam)”. The period, which, on the economic side, saw thus a combination of stagnation and inflation (“stagflation”), also produced high levels of unemployment, a situation that was further aggravated by the third main crisis, an “energy crisis” born of two oil shocks (1973 and 1979). In order to meet the challenges born of that difficult context, and as a complement to the above-mentioned monetary measures, the American government made important financial decisions which allowed it to keep the dollar as the key IMS currency without having to take radical measures to correct their balance of payments deficit. These decisions were to impact directly the management of large US firms and transform labor relations. It opened the gate to a long term process which some experts characterized as the age of “Turbo- or Super-Capitalism”²⁸.

A. The economic pressure on corporate social policies

Actually, through the 1970s (from 1974 to 1978), the United States started a financial deregulation process that put an end to exchange controls and capital movements. Thanks to those measures – which were also designed to finance growth without resorting to punishing tax raises – international savings, through the channels of foreign investment funds and banks could purchase public and private American bonds and shares, transforming both the short/medium/long term financing of US federal and local governments, together with large stock owned corporations and banks, while giving them the possibility to find the necessary resources for their budgets, expansion, world competitiveness and attractiveness. At the same time, the managers of public and private U.S. pension funds, whose outfits were flushed with reserves from years of corporate employees or civil servants long-term savings under the welfare capitalist regime, replaced households as bond and stock purchasers, buying aggressively into the debt of local and national governments and the equity of large corporations, becoming actors to be reckoned with. The same investors started to pull weight on corporate management, asking them higher returns (dividends and stock value growth) on the money they invested in large firms' equity. With growing mutual funds²⁹ and large insurance companies, those institutional investors, joined by foreign investors, put always more pressure on corporate executives, demanding that the latter stop being too complacent and squeeze more value out of corporate assets, concentrating on core activities rather than acquiring companies in unrelated sectors where they had no particular competence, laying off the workforce in unprofitable areas when necessary and repurchasing their business' shares (downsizing) in order to augment mechanically their value (rather than reinvesting it in potentially longer term development or raising salaries). Adding to the pressure put by foreign investors, corporate executives were soon embattled and obliged to satisfy their always demanding investment partners in a new kind of partnership that turned out to offer them unheard-of bounty.

As a matter of fact, the landscape of corporate finance changed dramatically between the 1950s and the 1980s. Whereas in the early 1950s, “institutional investors held less than 10 percent of shares, by the early 1980s this had risen to almost 45 percent”³⁰. In their

²⁷ Harold James, “The dollar war returns”, *Project Syndicate*, September 2003.

²⁸ See Edward Luttwak, *Turbo-Capitalism: Winners and Losers in the Global Economy*, New York, HarperCollins Publishers, 1999. Robert Reich, *Supercapitalism: The Transformation of Business, Democracy and Everyday Life*, New York, Alfred A. Knopf, 2007.

²⁹ See *2010 Investment Company Fact Book*, 50th edition, <http://www.icifactbook.org/>.

³⁰ Sanford M. Jacoby, “Corporate governance, risk and inequality in Japan and the United States”, *Challenge: The Magazine of Economic Affairs*, volume 48, July-August 2005.

investment practices, they differed from household investors in two ways: “First, they owned or managed significant chunks of a corporation, not enough to give them outright control, although sometimes this could be achieved through alliances with other institutional investors. Second, because their holdings were so large that they were illiquid, meaning that institutional investors were likely to use ‘voice’ (pressuring corporate executives) and not only exit (selling their holdings) when dissatisfied with a company’s performance.”³¹ Together with the weighing in of institutional investors who expected to exert their prerogatives as shareholders’ representatives, the shareholder value revolution meant that from now on, stock prices and dividends would become the crucial indexes to assess corporate managers’ efforts. Investment bankers very rapidly saw the advantages they could draw out of this new situation and mobilized their creativity to make the most of the new deregulated US financial setting (the trend would never stop from then on). Observing that, in order to raise their profits and secure constant growth, corporations had to compete on already mature markets, the same bankers deduced that the fastest way to make it was through external growth which meant buying competitors or merging with them.

B. Social intensiveness under the pressure of leverage buyouts

“Boostraps” soon rechristened “leveraged buyouts (LBO)” were the new concepts that Jerome Kohlberg and George Roberts, two investment bankers from Bear Stearns manufactured³² in order to make those buyouts or mergers happen, while making them also highly profitable for corporate raiders, interested investors and for those (investment banks and bankers) underwriting them. Their creative concepts were not without consequences for involved corporations (especially those that were purchased that way) and the management of their workforce and operations. Actually, the LBO concept meant that the buyouts’ or mergers’ expenses of a corporate target³³, whatever their high costs, would be financed by “a mixture of a little bit of equity supplied by the purchasers and a lot of debt supplied by banks and insurance companies³⁴”. And so, as Terrence Deal and Allan Kennedy interestingly pointed out, “it was the debt that provided the transactions’ decisive leverage”. However, as the secured debt rested on the assets of the target company (and not on the credit status of the purchaser), it was usually made of high-yield securities of substandard investment grade quality.

The “junk bonds”, as this type of security was quickly referred to, got very popular in the U.S. and in some measure, in Europe, during the 1980s and until the mid-1990s when they experienced a slowdown due to a credit crunch situation and highly visible failures among LBOs. As a matter of fact, the top management of target corporations very quickly realized how profitable these operations could be for their own benefit. Until the 1970s, top managers, in large corporations had satisfied themselves with high salaries and when they earned it, cash bonuses. Now, with the financial innovations unleashed by the deregulation of financial markets, they understood that the latter could be factors of unheard of bounty and were mostly depending on the satisfaction of institutional investors driven by a recurring mantra: the maximization of shareholder value. That realization sharply drew a steep divide between the interests of management and that of the workforce as well as did

³¹ *Ibidem*.

³² Terrence E. Deal, Allan A. Kennedy, *The New Corporate Cultures: Revitalizing the Workplace after Downsizing, Mergers and Reengineering*, Cambridge MA, Perseus Publishing, Cambridge, MA, 2000, p. 46.

³³ As John O’Connell wrote, “LBOs tend to be mature businesses with a demonstrable record of stable consistent earnings, a significant market share, and experienced in place management. Manufacturing and retailing businesses are attractive because they also contain a basis for asset secured loans or stable income streams for unsecured or subordinate debt. Low capital intensive service businesses are less popular because of their narrow asset bases”, in Cary L. Cooper and Chris Argyris (eds.), *The Concise Blackwell: Encyclopedia of Management*, Blackwell Publishers Ltd., 1998, p. 363.

³⁴ Terrence E. Deal, Allan A. Kennedy, *op.cit*.

away with the welfare preoccupation of top corporate executives and their associated interpretation of CSR. Actually, LBO promoters directly involved targeted corporations' top management in their schemes. For their insiders' knowledge, the latter were offered a hefty stake in the equity of the recapitalized company (usually a substantial 20 per cent³⁵) which motivated them to undertake a series of restructuring plans meant, over a few years, to increase its overall profitability and allow investors to resell the company to public investors or to other businesses. The ensuing initiated massive cost-reduction operations were usually not "workforce-friendly": they were "selling-off unprofitable divisions to raise cash and cut debt, changing approaches to distribution to improve the margins on surviving businesses (e.g. getting rid of direct company-paid sales forces and turning distribution over to agents), or often just raising prices to improve margins"³⁶.

LBOs became thus very attractive both for their initiators and benefitters: bankers, firstly, or corporate raider firms' who packaged the deals usually against high fees; secondly, investment bankers selling the associated junk-bonds; thirdly, insurance and finance companies, mutual and pension funds buying the high-yield securities; fourthly, the target companies' top management who did not hesitate to approach investment banks (Bear Stearns or Drexel Burnham Lambert) or corporate raiders (Carl Icahn or T. Boone Pickens) or investment groups (KKR³⁷) to manufacture profitable LBOs. Despite onerous fees charged by LBO manufacturers, investors put up with their terms. "Profit" perspectives made LBOs so much attractive, with annual returns for investors ranging within a fork between 20 and 30 per cent, even reaching 41.8 per cent for a fund in 1982. "Compared with single-digit returns from straightforward investments in stocks or bonds, these double-digit returns obviously caught the eyes of investors."³⁸ But they also changed the rules of the corporate investment game, what with all the money and the variety of players eager to make the best deals. As a matter of fact, the era of "friendly takeovers" – an era when retaining a committed management team was an essential part of the deal - soon gave way to another tune, when, in 1985, KKR launched a "hostile takeover bid" for a publicly listed company. "Aggressiveness" became the new name for a game where the largest blue chips companies could become potential targets for corporate raiders: "Hostile acquisitions, rare before the 1980s became increasingly common, in part because institutional investors provided the margin of shares necessary to effectuate a takeover. Raiders made money by selling off parts of the company – stripping a conglomerate of its assets and also by loading companies with debt (including junk bonds) which conferred enormous tax advantages. The remaining company was left more focused but also less stable and riskier."³⁹

And when LBO activity slowed dramatically at the end of the 1990s as the level of stock prices were so high, mergers and acquisitions (M&A), initially fueled by LBOs and the schemes of LBO wizards, became the new fad for major short-term managers⁴⁰, banking and Wall Street operators. For top executives, the risks of seeing their companies become the victim of hostile acquisitions without their being part of the deal, or the necessity to manage always more profitably their "taken-over" or merged corporations, in order to pay back the latter debts while satisfying their demanding and vocal shareholders, gave way to new priorities and management practices. Academia and institutional investors provided

³⁵ *Ibidem*.

³⁶ *Ibidem*.

³⁷ After years of manufacturing LBOs for *Bear Stern*, Kohlberg and Roberts, joined by Henry Kravis, Robert's cousin, set up their own firm, KKR in 1976. See Bryan Burrough, John Helyar, *Barbarians at the Gate: The Fall of RJR Nabisco*, Harper & Row, New York, 1990.

³⁸ Terrence E. Deal, Allan A. Kennedy, *op.cit*.

³⁹ Sanford M. Jacoby, *op.cit*, July-August 2005.

⁴⁰ Terrence E. Deal, Allan A. Kennedy, *op.cit*.

the keys to deal efficiently with these issues. Actually, preceding literature had, for at least half a century started to challenge the power that top executives from large corporations had accumulated in a way that was considered detrimental to the interests of shareholders and to those of society at large.

With giant institutional investors now able to be heard within shareholders assemblies and corporate boardrooms, it was then largely believed that, thanks to the attribution of bonuses and stock options, plus the negotiations of golden parachutes for CEOs, fund managers would, in the logic of “corporate governance”, exert a tighter control over top corporate executives. Despite the fact that this control remained utterly theoretical – what with the fact that “borderline” (and also cross border) fiscal optimization strategies from tax havens-based multinational or transnational corporations' subsidiaries were achieved in total secrecy⁴¹, what with the fact that, as institutional investors spread money in a multitude of firms around the world, their fund managers could not survey precisely the decisions of top corporate management – a “fairy tale” was largely circulated that retired people and employees from large firms were, as well as other individual investors, through their pension funds, or the mutual funds they had bought shares from, were the real owners and thus active stakeholders and controllers of the most competitive US firms. Indirectly therefore employees and retirees could be promoted as “stakeholders” of the reshaped global capitalism and get immediate access to a process of “socialized if not social redistribution” of part of its profits, even those achieved through huge plans for redundancies for the sake of “financial performance”, competitiveness, and productivity. And that “social tale” was sold to the US people, then to the rest of the world throughout the process of financial deregulation that was integrated by all the richest countries from the 1970s on.

That “social-financial tale” also suited perfectly well the top U.S. corporate management who had first worried that the combination of hostile takeovers and growing power of institutional investors would challenge the long-term prerogatives and perks that their privileged situation had entitled them with. That anguish did not last long as the tying up of their remuneration with financial performance, but also the bonuses, stock-option and golden parachutes that they negotiated thanks to the professional counsel of lawyers they could afford, ensured them of never sharing the same professional and personal risks (whatever their business results) as their employees. “Maximizing shareholder value” and “next quarter benefits” thus became rapidly the cardinal points of publicly traded large companies CEOs' strategies and management, as were reflected in the financial performances, as well as CEOs' skyrocketing revenues, in large US corporations. “Between 1980 and 1997, the Dow Jones industrial average increased 533 per cent [...]. The growth in executive pay levels in the 1980s and 1990s was therefore dramatic [...]. By 1981, eight figures were becoming more common [...]. By the 1990s, however, eight-figure pay packets were the norm, not the exception. Although it would take a few more years before the gray suits would begin to score big points, thanks to these high-earning pioneers, the goalposts had been moved and the playing field was open. Michael Eisner (Disney) and Tony O'Reilly (Heinz), were the first “managers”, (as distinguished from “entrepreneurs”) to benefit in a very big way.” In 1997, a survey by the New York Times on half of the top 500 publicly-held companies showed that “fully one in ten of the CEOs surveyed was taking home a pay packet worth in excess of \$20 million”, while the average CEO compensation for the same year was \$8.7 million, a 37.8 per cent increase over 1996.”⁴² Actually, that structural change in the financing and governing of large firms also marked the end of welfare capitalism and that of CSR in its associated original definition (our “Act I”), as “shareholder

⁴¹ See Jean-Marc Figuet & Bernard Sionneau, *op.cit.*

⁴² Terrence E. Deal, Allan A. Kennedy, *op.cit.*

value” became the cornerstone theme of corporate governance and made “stakeholder value” a relic of the past.

C. The tale of “social finance” vs. social reengineering

With that new compass, the management of firms got increasingly brutal for the workforce, but in the 1980s, with high and persistent unemployment, with unions losing membership and political clout, with countries like the American or British whose governments (Reagan and Thatcher) had decided to do away with unionization, unorganized employees and the unemployed were deprived of bargaining power. Left to their fate in a “Bastian⁴³” universe, the theoretical freedom they were now supposed to enjoy in their “disintermediated” dialogue with their employers did not really turn to their advantage. At the same time, private welfare benefits, tied up to employees longevity in large publicly traded firms started to disappear with the obligation for corporations to be always more profitable and thus cut all expenses that did not contribute immediately to maximizing shareholders’ value (social benefits and personnel became the main adjustment variables). “Reengineering” and “rightsizing” also became leitmotifs with such consequences on employment that can be illustrated with the example of General Electric (GE) embracing the new philosophy under the guidance of shareholder defender Jack Welch⁴⁴, a CEO who, between 1981 and 2001 represented a very different spirit than that of stakeholder defender Ralph Cordiner, CEO of General Electric through the late 1950s. In the 1980s, a GE plant located at Erie (Pennsylvania) produced 350 locomotives annually with around 7,500 employees; in 2000, it produced 911 locomotives annually with 4,000 employees, and 3,500 jobs had been cut off. And overall, between 1981 (the year when J. Welch became CEO) and 2001, GE’s number of employees has been cut from 400,000 to 300,000. However, if, during that time, one included the employees belonging to the 1000 corporations that GE acquired, the total employees cut reached 500 000. Such was Welch's reputation as a “right-sizer” that his employees nicknamed him “Neutron Jack”, referring to the massive destruction arms (if used, a neutron bomb would kill all people while buildings remained intact)⁴⁵. With the arrival of J. Welch, GE was leaping into a new paradigm and a new era. The price of GE stock was all that mattered and became the only performance index; job creation stopped counting among stock-listed corporations' preoccupations.

“Laying off employees”, “putting them in situations of precariousness [...], these became signs of courage and proofs of sensible minds and also illustrated the end of “the mutual loyalty paradigm”⁴⁶. Big investors, impressed by the American shareholder-value model, what with the US economy and stock market booming and Europe and Japan lagging way behind came to several conclusion that they thought were linked: they believed firstly, that changes in corporate governance had produced the US boom and that, in order for investors to reap vast benefits, European and Japanese companies could be persuaded to change similarly their governance practices and “get lean and mean” so as to become more profitable⁴⁷; secondly, they held that greater corporate efficiency and a rising stock market

⁴³ In an 1849 published book entitled *Harmonies Économiques*, Frédéric Bastiat ((1801-1850) described the harmonious functioning of economics when States did not intervene. According to his “harmony of interests’ theory”, when left free, “individuals’ interests” always coincided with “collective interests”; the same applied between “workers interests” and those of their employers; any measure taken by States to solve economic problems was a violation of citizens’ “natural rights” such as freedom and private property. As a dedicated proponent of competitiveness and free trade, Bastiat rejected any kind of administered economics. If Bastiat was very popular among libertarians such as Hayek and von Mises, other economists like Marshall or Keynes thought of him in terms of “theoretical failure”⁴³, see Francisco Vergara, *Introduction aux fondements philosophiques du libéralisme*, Paris, La Découverte, 1992, p.120.

⁴⁴ Olivier Vilain, “Comment General Electric a réinventé le capitalisme”, *Manière de Voir*, n°91, janvier-février 2007, p. 45.

⁴⁵ Olivier Vilain, op.cit.

⁴⁶ Barbara Ehrenreich, *On achève bien les cadres*, Grasset, 2005, p. 164. et pp. 318-319.

⁴⁷ Sanford Jacoby, 2005, *op.cit.*, p. 10.

would put an end to economic stagnation as it had in the U.S. Such was the faith in the shareholder value model that not only institutional investors, but also government officials, essayists and journalists, did not hesitate to push the message aggressively in Japan and Europe in the 1980s, soon relayed by local but vocal “believers” in the “sole true faith” (Alain Minc⁴⁸ or Jean-Marc Sylvestre⁴⁹ in France).

The scientific justification supporting the associated relevant new managerial practices was also manufactured in the USA, confirming CEOs that what they had to do was “right”. Actually, at the onset of the 1990s, MIT professor Michael Hammer, consulting firm CSC Index president James Champy⁵⁰, University of Texas Professor Thomas Davenport made the development of “Business Process Reengineering (BPR)” a key leverage in the radical redesigning of corporate processes. If formerly, business process redesigning initiators had had much influence on revamping the organization and management of American firms such as Russell Ackoff, Eric Trist (the theorist of sociotechnical systems), Joseph Juran and W. Edwards Deming with “Total Quality Control (TQC)”, these changes had “invited people on the shop floor and in the back office to gradually improve their work together”⁵¹. However, “to the reengineers, there wasn't time for incremental change; the frenetic pace of the business environment demanded that managers adopt a 'blank sheet of paper', torpedo the old, wasteful, bureaucratic processes and redesign everything from scratch”⁵². The BPR movement, which involved a \$50 billion consulting industry around 1994, led to waves of massive lay-offs within the largest US corporations and simultaneously, stock increases. As an example, companies like IBM, Sears, Xerox, US West, McDonnell Douglas, RJR Nabisco and DuPont each cut from 4,500 to 60,000 workers, registering first-day stock increases from 3.4 to 7.7 per cent⁵³ – a situation which pleased particularly their stock-invested CEOs and the consulting firms they hired to implement those cost-cutting operations. Even though, only eight years after they had crafted the word “Reengineering”, Hammer, Champy and Davenport all had issued public apologies⁵⁴, in the meantime “hundreds of companies had leapt onto the bandwagon of BPR⁵⁵”. And, even though “everyone knew that the majority of the reengineering efforts did not do anything positive to the bottom line, to quality or customer service, the trend continued. It continued, according to them “even though everyone was partially aware that when you downsize, the older workers who are paid more get selected out and that those left often lack the institutional memory (as in the Alice stories) to operate the firm efficiently [...]”. The trend also continued because they had a popular story line: Do not copy the Japanese system of TQM and Kaizen, be American and reinvent the corporation, stress individuality, cut the fat, and get rid of bureaucracy.⁵⁶”

In European major companies, and despite labor laws that made it theoretically more difficult to do, the privatization of State-owned companies in strategic sectors open to deregulation (under the pull of powerful industrial lobbies enjoying direct access to the

⁴⁸ In 1985, Alain Minc wrote (translation by authors): “The success of the United States exerts an overall pressure which compels us to fight our own lack of flexibility. Let's hail the miracle and accept the mystery of it; but above all, let's follow the example”, in *L'Expansion*, 8 février 1985, quoted in Richard Farnetti, Ibrahim Warde, *Le modèle anglo-saxon en question*, Paris, Economica, 1997, p. 5.

⁴⁹ Jean-Marc Sylvestre has been a long-time star journalist for numerous French media and a not very nuanced believer in the overall benefits of an unrestrained globalization process for the sake of French competitiveness. .

⁵⁰ See Michael Hammer & James Champy, *Reengineering the Corporation: A Manifesto for Business Revolution*, New York, Harper Business Press, 1993.

⁵¹ Art Kleiner, “Revisiting reengineering”, *Strategy+business*, Third Quarter 2000, n°20, July 1, 2000.

⁵² *Ibidem*.

⁵³ David M. Boje, Grace Ann Rosile, Robert Dennehy, Debra J. Summers, “Restorying reengineering”, *Communication Research*, volume 24, n°6, 1997, pp. 631-668.

⁵⁴ Art Kleiner, *op.cit.*, 2000.

⁵⁵ *Ibidem*.

⁵⁶ David Boje (*et alii*), *op.cit.*

European Commission⁵⁷) opened the way to reengineering and rightsizing trends that produced massive layoffs. Firms like “ABB, Volkswagen, GM-Europe, British Telecom (BT), LloydsTSB Bank, and many others were shedding tens of thousands of workers”⁵⁸. Besides, public companies like Deutsche Telekom, following the lead of BT and preparing themselves to privatization, discarded their former employment policies. They stopped offering lifetime contracts to their employers and converted newcomers into contract workers. Laws passed in Germany, Italy, and France allowed privatizing companies to lay off civil servants motivating firms like Deutsche Telekom, Alitalia and France Telecom to take immediate advantage of these new freedoms despite the socialist label of most European governments.

If the U.S. shareholder value model became the norm imposed by huge Anglo-Saxon institutional investors and was presented as a promise of constant growth, as Sanford Jacoby points out, “Unfortunately, the message was wishful thinking. The causal links between governance, productivity and growth are vague and unproven. Research [...] shows that even the most basic elements of shareholder value governance – independent boards, small boards of directors, use of stock options - are not statistically associated with better corporate performance. In the wake of Enron, this should come as little surprise”⁵⁹. One may also be founded to say that, with the host of huge corporate scandals that got into the open after Enron (Tyco, WorldCom, Global Crossing, Adelphia, Qwest, Xerox, etc.), and with the examples of shoddy corporate supervision practices in the banking sector as was revealed by the mammoth subprime crisis (2007-2008), but also, despite the loudly trumpeted commitment of G20 highest representatives to get rid of the crisis-related tax havens⁶⁰, the gradual disappearance of that issue from their agenda, the shareholder value model and its associated concept of “corporate governance” have amply proven that they were no guarantees for national growth or corporate transparency, but that on the contrary, because of the misdemeanors which their finance-driven logic generated among the actors behind their making, they had been the makers of a “bubble”, “casino” and “grand-theft” type of economics which endangered whole countries and their societies, all realities largely incompatible with any ambition of corporate social responsibility.

CSR might appear as some kind of a “diversion” process which could tend to alleviate the perception of the genuine trend to question the “social model” set up in the age of “new paternalism” and “welfare state”, as the human costs of downsizing have been enormous. “As a result of the dislocations in the economy fueled in part by corporate restructuring and downsizing, median US family income declined by \$1,400 (3.4 per cent) between 1989 and 1995. This occurred despite the fact that the average American worker is working longer hours (3 per cent more for men and 35 per cent more for women in 1979-1994) and the proportion of families earning two incomes is increasing dramatically (from 31 per cent

⁵⁷ Among several ones, there is *Business Europe* (former *UNICE*)⁵⁷, a powerful lobby existing since 1958. Its director of communication once openly admitted that: “Our mission is to influence European decision-makers”. From this lobby’s point of view, “European public policies of job creation, social security, environmental rights are threats to competitiveness.” So, *Business Europe* was opposed to the introduction, in the Amsterdam treaty, of any social charter or any other body of fundamental rights. UNICE representatives also battled the idea according to which the European Union had to accept a “European Convention on Human Rights and fundamental Liberties.” See « Transatlantic Travesty », Corporate Europe Observatory, 2003. See <http://wto.unice.org/Content/Default.asp?> This site was dedicated to UNICE’s activities for the Doha Development Agenda launched in November 2001. UNICE, as the official voice of more than 16 million small, medium and large companies in Europe, strongly supported the Doha Development Agenda negotiations at the WTO. European companies were also determined to see WTO succeed in its vital mission, which was to ensure that international trade was fair and as free from restrictions as possible. See Belén Balanyá, Ann Doherty, Olivier Hoedeman, Adam Ma’anit et Erik Wesselius, (Observatoire de l’Europe industrielle), *Europe Inc. Liaisons dangereuses entre institutions et milieux d’affaires européens*, Marseille, Agone, 2000, p. 61.

⁵⁸ Terrence Deal and Allan Kennedy, *op.cit.*

⁵⁹ S. Jacoby, “Corporate Governance, Risk & Inequality in Japan and the United States”, *op.cit.*

⁶⁰ See Jean-Marc Figuet et Bernard Sionneau, *op. cit.*

of families in 1967 to 47 per cent in 1995). Individuals who lose their jobs to corporate restructuring pay a huge price. On average, according to the Economic Policy Institute's report *The State of Working America, 1996-1997*, workers who had lost their job were making 15 per cent less (if indeed they were employed) than they had earned at their previous places of work. About 25 per cent of these workers lost their health coverage as a result of job dislocation. Not surprisingly, job insecurity is on the rise among those still employed. Employee loyalty to employers has fallen to record lows.”⁶¹

4. Post-Paternalism: No future to any form of “new paternalism”?

From the 1970s onward, thanks to the political decisions made in the United States, then in Europe and Japan, which transformed the way private and public actors could finance their operations through capital markets – pension and mutual funds, banks and insurance companies have, thanks to their asset managers, massively bought into the debt and equity of sovereign countries, their local governments and private stock listed corporations or banks. By the same token, heads of states, CEOs, governors and mayors have progressively been submitted to the constant pressure of the latter to offer always rising and faster or safer returns on their investments. Fund managers also imposed a new vision regarding economic activity and the role they expected to play in it. Trading huge blocks of assets on the stock exchanges of the most developed countries (on the NYSE, it means buying or selling 10,000 of shares), they also contributed to increase the exchanged volume of stock while reducing the average amount of time during which they kept them (for shares, it shrank from two years to eight months). Over thirty years, then, finance and finance-driven operations became the most rewarding sector of the economy for all white collar professionals connected to it, whether in the industrial, banking, insurance or investment sectors.

As Kevin Phillips pointed out, “The finance, insurance and real estate (FIRE) sector overtook manufacturing during the 1990s, moving ahead in the national income and GDP charts by 1995. By the first years of the next decade, it had taken a clear lead in actual profits. Back in 1960, parenthetically, manufacturing profits had been four times as big, and in 1980, twice as big. Hardly anyone was paying attention. By 2006, the FIRE sector, its components mixed together like linguine by the 1999 repeal of the old New Deal restraints against mergers of commercial banks, investment firms and insurance, had ballooned to 20.6 per cent of US GDP versus just 12 per cent for manufacturing. The FIRE Sector, now calling itself the Financial Services Sector, lopsidedly dominated the private economy.”⁶² With that reality, came another one: the major stock-listed American multinational banks and companies could make more money on financial market activities through speculative proprietary trading or other commission-related activities from financial subsidiaries or hedge funds located in tax havens, than in traditional commercial, industrial or lending sectors, thus enlarging the scope, but also the risks on their profit generating capacity. The white collar personnel, involved in these activities, could make fortunes thanks to soaring profit-based bonuses. They were not alone. They were accompanied by stock-option-equipped top executives. Furthermore, as long as profits increased regularly, their groups’ main shareholders were satisfied and not overanxious regarding the way profits were made as long as it lasted.

⁶¹ Terrence E. Deal and Allan A. Kennedy, *The New Corporate Cultures: Revitalizing the Workplace after Downsizing, Mergers and Reengineering*, Perseus Publishing, Cambridge, MA, 2000, p. 78.

⁶² Kevin Phillips, "The Disaster Stage of U.S. Financialization", *TPM Café*, April 7, 2009.

Actually, in the hands of crafty financiers, corporations lost their physical realities as their assets could be magnified or lessened by unexpected and dematerialized financial operations. At the same time, as these operations created the most value for involved shareholders, their *raison d'être* became unquestionable, whatever their often very heavy human and corporate costs. "The ownership of entire corporations changed hands, often forcibly at a clip never before witnessed [...]. Thousands of workers lost their jobs, companies loaded up with debt to pay for the deals, profits were sacrificed to pay interest costs on the borrowing, and even so, many companies were eventually forced into bankruptcies or restructuring."⁶³ At the same time, when one asked oneself who those shareholders were, for whom "value" had to be constantly created through "reengineering", "rightsizing", "downsizing", thus reallocating resources from labor to capital and setting millions of people's lives on constant uncertainty about their immediate professional and private lives⁶⁴, one discovered that they were a handful. In 2003, only 300 million of these shareholders (5 per cent of world population), one half of which were U.S. citizens, held between their hands 31,000 billion dollars (86 per cent of world GDP)⁶⁵. However, among those shareholders, there were huge differences: on the one hand, small shareholders whose savings were tied to their companies plans (401k) or invested in mutual funds without any real understanding of their financial strategies and who often lost much of it (if not all) after repeating financial, banking, insurance or real estate scams; on the other hand, big stock owners whose personal wealth or high income allowed them to make real money out of dividends, big volume stock trading, hedge funds high returns (and lose as much without necessarily going personally bankrupt).

That reality, which also contradicted the "fairy tale" of whole populations as shareholders/owners of their own companies (when or where in real life would house or property owners ever expropriate themselves from their own premises as small employee/shareholders would be expropriated from their own companies when laid off?), was very well documented by a 2001 study made by Julie Froud, Colin Haslam, Sukhdev Johal, Karel Williams, four researchers from the School of Accounting and Finance of Manchester University. They wrote: "In the UK and USA, shareholding is the monopoly of the fortunate 40 per cent in the top two quintiles (Q4 and Q5) of households by income. This group accounts for 90 per cent of all long term savings and investment in the US and 80 per cent in the UK. Only these relatively affluent households can afford to forego current consumption, defer wages and put 10 per cent of their income into shares through pensions, insurance and savings plans. The fortunate 40 per cent can then realistically hope to build up a stock market fund which provides for a comfortable old age and retirement. The household savings circuit through the stock market directly accelerates the inequalities of old age and ensures that a majority of the population derives little benefit from any distribution of dividends or the rise of corporate share prices. But the fortunate forty percent is not a homogeneous group. At the top end, it includes a small number of enriched managers, who benefit from high salaries and stock options which have been hugely rewarding in the long bull market of the 1990s. The chief executives of US giant corporations are now routinely paid in millions per year: including unrealized share options, the CEO of Coca Cola earned \$90 million in 2000. Even in an unexciting UK blue chip like Shell, the chief executive earned 1.8 million pounds in pay and realized share options in 1999 and his deputy earned 820,000. In the long bull market of the 1990s, share options for top managers acted as a mechanism which shifted some lucky managers out of the wage earning condition. But, at the bottom end, the fortunate forty per cent includes many households of people like us. The average gross household income in quintile 4 in

⁶³ James B. Stewart, *Den of Thieves*, New York, Simon and Schuster, paperback, 1991, p. 21.

⁶⁴ Terrence E. Deal and Allan A. Kennedy, *op.cit.*, 2000, p. 78.

⁶⁵ Jean Peyrelevalde, *Le capitalisme total*, series La République des idées, Paris, Seuil, 2005, p. 92.

the UK was just 28,000 pounds and in the USA was just \$48,000 in 1996-97.”⁶⁶ As incomes and salaries of ordinary workers and middle managers were, on average, constantly shrinking⁶⁷ under the constant imperative of world “competitiveness”, the incomes of the financialized globalizations elites were soaring with the possibility they were offered to maximize their gains even when the global economic situation was deteriorating or their own performance was poor (because of the golden parachutes the lawyers they could afford negotiated for CEOs with their contracts).

What was then, in summary, the outcome of the “investor revolution” regarding the role played by shareholders “to mount an insurgency against the entrenched power of managers”? As Robert H. Tillman and Michael L. Indergaard wrote, “On the eve of the 1990s [...] the managers of huge American pension funds (led by Calpers) organized a “high-profile campaign” [...] to shake-up corporate leaders and boards of stagnant firms; they succeeded in spurring the removal of CEOs at several major corporations [...]. Observers proclaimed that the boards had been duly disciplined. Stock options were introduced to harness executives to shareholders' interests – a move that economists argued would allow them to act as robust entrepreneurs rather than bureaucrats. Financial analysts joined in, using quarterly results to evaluate firm performance. However, the New Economy scandals suggest that the 'Investor Revolution' was quietly suppressed early on. Executives conducted a decade-long march through the institutions, waving banners of a free market and singing psalms in praise of investors, when in fact they were waging aggressive lobbying campaigns (with their investors' money) to change the rules in ways that would buffer them from scrutiny. The promiscuous deregulation that resulted increased the role of reputational intermediaries in monitoring corporations. Yet, the success of these intermediaries in limiting their own liabilities – in combination with other facts – complemented the subversion of the shareholder movement. [...] Reputational intermediaries were drawn by the rewards to be reaped as carriers of New Economy recipes and also were encouraged to become inside players. Rather than acting as objective monitors, they helped managers pump the stock values of firms or assisted in financial engineering that indirectly had the same effect. Attempts by regulators to develop responses to emerging problems were blocked by powerful interests who justified their efforts with free market or New Economy rhetoric – as did members of the corrupt networks that wound through the guts of the corporate economy like a mass of tapeworms⁶⁸.”

The cultural context of the 1980s and 1990s allowed those financialization-associated trends to become permanent fixtures of the new corporate game in the United States. Starting in the 1980s, the mentality associated with the go-getting economy pulled by the R. Reagan and M. Thatcher years, was clearly no more that of moral contract paternalism in corporate life but rather that of *a-moral* individualism where “cut-throat competition” and “winner-take-all” were sanctified by the main media, leading academia in economics and business, political, corporate and banking circles. In order to capture the mood of these “roaring eighties”, one should quote the words of college-uneducated, then highly successful (before his demise for insider trading) and at the time very wealthy arbitrageur Ivan Boesky, who declared in front of an audience of UC Berkeley B. School's students, that “greed is all right by the way [...]. I want you to know that I think greed is healthy. You can be greedy and still feel good about yourself”⁶⁹. From that time on, the a-moral stance

⁶⁶ Julie Froud, Colin Haslam, Sukhdev Johal, Karel Williams, “Financialization and the Coupon Pool”, *Gestao and Produção*, volume 8, n°3, December 2001, pp. 271-288.

⁶⁷ See Terrence E. Deal and Allan A. Kennedy, *op.cit.*

⁶⁸ Robert H. Tillman and Michael L. Indergaard, *Pump and Dump: The Rancid Rules of the New Economy*, Rutgers University Press, 2005, pp. 26-27.

⁶⁹ James B. Stewart, *Den of Thieves*, New York, Simon and Schuster, 1991, p. 261.

adopted by finance professionals in leading sectors of the American economy translated, according to James Stewart, into an unprecedented “crime wave” (1991) and by the late 1990, “conditions in much of the US corporate economy [...] had become 'criminogenic' in that they facilitated criminal behavior.”⁷⁰ From the Savings and Loans scam to the Junk Bonds then the New Economy scandals (Enron, Qwest, Global Crossing, etc.) to the subprime-induced banking crisis and the Madoff \$60 billion rip-off, the tight web of personal, business and government connections⁷¹, plus the amount of financial resources lobbyists could use to discourage the vote or implementation of tighter corporate, banking or investment regulation – all these elements have made highly hypothetical, within the confines of “Turbocapitalism” or “Supercapitalism”, a return to the gentler age of moral contract capitalism and Act I corporate social responsibility in the US.

Conclusion

In the history of America's industrialization process, everything was done to keep business in the driver's seat and thus align society's interests with business interests. From the start, business elites made sure that State and politics were made subservient to these interests. An interesting combination of political power interplays, “carrots and stick management”, associated with organizational change was largely responsible for that state of affairs. From “industrial paternalism” to “welfare capitalism” and “corporate social responsibility (Act I)” and despite a deceptive tentative to introduce a “welfare State” in America, all these concepts were meant to allow the private sector to keep the initiative in organizing an institutional business environment and a social order that would be profitable to its leading elites (investment bankers and chiefs executives). If the economic translation of the above-mentioned concepts was beneficial to correct the harshness of the 19th century industrialization process, then soften the deep social crisis born of the 1929 Wall Street crash and the Great Depression, if the adoption of the stakeholder model by major publicly traded US corporations was decisive in fostering a “contagion of prosperity” in the United States between the 1930s and 1960s, the financialization of corporate strategies born of the 1970s stagflation, monetary, oil and industrial crises, rapidly emptied CSR of any tangible meaning.

⁷⁰ Robert H. Tillman and Michael L. Indergaard, *op.cit.*, pp. 4-5.

⁷¹ IMF's Simon Johnson talks about a “financial oligarchy having staged what he calls “a quiet coup”. “Elite business interests—financiers, in the case of the U.S.—played a central role in creating the [Subprime] crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse. More alarming, they are now using their influence to prevent precisely the sorts of reforms that are needed and fast, to pull the economy out of its nosedive. The government seems helpless, or unwilling, to act against them” writes Johnson who adds: “The American financial industry gained political power by amassing a kind of cultural capital—a belief system. Once, perhaps, what was good for General Motors was good for the country. Over the past decade, the attitude took hold that what was good for Wall Street was good for the country.” [...] One channel of influence was, of course, the flow of individuals between Wall Street and Washington. Robert Rubin, once the co-chairman of Goldman Sachs, served in Washington as Treasury secretary under Clinton, and later became chairman of Citigroup's executive committee. Henry Paulson, CEO of Goldman Sachs during the long boom, became Treasury secretary under G. W. Bush, John Snow, Paulson's predecessor, left to become chairman of Cerberus Capital Management, a large private-equity firm that also counts Dan Quayle among its executives. Alan Greenspan, after leaving the Federal Reserve, became a consultant to Pimco, perhaps the biggest player in international bond markets.[...]Wall Street's seductive power extended even (or especially) to finance and economics professors, historically confined to the cramped offices of universities and the pursuit of Nobel Prizes. As mathematical finance became more and more essential to practical finance, professors increasingly took positions as consultants or partners at financial institutions. Myron Scholes and Robert Merton, Nobel laureates both, were perhaps the most famous; they took board seats at the hedge fund Long-Term Capital Management in 1994, before the fund famously flamed out at the end of the decade. But many others beat similar paths. This migration gave the stamp of academic legitimacy (and the intimidating aura of intellectual rigor) to the burgeoning world of high finance. As more and more of the rich made their money in finance, the cult of finance seeped into the culture at large. In a society that celebrates the idea of making money, it was easy to infer that the interests of the financial sector were the same as the interests of the country—and that the winners in the financial sector knew better what was good for America than did the career civil servants in Washington. Faith in free financial markets grew into conventional wisdom—trumpeted on the editorial pages of *The Wall Street Journal* and on the floor of Congress”, in Simon Johnson, “The Quiet Coup”, *The Atlantic Monthly*, May 2009.

“Reengineering”, “right-sizing” and “cost-cutting” practices adopted by profit and stock-option driven CEOs in always shorter time spans (“next quarter profit”) under the constant supervision of domestic and world institutional investors, rendered corporate strategies often incompatible with the respect of their natural environment, international labor rules, the protection of human rights, anti-corruption practices and sound fiscal citizenship. As this incompatibility became more evident with a host of always bigger and direr corporate and banking scandals, the not questioning, by most academic CSR supporters of all these tangible phenomena, contributed to discredit both the CSR concept and later associated practices (Act II) and the capability of a-moral functioning large stock-listed corporations and their leadership, to ever re-commit to the stakeholder model and behave as “globally responsible citizens”.