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Capitalism at the Turn of the Century: Regulation Theory and the Challenge of Social Change

My book, *A Theory of Capitalist Regulation*, was written more than twenty years ago.[1] The new edition perhaps testifies to the longevity of the ideas it sought to communicate. These two decades, however, have not been kind to anyone trying to make sense of the erratic and sometimes disconcerting development of contemporary societies. Here, I should like to say how the ideas contained in the book have stood this test, and how they can be modified or extended so that we can try to understand the dramas we are witnessing and the hopes of renewal we cherish as this twentieth century draws to its close.

A Theory of Capitalist Regulation has been the source of an approach to the analysis of economic phenomena which has gained widespread acceptance, in the sense that a wide range of studies and analyses have seized upon its ideas and have developed them in many different directions. We must speak of an approach rather than a theory. What has gained acceptance is not a body of fully refined concepts but a research programme.

When the theoretical positions defended in *A Theory of Capitalist Regulation* were elaborated, ambitious synoptic studies were ideologically appealing as interpretations of the economic system. They were intellectually seductive because of their capacity to grasp the economic system as a whole. On the basis of so-called first principles, they developed consistent concepts reconciling microeconomics and macroeconomics, microscopic and macroscopic phenomena. Yet this could not take place without a postulate of homogeneity that gave these theories, however mutually antagonistic, a peculiar epistemological congruity.

In Search of Homogeneity

The neo-classical theory inspired by liberalism, which amounts to a representation of the system as a pure economy in a natural state of equilibrium, stretches the postulate of homogeneity to its very limits. Not only does the axiom of rationality assign the same identity to all individuals in pursuit of their goals by defining an economic behaviour pattern that can be applied to any domain of social practice, but the characterization of the whole system as an equilibrium created by perfect competition implies that each player is totally aware of the web of their relations with all other players, and that this web presents itself to the individual in the form of constraints on the use of their resources.

Marxism, as an economic theory, is built upon a radical separation which explains capitalism by rejecting the postulate of homogeneity. Not only is market exchange no longer perceived as a symmetrical relation between contracting parties; the labour force is also put on one side of a basic social division which sets one class of individuals against the other. Nevertheless, the Marxist view of the economy remains strongly homogeneous because capitalism is supposed to move in accordance with general laws which lead to its overthrow, whatever the nature of the society in which it develops. Furthermore, the overthrow of capitalism heralds the coming of a transparent and homogeneous system of perfect planning.

The debate that raged in the 1930s on the relative merits of a market economy and a planned economy culminated in the demonstration by Oskar Lange that perfect competition and perfect planning were identical. If the economic system is homogeneous, there can be no

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[1] This is an edited version of the postface to the new edition of Michel Aglietta, *Régulation et crises du capitalisme*, Odile Jacob, coll. Opus, October 1997, augmented with a new postface. The first edition was translated as *A Theory of Capitalist Regulation: The US Experience*, New Left Books, London 1980 and the new edition will be published by Verso in 1999.

real decentralization. A general economic equilibrium is a completely centralized system, either because the characteristics of the system are in the minds of all individuals, who act like a single representative individual—the hypothesis of rational expectations—or because the coordination of individual plans is guided by an explicit or implicit planner—the omniscient invisible hand in Léon Walras's general equilibrium model.

The Enigma of the Economic Quanta

Advances in economic thought have been made against the postulate of homogeneity, but they run into a formidable difficulty. Where heterogeneous features are taken into account in the behaviour of microeconomic players, the coherence of the entire system becomes a puzzle. Microeconomics and macroeconomics become estranged because it is no longer possible to postulate a uniform system of co-ordination. This state of affairs is not unique to economics. In the physical sciences and life sciences, it is known that microscopic and macroscopic phenomena cannot be described with the same formal tools. Macroscopic regularities have their own autonomy. However, it is in economics that the philosophy of methodological individualism is found at its most virulent. The desire to found macroeconomics on microeconomic principles is such that the prevailing inclination is to overlook such obstacles and hence to perpetuate the postulate of homogeneity against all empirical evidence. Thus, the macroeconomy is no more than a microeconomy enlarged to full size by means of the hypothesis of the representative agent. Another approach is simply to deny that macroeconomics is in any way relevant. It is evident that this type of fundamentalism has serious consequences for economic policy. We have experienced the paradox of ideological ossification at the very time when theoretical progress has revealed the complexity of relations between the levels at which economic phenomena are perceived. But this progress has forever tainted the purity of the great paradigms.

In fact, for a quarter of a century, exploration of this complexity has produced a splintered image of economic science. A key dimension of the heterogeneity of economic phenomena relates to information. Costly, incomplete, unbalanced and organized into structures that are far from being exclusively markets, information creates asymmetries in terms of influence, giving some economic operators power over others. Information is processed by intermediaries situated between the microeconomic and the macroeconomic levels, organizations which are not themselves aggregations of microeconomic agents but sets of non-market relationships which help to create consistencies within the global economy.

Another dimension of this complexity is the discovery of the extent of the role played in economics by externalities, in other words, of any type of interdependence that is not incorporated into prices. The greater the role played by externalities, that is, the less markets themselves are the sole co-ordinators, the more ambiguous and fallible will be the use of a market equilibrium to represent the system in its entirety. Externalities have undermined the dichotomy between public and private goods, have emphasized the role of collective action in the achievement of economic efficiency, and have made a considerable contribution to better understanding of the process of growth.

In a world in which information is an issue and in which externalities are laden with significance, there is no such thing as a general equilibrium of perfect competition. Nor is there any reason why maximum competition should be the best possible form of relationship between economic agents, for competition in these contexts entails the adoption of behavioural strategies, the effects of which could be socially and even individually disadvantageous. This is the environment in which the problems of regulation arise. Regulation theory is concerned with heterogeneous economic processes in which necessity and contingency, the constraint of the past and the creation of the new are intertwined. It deals with processes that emerge, are reproduced, then wither away under the effects of the unequal development inherent in capitalism.

Accumulation and Cohesion

A mode of regulation is a set of mediations which ensure that the distortions created by the accumulation of capital are kept within limits which are compatible with social cohesion within each nation. This compatibility is always observable in specific contexts at specific historical moments. The salient test for any analysis of the changes that capitalism has undergone is to describe this cohesion in its local manifestations. It also involves understanding why such cohesion is a short-lived phenomenon in the life of nations, why the effectiveness of a mode of regulation always wanes. And it requires grasping the processes that occur at times of crisis, confusion and changing behaviour patterns. Lastly, it involves trying to perceive the seeds of a new mode of regulation in the very midst of the crisis afflicting the old one.

Here I shall begin by returning to certain fundamental concepts used in *A Theory of Capitalist Regulation* with a view to examining them in the light of the developments in economic theory that have occurred over the past twenty years. I shall then present a summary of the forces behind the great post-war boom, in which I shall include both the American experience and that of Western Europe. Thereafter I shall study the demise of the mode of regulation known as Fordism and the profound social changes of the last twenty years. Finally, I shall address the open question of the emergence of a new mode of regulation, the promise of a new age of the wage society.[2]

[2] Translation note: 'Wage society' is a translation of the term 'la société salariale' by which is meant 'a society which develops under the impulse of capitalism and in which wage–labour—by far the preponderant form of employment—is also the predominant source of total demand. It follows from this that the compatibility between wage costs and income has to be regulated by social institutions' (author's definition).

Theoretical Problems

If we reject the paradigm of the pure economy, as established by the rational expectations school, this raises the problem of the social fabric. Economic relations cannot exist outside a social framework. It is quite clear that in democratic societies individuals can pursue their own objectives within markets, subject to a wider range of constraints than just scarce resources. These constraints include lack of knowledge, moral considerations and institutional or organizational restrictions. Even such a general formulation is already far removed from the pure economy. What is being hinted at here is an evolutionary theory of microeconomics with imperfect information, a system in which processes of learning and adaptation are of the essence. The question that then arises is what kind of macroeconomics goes with it—a conception of the global system compatible with a representation of individual behaviour that goes beyond assuming the individual's desire and capacity to achieve the best possible deal under an exogenous set of constraints.

Individualism, in fact, has little to do with the logic of utilitarianism. Contrary to the claims of an instrumentalist perspective, goals are not exogenously given, merely forming part of the social background to economic relations. The goals themselves, and not only the means used in their pursuit, help to form economic relationships and are influenced by such relationships. Some outstanding economists of the past have given a great deal of thought to the way in which individual behaviour influences the economic climate and vice versa. Joseph Schumpeter portrays individualism in the figure of the entrepreneur. Entrepreneurs are far from being profit-maximizing automata. They are innovators. By venturing into the unknown, they enable society to reduce its dependence on existing structures. But they do not do so without causing social damage; they are destroyers as well as creators. Keynes depicts the infernal intertwining of the industrialist and the financier. They do not have the same perception of time or the same evaluation of profit, yet they are linked by a web of financial obligations. The inevitability of debt also binds them inexorably together in conflict. That relation is preordained by the power relationships which derive from this financial bond—asymmetric information, as it is termed nowadays in the sanitized language of economists. Keynes shows that economic development depends on which is the dominant force, the entrepreneur or the financier. However, which has the upper hand itself depends on the prevailing situation.

Thus, in a society in which individualism reigns, individual goals take on economic form by asserting themselves in the pursuit of interests. These do not necessarily embody collective aims when they are formulated and revised. But these interests come into contact with each other. They may be mutually antagonistic or mutually reinforcing, depending on the nature of the social links which they are helping to change. Those links, however, function primarily as vehicles for the formulation and pursuit of individual interests, because the successful pursuit of these interests depends on society's acceptance or rejection of the result of the actions to which they give rise. The social fabric appears first and foremost as a problem of collective belonging, in the form of a system or systems in which individual interests are validated by the results they produce.

The Division of Labour, Money and Debt

The regulation approach assigns an important role to money, which, since the original publication of *A Theory of Capitalist Regulation*, has constantly been reaffirmed. Money is the primordial social link in market economies.[3]

Let us underline the importance of this hypothesis. It means that, logically and historically, money precedes exchange. There can be no starker statement of the contrast between this hypothesis and that of the pure economy, in which money is regarded as a development of barter. In the pure economy, money is a particular means of exchange which springs from the spontaneous coordination among rational individuals. In the social-link model, money is the collective pivotal point in the relationship between the individual and society. A relationship between two individuals may be termed 'commercial' because it is conducted through the institution of money. Individuals do not have to make their mutual interests compatible via the price mechanism before actually exchanging commodities. They may express their interests independently and perhaps these interests will conflict, for the individuals' actions must respect one social constraint, namely the need to settle their prior debts in money. Money is thus the key to membership of the market society of individuals who are free to pursue their own ends without having to coordinate their actions through the determination of equilibrium prices. The underlying rationale that gives coherence to the system of market exchanges is the settling of debts, not the determination of prices.

If money is the basic social link in market economies, and if it means that individual actions are validated by the obligation to settle debts, we still need to know why such great importance is attached to debt. This is because debt is the type of relationship between the individual and a society which rests on the division of labour. Individuals pursuing their own ends are no less a part of society, for they are necessarily incorporated into the division of labour. The division of labour creates reciprocal indebtedness between each individual and society in general. To translate their goals into an autonomous activity, economic agents must invest, in other words, take resources from society.

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[3] This conception of money, which is not absent from the works of Karl Marx and which is also one of the foundations of Keynesian economics, was explicitly mentioned as part of the very definition of a market economy by C. Benetti and J. Cartelier, *Marchands, salariats et capitalistes*, Paris 1980. A compatible formulation may be found in M. Aglietta and A. Orléan, *La Violence et la monnaie*, Paris 1984.

They are thus indebted to the community and responsible for the resources borrowed. But society, for its part, owes a debt to individuals insofar as the use they make of these resources helps to reconstitute the division of labour.

What is better understood is how money serves as the fundamental institution in any market economy. When individuals pay off their debt, they are proving that they have helped to renew the division of labour. But they can only do this because of the income earned through their activity. By transferring money through someone buying the fruits of a particular individual's labour, society has given the individual what it believes he or she has given it. But the apparent reciprocity of this relationship is illusory, since individuals' valuation of their input will not necessarily match society's valuation when it pays them. This disparity is reflected in unpaid debts, the deferment of which can cause problems. Society may therefore exist in a state of financial disequilibrium. The state of individual accounts and of the obligations they entail under the prevailing financial rules is what creates the potential for conflict between individual goals and social constraints.

As the primordial institution of market exchange, money is consubstantial with value. Indeed, economic value is the anonymous judgement passed by the market society—all other individuals—on the economic act of each individual. This judgement is ratified by the system of payments. It is the form in which societies with autonomous economies reward the contribution of each individual to the reconstitution of the division of labour. Money, as the operator of value, is the regulatory institution par excellence, because payment is prescriptive. Money logically precedes exchanges, because it is the unit in which prices are defined. As a basic social norm, it proceeds from sovereignty. It is the temple of the common faith of individuals in the markets, because it is through money that they belong to the market economy. The economy, then, is not pure, because its very foundation, the monetary standard, is an extraneous factor.

Capitalism and the Working Classes

How do money and debt relate to capital and the labour force? There is no doubt that capitalism, in the eyes of both Marx and Keynes, is a monetary economic system. If wages create social division, establishing the power of one social class over another, that power is the power of money. To be more precise, it is the power of those who have the initiative to create money in order to transform it into a means of funding; it is their power over those whose only access to money is the sale of their capacity to work. This power is exercised with a view to accumulation. Transforming money into capital means sharpening the contrast between the goods produced by individuals' activity and money itself. As Marx himself said, 'If ordinary items of merchandise are considered, money presents itself as the only adequate incarnation of their value.' But the money that is accumulated as capital is money that is not extinguished in the settlement of debts. Accumulation of capital is one side of the equation, but the other side is necessarily the development of indebtedness.

Trying to accumulate money for its own sake as the aim of economic activity means seeking power over others, because money is the basis of the social fabric. The accumulation of power, however, is a limitless desire. This is what makes capitalism a force that cuts across society, a dynamic that takes control of the division of labour to continually transform it. But capitalists are part of the division of labour, too. They cannot accumulate the power of money without an input and hence without incurring debt and submitting to the judgement of society. That is why the employer–employee relationship is an intensification of the link between the individual and society, the illusory reciprocity of which we emphasized above. Marx made much of the antagonistic aspect of this relationship, placing it in the context of an unrelenting class struggle that would result in the demise of capitalism itself. Nevertheless, it is theoretically possible to alter this illusory reciprocity within capitalism. It can be altered if the dynamism of capital also improves the living conditions of the labour force and develops a wage society. This is the theoretical option that the regulation approach has pursued and that this book has explored in order to interpret the development of American society as a model for the Western societies of the twentieth century. This involves a clear definition of the relationship between employers and employees.

Wagering on the Future

The employer–employee relationship is the separation which renders a body of free individuals incapable of becoming private producers within the market economy. The withdrawal of resources from society by the agents in the market economy turns these resources into the means of producing goods autonomously. Employees are also individuals who are free to pursue their own ends, but this pursuit is subject to the constraint of the privation of property. Their access to money is obtained through an employment contract whereby they sell a number of hours' work in return for a wage or salary. Subordination to the capitalists occurs in the realm of production, which is not a place of exchange. The fact is that the labour contract entitles capitalists to have their employees work under their control. Enterprises are therefore specific kinds of organizations, since hierarchical power is exercised there to produce goods with a view to accumulating money.

It follows that the dichotomy of the individual and society is not seen in the same way by employees and capitalists. Collectively, employees have a common status; the key to their subsistence is work under the authority of those who own the means of production. Individually, employees are free to hire out their labour to any capitalist. They are also free to spend their pay as they see fit. There is therefore a twofold mobility that can act as a regulator on the accumulation of capital: the mobility of the employees themselves, which is a source of unemployment, and the mobility of their consumption habits.

Collectively, the capitalists depend on employees' consumption in the market to honour their financial obligations and realize their monetary profit. Individually, they are competing to accumulate capital. Capitalist enrichment is private, in the sense that the debts incurred by capitalists are wagers on the future which are not mutually compatible, for reasons clearly identified by Schumpeter. To accumulate capital, each capitalist tries to free himself from the constraints of the existing division of labour. That is what makes capitalism a dynamic force for technical change which drastically alters the division of labour. As it takes some time for society to validate or invalidate these wagers, the evaluation of capital at any given moment includes a specific process of buying and selling debts and rights to capitalist property. The capital owned by individual capitalists is evaluated in financial markets. This evaluation itself amounts to speculation on the future. It comprises wagers placed by the financial community, in other words by other capitalists, on the success or failure of the gambles taken by each individual capitalist. The financial evaluation of capital introduces the ambivalent solidarity between industrialists and financiers to which Keynes refers. The incoherence of the capitalists' wagers on the future division of labour is illustrated by the solvency problems affecting their debts. Doubts about solvency provoke drastic revisions in these evaluations of capital, which trigger financial crises. These crises are the expression of the monetary constraint that reveals the incoherence of individual interests whenever these interests take the form of capital accumulation.

The Importance of Mediation

The essential idea of *A Theory of Capitalist Regulation* is that the dynamism of capital represents an enormous productive potential but that it is also a blind force. It does not contain a self-limiting mechanism of its own, nor is it guided in a direction that would enable it to fulfil the capitalists' dream of perpetual accumulation. To put it another way, capitalism has the inherent ability to mobilize human energy and transform it into growth, but it does not have the capacity to convert the clash of individual interests into a coherent global system.

The abstract form of the link between the individual and society represented by the buyer-seller relationship itself depends on the basic social institution of money. But a virtual economy comprising only buyer-seller relationships would be regulated exclusively by the system of payments, that is, by a coherent set of monetary rules and by an institution which is the guarantor and executor of that system.

The same no longer applies to capitalism. We have just seen that the evaluation of capital already presupposes an entire financial system. Moreover, the employer–employee relationship is fundamentally hierarchical within the enterprise, even though it assumes the guise of an exchange that is formalized by the employment contract. Since it is spurred on by the limitless desire to accumulate money, capitalist management of the production process can degenerate into a power capable of destroying the labour force it has subjugated, as the tragic history of proletarianization demonstrates.

To manage an ordered productive force, namely one that is capable of preserving the working potential at its disposal, capitalism must be hemmed in by constraining structures. Such structures are not the fruit of capitalist reasoning or the spontaneous result of competition, but rather emanate from the creation of social institutions, legitimized by collective values from which societies draw their cohesion. This cohesion is the product of social interactions that take a variety of forms: conflicts, some of which may be violent, debates that find their way into the political arena, associations that lend collective strength to groups of employees and legislative provisions that institute and enshrine social rights.

Within its own ranks, capitalism unleashes conflicts which obstruct its own development. But it also summons up forces opposed to its desire for accumulation, forces which find a way to channel this opposition into social mediation. In a historical context, it is this mediation that makes actual the notion of the wage society. Thanks to this mediation, processes of capital accumulation can also improve employees' living conditions. Technical progress can be converted into social progress. That is no more, of course, than a possibility; everything depends on the creation of mediatory mechanisms and their effectiveness as regulators.[4]

Against the Primacy of State or Market

The regulation approach is therefore related to numerous critical views of the orthodoxy that presents capitalism as a spontaneous development, and progress as the direct and continuous effect of technical development. It affirms the belief that market mechanisms must be supplemented or supplanted by collective action. This action is expressed in social mediation. But the regulation approach is distinct from two mutually contradictory conceptions: first, the idea that rules and institutions are products of the convergence of private decisions; second, that any non-market force that has a global effect on the development of capitalist economies must proceed from the state.

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[4] In *A Theory of Capitalist Regulation*, written at a time when the term 'mediation' was not really established in this sense, these mechanisms are referred to as 'structural forms' or 'institutional forms'.

Mediation mechanisms, in the regulation approach, are genuinely intermediary structures that modify the relationships in which tension between individuals and society plays a part. Mediation mechanisms are present in the context of private actions. For instance, an industrialist will decide to invest on the basis of the financial community's opinions, the credit lines his banker is prepared to open and any tax incentives available. But there are other matters for consideration: the impact of the investment on the social hierarchy in the company and of the changes which new technology—if involved—might have on the pay scale, on the status of categories of worker and on promotion opportunities. This context is socially constructed by an intermingling of mediation mechanisms. They have their own inertia, they perpetuate behavioural routines, but they also develop at different rates—the markets' opinion of the value of the capital being affected by the intentions of an industrialist and developing more rapidly and in a more volatile manner than the change in the organization of labour necessitated by the realization of these intentions. The overall context, however, does change along with the collective interests that are activated by the interaction of the various wills within these mediating mechanisms.

From another point of view, this mediation creates global processes that are types of macroeconomic sequences. *A Theory of Capitalist Regulation*, for example, provides ample demonstration of the ways in which collective bargaining alters the development of pay structures and how the advent of the large enterprise transformed the price system. In short, this whole mediatory structure helps to shape a mode of regulation. The life expectancy of a mode of regulation is that of the compatibility of the mediation mechanisms that lend it coherence. This approach leads us to reflect on the role of mediation mechanisms in regulation theory compared with the more general approach of institutional economics.

The question of mediation mechanisms is that of the passage from the microeconomy to the macroeconomy in a situation in which the economic players and their behaviour patterns are heterogeneous. The unsatisfactory nature of the concept of utility maximization as the sole universal goal within the framework of limited resources makes it impossible to imagine the macroeconomy as a projection based on a representative individual. Even if this view persists in macroeconomics and claims to represent the system on the basis of primary microeconomic principles, it is incompatible with the new microeconomy.

Institutionalism as Pragmatist Minimalism

In the face of this insurmountable obstacle in the present state of knowledge in the social sciences, and particularly within economics, the pragmatic position consists in taking note of the separation between microscopic and macroscopic phenomena. The investigations and theoretical propositions applicable to individual players are not regarded as relevant to the study of economic systems. We should state that this approach is very familiar to experimental scientists. Everyone knows that some physical laws possess only statistical validity since it is impossible to account for observed patterns on the basis of a complete explanation of the interaction between elementary physical units. Similarly, without seeking to enter the philosophical debate between holism and individualism in the study of what a society is, we can recognize regular macroeconomic patterns. There is therefore a field of macroeconomic study that is closely linked to economic policy. It consists in examining the relationships between the global factors involved in these patterns, in identifying the conditions under which they will remain stable, in making projections and in studying the global effects of budgetary or monetary responses.

Institutional economics is critical of this minimalist approach. It acknowledges the existence of a multitude of rules, agreements, customs and norms. It studies their appearance, their effect on the elementary economic agents and their defects. Compared with the microeconomics of the rational individual restricted by scarcity, institutional economics emphasizes a variety of relationships. These create more or less extensive co-ordination systems among microeconomic players, favour certain behaviour patterns, conclude agreements and combine individual objectives into collective aims. The institutions therefore perform mediatory functions.

But in its burgeoning development, modern institutional economics, with its strongly evolutionary tendency, does not solve the problem of macroeconomic coherence. The problem essentially consists in the perception that institutions are the products of behavioural interactions among microeconomic agents.[5] According to this definition, however, traffic lights, product labels, the rules of etiquette, social security and central banks can all be called institutions! The ways in which the institutions are linked, dovetailed, hierarchically organized, and so forth, to form subsystems are not dealt with systematically. This institutional approach does shed some very important light on the collective factors that condition the behaviour of individual economic players and, by extension, on the environmental changes produced by the interaction of players trying to loosen constraints. But it cannot explain the existence, coherence or incoherence of macroeconomic patterns by this method.

Theory of Conventions

The theory of conventions explicitly admits the existence of collective entities that are not the results of the behaviour of individuals under bounded rationality. The collective entities have an existence of their

[5] One good example of this approach may be found in A. Schotter, *The Economic Theory of Social Institutions*, Cambridge 1981.

own, the analysis of which is rooted in the cognitive sciences. The theory of conventions therefore offers a wide variety of models in which institutional forms are studied.[6] But the transition to the macroeconomy is almost totally absent. It is this transition that regulation theory seeks to establish by linking the mediation mechanisms to the fundamental relationships of capitalism, namely money and employer–employee relations, as defined above. There is, however, some common ground between regulation and convention theories which reconciles these viewpoints with regard to evolutionary neo-classical economics. The latter regards institutions merely as contracts between economic players. Convention theory and regulation theory explicitly perceive institutions as mediatory mechanisms. Enterprises are the co-ordinating organizations between the micro-economy and the macroeconomy, since rules of payment, flows of goods and money and financial relationships are linked into a hierarchical structure where deals are struck between various categories of stakeholders with claims on the collectively produced added value. The conceptual division of the enterprise into product markets, labour, and capital, in neo-classical economic theory obscures the essential point, namely the existence of structured links that are not markets, links without which the overall coherence of the economic system is unintelligible.

There are, though, differences between convention theory and regulation theory on the role of mediation mechanisms as a means of accounting for macroeconomic patterns: they are apparent in views of the formation of the collective entities through which these mediation mechanisms operate. Convention theory, like the ideas of the neo-Austrian school inspired by Friedrich von Hayek, tends to see these as spontaneous processes emerging from the dynamic interaction of individuals pursuing their interests. Regulation theory, by contrast, emphasizes the organized establishment and pursuit of collective interests. The creation of institutions is an essentially political act, and politics is never an individualized pursuit. Government intervention, industrial disputes and the formalization of compromises by the legislature must be considered in order to take account of changes in institutions as well as to describe the hierarchical structure of their relationships. The mode of regulation manages the tension between the expansive force of capital and the democratic principle. This principle is the source of the mediation mechanisms that lead to regular macroeconomic patterns in which the accumulation of capital can be made compatible with social cohesion.

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[6] Some of the texts on which the economics of conventions is based appear in J.P. Dupuy et al., eds, 'L'Economie des conventions', in *Revue Economique*, special issue, March 1989. See also the collective work edited by A. Orléan, *Analyse économique des conventions*, Paris 1994.

The Advent of the Wage Society

The twentieth century has been an era of social upheaval on an exceptional scale.[7] In these closing years of this century, when Europe has fallen prey to chronic stagnation, pessimism has become fashionable among some intellectuals. As they review the key events of the century, they delight in focusing on its tragedies. This nihilism, or, at best, scepticism, contemplates history and judges it absurd. Whether they invoke the curse of the human condition or the empty abyss that lies beyond the acquisition of freedom, these pessimists thrive on a metaphysical theory in which the notion of progress has no place. Such a point of view is not part of the regulation approach, which postulates that the thread running through the history of the twentieth century is that of the advent of the wage society.

It was suggested above that capitalism is a force motivated by the individual's desire to accumulate money. This force is converted into a dynamism that transforms the division of labour. Since it is intrinsically a creator and a destroyer, capitalism can only achieve progress for society if sets of mediation mechanisms, forming a mode of regulation, establish coherence among the imbalances inherent in the capitalist system. The cumulative effect of this coherence, once it has been achieved, is the establishment of a régime of growth.

The advent of the wage society is the product of changes in the employer–employee relationship in the first half of the twentieth century: the integration of the labour force into the process of the circulation of wealth produced under the stimulus of capitalism. This integration has established constraints on the accumulation of capital which have given a collective purpose to the pursuit of interests, thereby legitimizing both parts of the dichotomy between individual goals and membership of society. On the one hand, constraints on the accumulation of capital have opened up markets created by the integration of the labour force. On the other hand, the subordination of the labour force to the production process has been normalized by the acquisition of social rights giving employees access to the wealth they produce. This historic transformation gives rise to the following proposition: *the modes of regulation in the wage society are legitimate to the extent that they permit social progress*.

[7] *A Theory of Capitalist Regulation* describes how the wage society developed in the United States and why it has served to regulate the accumulation of capital. In the following pages, these results are generalized by reference to the experience of European countries. Special attention is given to the crucial mediation mechanisms within the accumulation system, their relative importance as part of the mode of regulation and their effect on individual preferences. Emphasis is also placed on the importance of the nation as the crucible of institutions creating a greater degree of social cohesion during the period of rapid growth.

The Age of Large Organizations and Stable Social Hierarchies

Political debate is indispensable as a means of transforming the aspirations that stem from experiences that individuals undergo in particular economic situations into social aims which can be supported by broad sections of the population. After all, political deliberation, whether it influences legislative work or whether it results in agreements between organizations representing interests that are both mutually opposed and mutually dependent, has always been party to the creation of the major social mediation mechanisms. It is in this sense that it was true to say that the rights of employees at work, the collective negotiation of pay rates and social protection are institutionalized compromises. They do not derive from the spontaneous progress of capitalism but from an institutionalization of relations between employers and employees. The mode of regulation that established the Fordist system, whereby the constraints imposed on capital corresponded to the degree of integration of the labour force, was the fruit of the institutionalization of economic relations.

From the capitalist point of view, the twentieth century has been the century of organization. Capitalism based on organization in the industrial and financial sectors has become the main engine of accumulation in place of Schumpeter's individual entrepreneurs. It is also organized capitalism that has structured the masses employed in industry into hierarchical strata, ranging from the specialized worker to the engineer, to replace the mosaic of trades that coexisted in the factories of the nineteenth century.

Organized capitalism developed from the end of the nineteenth century and blossomed after World War II. The major companies, the public institutions administering social infrastructures such as schools, urban facilities and transport systems, the social institutions and the intermediaries involved in the circulation of capital—large commercial businesses and the financial system—grew rapidly as the full-time employment wage contract became the norm.[8] All of these organizations enable markets to function while they themselves operate according to their own rationale—that of an organization. The form of organization which divides the work force into functional strata is preordained because it is effective in the wage society. This hierarchical stratification reduces uncertainty about the behaviour patterns expected of those who occupy a position within the structure. The organizations rebuild a sense of belonging to society on the ruins of the traditional forms of social life that capitalism destroys.[9]

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[8] In the countries of the Western world, 80 to 95 per cent of the active population were wage-earners in 1970, compared with less than 50 per cent at the start of the twentieth century.

[9] That is why we come across overstated pessimism in the sociological approaches inspired by Karl Polanyi. While Polanyi provides an admirable analysis of the ways in which capitalism destroys the forms of social life inherited from the pre-industrial era, he

The large organization is integrated by stratification, because the staffing system it entails is robust enough to withstand the shocks of the market economy. In the Fordist model, uncertainty was relegated to the margins of capitalist accumulation, to small subcontracting businesses, agriculture, small traders, Third World countries, and so forth. In this way, the large organization legitimized its growth by sucking into the labour force non-wage-earning populations on the periphery of capitalism and giving them the chance of integration into the mainstream economy. The transformation of the employment structure, involving migration into paid employment and stratification of the labour force into socio-professional categories, was the driving force behind the growth that followed World War II.

Establishment of a Growth Régime

The large organization not only drew new social strata into itself. It also provided them with a framework and a code of membership: a steady wage, job security, the prospect of climbing a visible promotion ladder and rules governing upward mobility. The employees integrated into the organization were thus able to give meaning to their aspirations by pursuing the goal of social mobility.[10] This is why certain sociologists were able to say that the wage society was turning class struggle into a struggle over status. These aspirations extended across generational boundaries and addressed a powerful demand to schools, which became the producers of human capital, striving for equality of opportunity. In fact, schooling was a selection process, and schools had to adapt to the limitations on social mobility that the hierarchy imposed to ensure that the large organizations operated in the interests of capital accumulation. This is what mediation mechanisms do effectively: find acceptable compromises between forces that are diametrically opposed but inextricably linked.

Another conclusion drawn from this connection between the major enterprise or administrative apparatus and the school is that the various mediation mechanisms are dovetailed to form the framework of a mode of regulation. This dovetailing does not happen automatically, because each of these organizations has its own rationale, the integrity of its own structures that makes it persevere in its perceived social role. That is why the coherence of a mode of regulation does not conform to any pre-established general law. It is a historically unique entity that may be called a growth régime. By contrast, the symptoms of exhaustion of a growth régime, heralding a period of uncertainty, crisis and change, must be sought in malfunctions of the interaction between mediation mechanisms.

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undoubtedly underestimates the capacity to recreate the social fabric generated by social conflicts, provided that these can be shifted into the political arena, thanks to the democratic principle which encourages political groups to express their common interests through collective channels.

[10] M. Pages et al., *L'emprise de l'organisation*, Paris 1981.

In this coherence that ultimately turns into malfunctioning, it must never be forgotten that mediation mechanisms are charged with the tension that exists between the individual and society. The compatibility between mobility and security provided by the large organization—as long as there is a coherent mode of regulation—reinforces individualism, for the hierarchical principle is at work there. This is how a collection of functions is articulated through a set of rules. Authority can no longer be legitimized by a symbolic figurehead or by the invocation of a transcendent moral value or religious belief. The large organization considerably alters the nature of our sense of belonging. We are citizens with all sorts of cards—identity cards, national insurance cards, credit cards. We are able to join all sorts of associations. In short, we belong to many things. But none of these memberships implies any particular emotional commitment. Scope for autonomous action, unthinkable only a few decades ago, has become available to a multitude of individuals.[11]

The rise of individualism, which released a prodigious amount of energy that large organizations succeeded in harnessing, also ran into opposition in the events of 1968, which were experienced more or less intensely throughout the Western world. While the large organization gives rise to individualism, it must also limit that individualism in order to play its mediatory role. The large organization limits mobility and innovation, because the stability of its constituent rules does not allow it to accommodate more than a limited margin of flexibility in its operating conditions. Large companies, for example, in opting for a form of technical progress and trying to control the pace of that progress, will make use of employees' initiatives but will channel them through company mechanisms. These limitations preserve capitalist power over the production process but this power comes into conflict with the increasing autonomy of individuals. The quest for an enterprise culture aims to rediscover emotional commitment in order to cement employees' sense of belonging to a purely objective type of organization. The failure of these efforts in the 1970s was one reason why productivity ran out of steam, inflationary pressures built up and the rate of growth declined.

The Economic Principles of Regulation in the Fordist Model

The exceptional quality of this mode of regulation, which achieved maximum coherence during the 1960s, may be illustrated with reference to a number of stylized economic facts.[12] The core of the mode of regulation was the reconciliation of rapid increases in productivity with the growth of real income and with stability in its distribution. Real wages increased regularly because they were linked to prod-

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[11] G. Mendel, *54 millions d'individus sans appartenance*, Paris 1983.

[12] *A Theory of Capitalist Regulation* analyses these in detail as they relate to the United States. They can be generalized, with variations to reflect specific national circumstances. Such variations, however, cannot cast doubt on the fundamental fact that all Western countries benefited from a common growth régime.

uctivity growth. The functional division of income into wages and profits remained stable, because the increase in money wages was linked to the price index. This made the improvement in the standard of living of the workforce compatible with the constancy of the rate of profit and hence with the steady accumulation of capital. This set of stylized facts depicts the macroeconomic process whereby the labour force was integrated into capitalism.

To the first pillar of the growth régime, namely the distribution of wealth, was added another, comprising a high level of investment, the increase in the labour force, stable employment structures and a low unemployment rate. The positive interaction between the distribution of income, on the one hand, and investment and productivity, on the other, was a result of the dynamism of demand. Thanks to the very broad redistribution of the fruits of increased productivity among the labour force, popular demand, based on mass consumption by an urban and suburban society, lent impetus and a sense of direction to technical progress. The result was endogenous growth, as it is called nowadays. The long-term development of employees' consumption demands ensured a rapid and very steady rate of technical progress. The steeper the long-term growth curve, the greater progress was achieved in the domain of productivity. These dynamically increasing returns on a macroeconomic scale more than offset the diminishing marginal return on investments as the stock of productive capital increased. The interacting dynamics of consumer demand and technical progress steadily extended the limits of technical efficiency in the production process, thereby preventing any reduction of profit rates. It also continually created new activities to absorb the labour force that productivity growth had made superfluous.

Along with self-sustaining long-term growth—which lasted for almost three decades—another remarkable property of Fordism was the way in which the growth régime could cushion the fluctuations of the business cycle. Such is the efficiency of the regulation mechanism. The coherent dovetailing of the mediating institutions played a decisive role here. First of all, a steady rise in real wages was guaranteed by collective pay bargaining and by the expansion of social transfers, which served as a powerful anti-cyclical instrument. In the event of a transitory drop in sales, large companies could foresee that the trend in demand was not altered. Working on a longer timescale than that of the trade cycle, they invested on expectation of future demand growth ahead of the present shortfall, thus sustaining global demand.

The financial system and its close links with monetary policy formed a second line of defence to guarantee the durability of growth. Within a framework of rules that legislated in their favour, banks could administer interest rates so as to safeguard their profit margins. They therefore competed with each other over credit volumes. The credit system was a buyer's market, with rigid interest rates and high elasticity of supply. This enabled companies to invest in growth and technical progress at minimum financial cost, which created a high leverage of borrowed funds over companies' own capital. This credit supply function certainly tended to fuel cyclical tensions. The sustained pace of capital accumulation resulted in demand outstripping supply, thereby creating inflationary pressures. However, the way in which these pressures were eased, namely by increased productivity, explains the creeping inflation that dogged the era of Fordism.

Monetary policy was therefore mainly directed towards the avoidance of inflationary excesses. Its chief problem was to limit the liquidity of banks by quantitative measures, which were toughened whenever signs of excessive demand became widespread—mandatory reserves, limits on borrowing to the central bank, credit restrictions. For all that, the recessions which this monetary policy might have provoked were fairly mild and short-lived, for the reasons given above. The dynamics of income, demand and investment ensured that sales always picked up again.

Government and Nation

Relations between governments and national economies have always been the source of bitter ideological strife. The dominant view in the 1960s was that long-term growth depended only on supply and that the macroeconomic influence of the government depended solely on demand. So the state had to regulate the business cycle to match the long-term trend as closely as possible in order to maintain full employment, using a combination of budgetary and monetary measures. This, at least, was the Anglo-Saxon idea of a synthesis of the neo-classical and Keynesian schools. It was attacked in the 1970s by the ultra-liberals, who did not see any reason for macroeconomic intervention by the state, and by the monetarists, who regarded it as no more than nominal price stabilization.

There have certainly been other economic histories and other political cultures in Europe. The Scandinavian Social Democrats put the state at the heart of the collective bargaining process, as a mediatory third party in a centralized system of income control. The German form of welfare-state capitalism—the 'social market economy'—developed a tradition of close collaboration on a regional scale by the public, private and cooperative sectors to create the technical and human environment that would best promote the competitiveness of small- and medium-sized businesses. In France the role of government was to counteract the division of the union movement and the archaic attitudes of employers. The renewal effort in France after World War II was led by a central administration, which succeeded in converting the mercantilist tradition established by Jean-Baptiste Colbert into a force for progress, thanks to the renewal of the élites. The French model of state direction of the economy had a strong public presence in the production system and entailed tight control of the financial system.

The use of mediatory institutions therefore took on a national hue, allowing the development of national varieties of the Fordist growth régime. The coexistence of these variants was permitted by the international monetary system, which left scope for national autonomy in the choice of their mode of regulation. In fact, the modest share of GDP that foreign trade contributed at that time, the limited degree of financial integration resulting from the restrictions on international capital movements and the ability to devalue the currency in a system of fixed but adjustable exchange rates offered some room for manoeuvre in the formulation of economic policy. In those post-war years, governments were able to coordinate the various mediation mechanisms. Economic policy determined how the macroeconomy was to be regulated. We have seen that this coherence affected the relationship between progress in productivity, wage increases, social transfers and domestic demand. The pivotal point of this coherence was therefore the total amount of wages and salaries in its dual role as production cost for firms and consumer spending power. That is why it was possible to speak of a national wage standard to describe this mode of regulation in a nutshell. The state asserted its responsibility in this domain by stabilizing the national business cycle. In that way, it created a chronological perspective for all economic agents and increased the predictability of the climate in which private agents conceived and pursued their ventures.

Apart from macroeconomic coherence, which is the Keynesian heritage recognized by the Anglo-Saxon tradition during the era of Fordist regulation, the regulation approach underlines the more structural government inputs into institutions. This idea is nurtured by the experiences of continental Europe. These forms of state input may be characterized by the aims they seek to achieve: building up collective production bases; stimulating technical progress; overcoming the collective risks inherent in the financial system; and promoting an equitable distribution of income.

The Institutional Base

The importance of the school in the emergence of the wage society has already been indicated. The same applies to energy, transport and urban planning. All these investments are far more profitable to society than to a private investor, because their full collective value cannot be translated into a pricing system. The resources that need to be raised to fund such collective capital are enormous, and the amortization periods are very long. These infrastructural amenities are the social foundations of productivity.

Technological innovation also depends on collective factors—basic research, scientific knowledge and skills—which yield fewer returns for a private investor than for society as a whole. When the state withdraws from this domain, some of the collective factors that lend impetus to technical progress are missing, and the pace of innovation slackens. The more available these factors are, the more beneficial external effects they have on the production of market goods and services, encouraging greater diversity. This process is at the root of the increasing returns from capitalist production which preserve the stability of the rate of profit. State intervention can take various forms. Where purely collective factors are concerned, factors which cannot be privately appropriated—general scientific knowledge—the state must undertake to produce them in public laboratories. Where the factors of innovation can be produced privately—records of industrial research—because their use is a source of revenue to those who produce them, the state may restrict itself to encouraging invention. It may offer tax incentives, relax the rules governing patents or involve itself directly in associations of public laboratories and private companies.

It was indicated above that the financial system was a system of capitalist mediation. It involves evaluating wagers on the accumulation of future profits, redistributing risks in order to spread them more widely, and acquiring and investing funds drawn from the savings of the general public. But financial activity implies certain risks that cannot be spread because the financial markets are incomplete, because the information flow is imperfect and because attitudes to a particular risk are changeable. The result of this is a contagious effect which produces collective behaviour patterns, generating waves of optimism and pessimism in the course of which financial values can undergo huge fluctuations. These disruptions can trigger financial crises, the social cost of which is far higher than the cost to private investors. That is one of the key reasons why governments intervene in the financial sector to prevent crises if possible, or at least to limit their disastrous social consequences.

Regulating the Financial System

Under the Fordist regulation system, national governments have generally been strongly interventionist in financial matters. They have established rules in favour of concentrated banking systems, often differentiating between banks and other financial institutions. They have controlled interest rates to avoid excessive variations and have concluded agreements with their respective central banks to ensure that commercial banks in temporary difficulties have enough liquid assets to guarantee bank deposits at all times.

The development of social transfers creates moral hazards similar to the financial risks. These transfers, in fact, are inspired by solidarity and the need to cover social risks that cannot be spread. They are not therefore regulated by private insurance contracts but by social rules. The moral hazard lies in the fact that the system of social protection has no control over the social costs for which it is liable. It administers a form of passive solidarity in which responsibilities are diluted. The ways in which states have tried to resolve that contradiction vary widely. But the principles of equity underlying these systems of social protection derive from a common philosophy. A purely individualist society cannot exist; there must be a common basis of solidarity. This common basis comprises first and foremost the fundamental necessities of which no-one should be deprived and which must therefore be provided by public or publicly guaranteed systems. It also implies social justice in the form of a system of taxation which redistributes wealth while maintaining the hierarchy of incomes within generally accepted limits.

Equity is thus an important dimension of the reconciliation of capitalist interests with social progress in the wage society. By preventing exclusion, it reinforces citizenship and hence identification with the economic system. By preserving homogeneity in the distribution of income, it encourages the widespread adoption of modern lifestyles and hence the development of markets for mass consumer goods, the very development that served as the main engine of capital accumulation.

The Globalization of Capitalism and Crises in the Wage Society

When *A Theory of Capitalist Regulation* was written, the Fordist system was just beginning to malfunction. With twenty years of hindsight, and within the theoretical framework presented here, we might venture to suggest an understanding for the many changes, jolts and convulsions that have marked the crises of this period. To that end, we must reconsider the two contradictory faces of employer–employee relations which brought forth the wage society.

Let us recall the hypothesis that underlies the regulation approach, namely that capitalism is a force for change which has no inherent regulatory principle; this principle is provided by a coherent set of mechanisms for social mediation that guide the accumulation of capital in the direction of social progress. The capacity of these mediation mechanisms to absorb the effects of change in a manner compatible with the global growth rate is limited in two ways. First, the effectiveness of organizations lies entirely in the stability of their internal rules, but these allow them limited scope to respond to variations in the conditions governing the accumulation of capital. Second, the institutionalized compromises between interest groups, whether they are contractual or enshrined in law, only reduce uncertainty by virtue of their rigidity. The causes for the malfunctioning of the growth régime must be sought in the distortions between the changes unleashed by capitalism and the impotence of the existing institutions to deal with them in the framework of the established macroeconomic regulatory system. Many such changes have occurred over the past twenty to twenty-five years: the extension of the wage society as capitalism spreads across the world, financial globalization, the technological revolution and the renewal of individual interests. These upheavals affect employment, employees' lifestyles and the substance of social progress in the countries that were previously the main beneficiaries of growth and mass consumption.

What is Globalization?

The term 'globalization' has become a catch-all word for journalists, politicians and the business community. It is the horizon for all our hopes and the source of all our ills. In continental Europe it is accused of having caused chronic unemployment. In the Anglo-Saxon countries it is blamed for the fall in average real wages and the spectacular widening of the income gap.

These concerns are dismissed by the liberal economists who emphasize the primacy of global competitiveness. Free trade is not a zero-sum game but rather an engine of growth. The acceleration of global growth in the 1990s, after the previous decade had been one of decline and stagnation in many developing countries, has introduced hundreds of millions of people to the era of mass consumption.

Above all, globalization means the spread of paid employment which has enabled capitalism to penetrate into the very heart of non-Western societies. This is happening because the international division of labour offers the prospect of profit. Most importantly, the cost of transferring up-to-date technical knowledge is falling sharply. An increasingly wide range of activities has been profitably included in the international exchange of more highly skilled work in the more developed countries for lower-skilled work in the less developed countries. This two-fold dynamism, broadening and deepening the division of labour, is stimulating the growth of productivity. In the most advanced capitalist countries, the service sector is being revolutionized by the upsurge in intellectual work on concepts, symbols and forms—technical and financial consultancy, design, know-how, information and communication. In the developing countries, the intensity of capitalist activity is increasing with the production of capital goods, the growth of processing industries and the expansion of financial services. The intensification of the international division of labour is therefore equivalent to an increase in productivity.

There is another dimension of the international division of labour which looks set for a promising future at the start of the next century, and that is the exchange between generations. The savings of the ageing active population of the developed countries will be exchanged for flows of future income earned by the young labour force of the newly industrialized countries. This type of integration is based on solid demographic trends. The average age of the population of the developed countries is bound to rise because of the declining fertility rate among women aspiring to greater independence, and because of increased life expectancy. Furthermore, the declining birth rates that are now being registered in more and more regions of the world will result in a relative increase in the size of the labour force as a percentage of the whole population. The transfer of savings that results from this really did take off during the 1990s. It is a key factor in the pursuit of financial globalization, although the latter phenomenon dates much farther back.

This transformation of the division of labour on a planetary scale is a source of capital accumulation which is fuelling a new growth régime. However, as has always been the case in the history of capitalism, this technological revolution is not self-regulating. The policies, mentalities and institutions which interfere with the determinant factors of capital accumulation do not develop at the same rate as techniques, working methods and markets.

The European Dimension

So the new accumulation system that is establishing itself is not that dreamed of by the theorists of free trade—a global economy unified by the market. Although economic policy has shifted towards liberalism, it has not returned to the competitive capitalism of the nineteenth century. Nevertheless, the institutions of Fordism have found it very difficult to adapt. The regulations that proved effective in the 1960s have become largely inadequate. This does not, however, alter the fact that the twentieth century has seen the rise of the wage societies. In these societies, social rights are a constituent element of citizenship; they are the cement of social cohesion. The organization of the work process has increasingly become a collective process which depends on investments in the infrastructure and in human capacities. And so the globalization of the economy is leading neither to the disappearance of nations nor to a minimalist state. But the need to formulate regulatory principles that can guide the accumulation of capital into a new era of wage societies calls for changes in many institutions. Nation-states are required to redefine which social rights are truly fundamental and to strengthen the collective bases of their competitiveness.

The rates of growth and the unemployment trends over three decades suggest that the changes in the social mediation mechanisms are posing more serious problems in Europe than in the United States. There has not been a long-term slackening of growth or increase in unemployment, and the economic policy options have not been radically changed, in the United States. In Europe, by contrast, discriminatory divisions have emerged. Britain has seen the overthrow of the regulatory system, resulting in the intrusion of competition into industrial relations. Yet the Germanic model of negotiations and compromise between organized interests has remained unchanged. The rampant growth of social inequality in the British model, which matches similar American developments, and the relentless rise of unemployment in the Germanic model both underline the difficulties facing wage societies that have experienced Fordism when they try to equip their institutions to establish a new compatibility between the accumulation of capital and social progress. To arrive at a better understanding of this tension, it will be useful to describe the numerous forms taken by the globalization of capital.

Economic Integration

Globalization is a multiplicity of distinct but interconnected processes. Occurring at different speeds, in different sequences and in different places with varying degrees of intensity, these processes are far from coherent. They take root in the main areas of change in the international division of labour. But by interacting with existing regulation models they create various types of disruption in the economic, financial and monetary fields.

Economic integration is a process that has increased in scope since the 1960s. The most obvious measure of its development is the fact that world trade has been growing at a consistently faster rate than world GDP. This trend has proved robust enough to withstand the financial crises and structural shocks that have studded the history of the last three decades. Economic integration generated by trade has not been homogeneous. The establishment of regional economic areas, where the greatest increases have occurred in foreign trade, has been a particularly conspicuous development in Europe, but the trend has not left Asia or America untouched. However, spectacular though the development of trade may be, it does not account for the processes that are transforming the conditions governing the accumulation of capital. It does not satisfactorily explain why such severe and lasting damage has been done to the macroeconomic equilibrium of the countries of Europe. To do that, we must focus on the forms of competition to which the technical progress of our age has given rise and which feature in the international division of labour.

International competition has been extended to broad areas that were shielded from it under the Fordist system. These include public transport, communications, information systems, television networks, energy distribution and financial services. This amounts to a decisive shift in the dividing line between markets and public services. The social shock has been all the more deeply felt in countries where public services were successfully supplied by national public monopolies in which the workforce had enjoyed special conditions of employment. In countries where a high percentage of the labour force had the status of civil servants, the labour contract in the public services used to have a strong influence on wages and prices in the whole economy. That is why the impact of competition is causing considerable upheaval in those countries.

This upheaval is amplified by the effect of the exchange between skilled and unskilled labour resulting from world-wide expansion. The expansion of markets for mass consumer goods and services in the newly industrialized countries is establishing a production base with low wage costs relative to those in the more developed countries. However, thanks to the low cost of technology transfer and to dynamic increasing returns to scale, productivity is high. The result is a distortion of the wage structure in advanced capitalist countries, with upward pressure on the price of skills required to produce goods and services with a high added value, and downward pressure on the cost of labour in industries where there is competition from foreign manufacturers.

Besides the growing quantitative inequality, the distribution of income has been affected by the disappearance of the rules that guaranteed its stability during the Fordist era. The more technical skills become available to companies throughout the world, the greater is the extent to which the cost of the various types of labour is determined by competition on a supranational scale. If specialized workers and engineers have their income determined in supranational markets, their interests will split. Collective bargaining, which used to maintain a stable wage structure accompanied by a steady increase in real income, is no longer underpinned by a common interest in the upward shift of the whole wage ladder.

Weakened Collective Bargaining

The globalization of corporations has undermined the stability of wage structures. As long as the exchange of goods was the predominant form of international interdependence, the labour of one country could be exchanged for the labour of another without the core of the domestic price system being significantly affected by such external transactions. When firms become integrated networks of plants located throughout the world, their competitiveness does not depend decisively on the comparative advantage in a particular country. They are concerned with global profitability and the centralization of cash flows which are means of their strategic decision-making on capital accumulation. Because the interests of multinationals no longer coincide with those of their country of origin, collective bargaining ceases to be the pivotal element in the system of national macroeconomic regulation.

Labour standards linked to full-employment equilibria, determined themselves by multi-year collective bargaining, were the economic linchpins of wage societies during the Fordist era. Cyclical adjustment of economic policies, discretionary devaluations and exchange controls were sufficient to reconcile the national autonomy of these regulations with international trade. By contrast, present-day economic integration is forcing companies to compete on labour costs, to make employment the residual variable and to adjust their profitability to tight financial requirements. Financial integration has become the leading force of globalization. It is in the financial sphere that there have appeared some of the key institutional forms of the new growth régime.

The nature of international competition changes when the interests of companies cease to coincide with those of their respective countries of origin. The competitiveness of enterprises depends on their ability to organize flows of goods, production factors, engineering and finance throughout the world. The production and distribution of economic value by corporations are becoming detached from their territory of origin. Since the coherence of the Fordist mode of regulation lay in the relationship between productivity and distribution in a national context, there is a feeling that the institutions which monitored these adjustments are in disarray. Indeed, real wages and productivity increases have been disconnected, weakening unions and emptying the content of collective bargaining.

The other side of the coin is that the globalization of enterprises intensifies competition, and hence the preponderance of capitalist interests, throughout the entire social fabric of each nation. 'Whatever moves in the world economy puts competitive pressure on factors that do not move'.[13] The set of mediation mechanisms that maintained the delicate balance between private interests and social cohesion has been broken, which has enabled private multinational interests to break out of confinement. Capitalism is engaging entire societies, and the individuals who live in them, in competition without any longer being subject to the constraints that formerly channelled the quest for capital accumulation in the direction of social progress.

The Opening of Financial Markets

Unlike economic integration, which has been proceeding at a steady pace for more than thirty years, the opening of financial markets was a discontinuous régime change arising from deregulation and financial innovation. Finance, after all, is a key mediation mechanism in the regulation of capital accumulation.

Financial intermediaries shape the structure of assets and liabilities which give rise to objective commitments stemming from the idiosyncratic endeavours of entrepreneurs. The logic of finance confronts uncertainty to establish the economic horizon in which capitalist projects can be implemented and to assume liability for specific risks arising from the great diversity of company wagers. This mediation has three functions. The first is the production and circulation of information. Financial logic is threatened by vicious circles and self-fulfilling processes, because finance produces information from information. This process can always degenerate into pure speculation, detached from the real world of production, and create disruptive phenomena: speculative bubbles, sunspot equilibria, overshooting, heterogeneous expectations and shifts in beliefs.

[13] A. Brender, in *L'impératif de solidarité: La France face à la mondialisation*, Paris 1996.

These disruptions have repercussions on the second function, namely the evaluation of the financial assets that determine the direction in which accumulation is guided and the allocation of savings by internal means (self-financing) and by external means (credit and share issues). The quality of the first two functions conditions the third, which is the supervision of the use of savings. This third function is a means of exercising proprietary rights over enterprises. It can either be done centrally on the basis of judgements arrived at by the financial markets or in a decentralized manner through bilateral relations between companies and financial intermediaries.

Since these three functions of finance are not independent of each other, it is the type of combination between them that defines the financial régime of macroeconomic regulation. During the Fordist period, accumulation on a national basis was supported by the mobilization of national savings, courtesy of intermediaries competing within an oligopoly. This competition was contained and channelled by a detailed set of rules governing market activities and conditions. The strict control of international movements of capital added to the coherence of that system.

The opening of financial markets was the result of the crisis of Fordism coming into conjunction with the increase in economic integration. This brought about an abrupt change in the financial system, followed by the slow emergence of new forms of macroeconomic regulation. This discordance produced the banking crises and the upheavals within the finance markets which punctuated the 1980s and 1990s.[14]

There are numerous links between the opening of financial markets and economic integration. They affect the three functions of the financial system described above. The crisis of Fordism resulted in an economic slowdown, the severity of which varied between developed countries, resulting in differences between countries in the way in which the balance between savings and investment shifted. The United States, for example, became a net debtor and Japan a net creditor, a polarization that became ever sharper as time went on. Even so, the globalization of enterprises led to the mobilization of international financial resources. These forces brought about the dismantling of controls on movements of capital on a country-by-country basis. As a result, we have seen the beginnings of a disconnection between domestic savings and domestic investments.

The Rise of the Institutional Investor

This disconnection is one reason for the international diversification of financial wealth but it is not the only reason. The other powerful

[14] For a definition of the financial systems and a description of the characteristic features of the various crises, see M. Aglietta, *Macroéconomie financière*, Paris 1995, chs. 4, 5.

force derives from the change in savings themselves. The relative decline in savings in the form of bank deposits and the prodigious rise in institutionalized savings have led to a demand among savers for higher returns. The institutional investors have become the instruments of the diversification of financial wealth. But the management of a portfolio makes very different demands than those made by banks in terms of transparency of information, ability to manage risks, evaluation of financial assets by the markets and forms of proprietary control of enterprises.

The system of market finance, with its predominance of institutional investors, has therefore replaced the financial system administered by the banking oligopolies. The new system has decisively changed the constraints on the accumulation of capital by changing the way in which proprietary control is exercised. The old form of managerial control accepted pay deals based on stable distribution of the added value of the firms. Long-term stability of accumulation was the management objective. Institutional investors with holdings in a company, by contrast, insist on the performance criteria as evaluated by the financial markets. They compel firms to maximize their equity value in the short term, under the constant threat of hostile mergers and leveraged buy-outs. This form of company management breeds an obsession with cutting wage costs and shedding jobs to boost share prices without much thought for future development.

Another characteristic of market finance derives from innovation in the management of risks. The enormous increase in the volume of trading in securities and the extraordinary boom in derivatives are entirely the fruits of this revolution. Instead of being exclusively administered by the banks, which hold claims until they fall due, the risks associated with market finance are divided into elementary components. These are formalized by financial instruments which make them negotiable—in other words, redistributable to anyone who is able to take them over with profit. A large number of interdependent market segments have combined to provide the elements of a wholesale market in global liquidity. Currencies are exchanged there, the risk and time profiles of portfolios are remodelled, and barriers between banking and non-banking activities are removed. These microeconomic innovations have spectacular macroeconomic effects. A complex web of financial interdependence is being woven between countries through the arbitrage of interest rates, through currency speculation and international creditor and debtor positions. This financial configuration is spreading gradually across the whole world as the new capitalist countries make their currencies convertible and deregulate their financial systems. This is the dominant mediation mechanism in the establishment of the new growth régime.

Technical Progress, Exaggerated Individualism and Identity Crisis

The globalization of economies is far from being the only profound change that wage societies have undergone. They are also subject to the forces of individualism that strike at the social fabric and threaten it with disintegration. Individualism can develop in societies where the main social bond is money. It is only under capitalism that this factor can become a drive that determines individual goals as well as a generalized behaviour pattern. This is the case because, under capitalism, money becomes more than just the standard by which everybody's place in the division of labour is judged. Money becomes a form of wealth that is sought for its own sake, not out of some pathological craving, but as evidence of the social recognition accorded to individuals. By integrating the wage-earning and salaried population into the circulation of wealth, because their incomes exceed the levels required for the mere perpetuation of existing lifestyles, the wage society has given individualism a massive boost.

We are all well aware of the extent to which the generalization of wage labour during the post-war boom contributed to the financial autonomy of individuals. We are also aware of the extent to which it changed the nature of the family by allowing individual aspirations to be fulfilled outside the constraints of the family unit. Although some of the dynamics of consumer demand were generated by efforts to improve the living conditions of the family as a group, changing lifestyles diverted another part of this dynamism into the satisfaction of individual desires.

Nevertheless, individualism does intensify the contradiction inherent in the relationship between the individual and society. There is a positive and a negative side to individualism.[15] The positive side consists in emancipation from the shackles of a system of social allegiance, from personal subordination, loyalty and observance of rituals legitimized by a symbolic order. This emancipation serves as the key to rational economic behaviour, opening the door to the pursuit by monetary means of the individual aims we call interests. This also sustains the dynamics of effective demand by causing constant diversification of supply, an innovation which capitalist enterprises can turn to account in order to renew their profitable investment bases.

The negative aspect of individualism, however, is that membership of society, in other words the legitimization of individual acts, has to be constantly reclaimed. Taken to extremes, individualist demands tend to dissolve the social fabric from which such demands derive their validity. Or else, the impact of globalization on organizations makes individuals unsure of their identity within society and destroys the

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[15] J.P. Fitoussi and P. Rosanvallon refer to positive individualism and negative individualism in *Le nouvel âge des inégalités*, Paris 1996.

bonds of solidarity that once allowed the collective expression of individual experiences. Individualism is then a negative force in the sense that it results from the failure of the mediation mechanisms to produce social cohesion.

Fordism more or less provided the conditions in which individuals could vie to assert their individual aspirations in the legitimate belief that they were contributing to social progress. These conditions were visible in the hierarchical struggles within large organizations. They reconciled upward social mobility, which was limited by structural constraints but was not negligible, with the stability of a hierarchy of social strata based on professional rank. This was reflected in an income structure that developed slowly, opening up until the early 1960s and closing thereafter. The integration of individuals, the process within which these hierarchical struggles were waged, was guaranteed by the steady increase in each individual's real wages, the low unemployment level and the short periods of unemployment.

From Crisis to Technological Revolution

When the mass-production-based productivity boom in the United States ran out of steam, this triggered the crisis of Fordism. In the course of that crisis, the struggle waged by enterprises to halt the decline in their profitability gave rise to innovations that explored new technological frontiers. Some observers see in the introduction and subsequent widespread use of computers a third industrial revolution, because they believe that information technology, which has played its own part in promoting the international division of labour, is also transforming the organization of the work process. This is seen in research into artificial intelligence, in human genetics triggered by the social cost of increased life expectancy, the challenges related to the degradation of the biosphere, the pursuit of space exploration and the revolutionizing of the food chain by genetic engineering.

Where capitalism captures these frontiers of knowledge, it develops a compartmentalized system to incorporate the new activity into its structures—product design, graphic design, information, communication. The consequences are drastic for the hierarchy of qualifications inherited from the stage of mass production. The productive capacity of collective work performed through co-operation by highly skilled teams cannot be measured by a common yardstick with the contribution of each individual identified separately. Yet, one single lapse on the part of a team member can have the gravest of consequences for production processes that are highly vulnerable to breakdowns or accidents. This means that the individual marginal productivity of labour loses all significance, as does the principle 'to each according to his labour'. From another point of view, the applications of new technology are changeable and therefore uncertain, so they are far from leading to the systematic development of the kind of product ranges that resulted from the invention of electricity or the motor car. The fact is that the present rules of social life, the various forms of cultural resistance and public institutions are out of tune with present-day possibilities for technical progress.

The disappearance of the link between individual earnings and the marginal productivity of labour, like the uncertainty surrounding the fate of businesses that engage in innovation, is leading to the break-up of wage scales. These hesitations in the accumulation of capital are also causing extensive and abrupt fluctuations in the demand for labour. The result is an individualization of career patterns. Employees who have undergone identical initial training may have entirely different pay levels and careers, depending on the companies or collective activities into which fortune or misfortune has led them.

The Uncertainty of the Employee

Under the impact of technological change, the economic ground rules within companies have been overturned, since the mobility of capital has created competition between social systems, that is, the body of institutions and rights on the basis of which employer–employee relations were regulated nationally. Moreover, the overthrow of the rules within companies has destabilized the socio-professional hierarchy. The disappearance of the standards that had helped stabilize struggles over rank, as well as the waves of reorganization which have resulted in redundancies among formerly protected categories of employees, have caused uncertainty about what tomorrow will bring. Increasing numbers of employees cannot find their place in the division of labour. The destruction of functional identities turns out individuals without any sense of belonging, individuals for whom the question of social identity poses a problem. That is a measure of the depth of the malaise which has gripped wage societies in these trying times. The very principle of the integration of labour into the corporate structure, the progressive force behind the post-war boom, is now under threat. This malaise eats into the individual psyche when the energy that used to be channelled into work is converted into fear of an unforeseeable future.

This profound identity crisis leads to splintering of the inequalities that are no longer stratified by common standards and to collective demands for which the political process can no longer assume responsibility. It also causes a general decline in solidarity. The result is a loss of legitimacy among trade unions and political parties, which can no longer clearly portray the social fabric as one within which conflicts can be managed and compromises negotiated.

The fragmentation of inequalities is penetrating every socio-professional stratum. No longer do qualifications, seniority or hierarchical responsibility guarantee recognized positions in organizations. A patchwork of individual destinies is emerging as unforeseeable changes plunge one person into redundancy, another into precarious employment and yet another into work for which he or she is overqualified. The state of social helplessness is reflected in the feeling that these anarchic inequalities are not the transient effects of a remodelling of the division of labour in the light of technical progress and global competition. They are perceived as chronic symptoms of exclusion, in other words of backsliding into a form of capitalism in which the integration of the labour force is no longer on the agenda. This profound and sustained erosion of the social mediation mechanisms of the Fordist age has left its imprint on the economy in many different ways.

The Economic Symptoms of Crisis

The spectacular fall in growth rates and the inexorable rise in unemployment are the most evident symptoms of crisis for the population of Europe. This twofold phenomenon derives from a weakening of the dynamics that once powered the accumulation of capital, namely the maintenance of a balance between technical progress and the expansion and diversification of consumer demand. This dynamism had sustained both the steady progression of real wages and the redistribution of labour among the various fields of economic activity.

The joint effect of the slowdown in productivity and in final demand in Western countries was so spectacular as to undermine the industrial relations that had developed during the boom. In the United States, economic liberalism decisively weakened the unions and the collective bargaining process, decentralized the determination of wages and created very fierce competition among job-seekers in the labour market. A growth rate based on very small labour productivity gains has established itself. Standards of living have deteriorated for many social strata. Two or three sources of income are necessary for families to sustain a lifestyle that was previously financed by one wage. The growth provided by small productivity gains absorbed a 55 per cent increase in the labour force, in other words a net gain of 40 million jobs, between 1971 and 1993!

At the same time, the employment structure has been transformed, thanks in part to a very considerable wave of immigration and to the shortcomings of the education system. The competition from this new unskilled and non-unionized labour force in decentralized labour markets has led to the creation of a huge number of precarious and low-paid jobs in the non-industrial sectors. The result of this dramatic reshaping of the employment structure is the anarchic patchwork of disparities, with extreme individualization of pay structures and differences in pay and conditions between employees with the same qualifications in the same occupation.

In Europe, the growth régime has been far more seriously undermined. There seem to be two main reasons which explain this difference. First, industrial relations in Europe are more rigidly structured by contractual mediation mechanisms, and direct market influence in the regulation of wages is weaker. In particular, the system of social protection is considerably stronger. For several years after growth had been slowing down, these mediation mechanisms defended the social benefits of those to whom they had previously been granted. A dichotomy developed within the labour force. In the 1970s, an 'internal labour market' preserved the existing bargaining mechanisms and their corollary, the organizational stability of companies. Where high wage costs were a barrier to employment, businesses had recourse to the 'external market', passing on their problem to a workforce that was not protected by collective agreements. From the 1980s onwards, and at different times, depending on the state of their respective economies, all countries experienced the repercussions of the strategies whereby companies sought to free themselves of obligations deriving from past pay agreements, which had become millstones around their necks in the context of international competition. The more bitterly this assault on labour costs was contested, the more serious was the impact on employment.

Europe Versus the World

Second, the countries of continental Europe had to respond to the globalization of enterprises to safeguard the construction of Europe. The solution that was adopted, after Europe had run the risk of marking time until the mid-1980s, was to move towards economic and financial integration (the Single Market project) then to proceed to monetary integration (the EMU project). Consequently, the mode of regulation based on strong national autonomy which had guaranteed post-war prosperity, was completely destabilized, but the political initiative that might have established new mediation mechanisms for a fully integrated market was not forthcoming. The result was a vacuum in the content of collective bargaining. The system of national labour standards that prevailed during the Fordist era has been replaced by a European monetary standard.[16]

The monetary criterion is becoming predominant. Instead of relatively autonomous national price systems that are harmonized with each other by means of exchange-rate variations, the target—at least in France—is a set of homogeneous national price systems subject to the constraint of fixed exchange rates. Wages are expected to become once more the 'variable capital' of which Karl Marx spoke. Because the labour force is less mobile than companies, its price has to adjust to financial constraints. This requirement for wage flexibility is made all the more imperative by the fact that European governments have proved incapable of co-ordinating their macroeconomic policies, despite their professed desire to establish a monetary union. The contradiction between the respect of monetary targets and the

[16] R. Boyer, 'D'une série de National Labour Standards à un European Monetary Standard', *Recherches économiques de Louvain*, vol. 59, nos. 1–2, 1993.

persistence of former procedures of wage bargaining has produced the worst possible result: pressure on wages and chronic mass unemployment.

In the absence of political management, the problem posed by the need for wage flexibility has been exacerbated by the partial dismantling of established institutions in the wake of macroeconomic difficulties without their being replaced by other collective systems linking income to productivity. The result was an unseemly rush to abolish obstacles to dismissal on economic grounds, to undermine the statutory minimum wage in some countries, to end the indexing of wages, to embrace an extreme and arbitrary individualization of wages and salaries that would obliterate any relation between pay and productivity, and to make the system of unemployment benefits increasingly restrictive. The remodelling of wage structures is therefore part of the hidden agenda of the European construction process and is an area of confrontation rather than collaboration between governments.

The State and Debt

The other main dimension of the sustained crises within wage societies is a result of financial constraints. These are a direct product of the malfunctioning of the former mode of regulation. Because of the weakening of the dynamic relationship linking productivity, income and employment, the value added on which social transfers were levied has increased more slowly since the 1970s. At the same time, the transfers necessitated by the social rules in force have risen far more sharply as unemployment has increased. This meant that all countries, each at its own pace, incurred budget deficits and increased the ratio between public debt and GDP. The quest for means of funding this debt, along with the globalization of enterprises and the upheaval in the international currency markets resulting from the oil crisis, was one of the main reasons for the transformation of the financial systems. Debt has once again become the predominant factor in economic policy. Debt implies the obligation to settle. It creates a situation of potential rivalry between debtors and creditors, a situation in which money plays an intermediary role.

In the 1970s, the debate on monetary doctrine was raging. But, in practice, monetary policy favoured the debtor as long as the system of tightly regulated finance was still in force. To safeguard growth as far as possible, the monetary authorities left a great deal of leeway for bank credit by mitigating the effects of inflation on nominal interest rates. The subsequent decrease in real interest rates triggered a revolt among creditors anxious to preserve the real value of their financial assets. Financial innovations began to proliferate on the initiative of financial agents, who offered effective investment instruments to beat inflation and compelled the main commercial banks to follow suit.

The two other forces for change in the financial structure were the need of governments to finance the public debt by non-inflationary means and the recycling of oil revenues. This situation resulted in the creation of new financial markets in which interest rates became far more sensitive to variations in the rate of inflation. In the late 1970s, the international development of these markets had already created a network of financial interdependence which caused disorders in exchange-rate movements. A vicious circle developed between the depreciation of certain currencies and the acceleration of inflation in other countries, between the appreciation of some currencies and loss of competitiveness in other countries. These macroeconomic disorders forced monetary policies to change radically. Since the US dollar is a key currency in the international monetary system, it was the global crisis of confidence in the dollar in the late 1970s which raised widespread doubt about the ability of monetary management to resolve situations of financial antagonism. By encouraging a general escape into inflation, these antagonisms imperilled the monetary foundations of capitalism. The time had come to re-establish monetary discipline.

Defending the Creditor

As logic dictated, it was the US Federal Reserve which initiated the shift in the balance of monetary constraint in favour of the creditors' interests by radically changing its monetary policy at the start of the 1980s. This sudden and unexpected change of course resulted in the insolvency of a string of sovereign debtors in the developing countries. It also caused the other Western countries to vie with each other to produce the most restrictive monetary policies. Interest rates rocketed, the recession spread across the world, and the unemployment rate scaled heights unknown since the Second World War. By accepting exorbitant transitional social costs, reinforced monetary restraint had succeeded in conquering inflation by the mid 1980s. But it had done much more than that. It had transformed the rules of the financial system by opening the door to liberalized financial markets.

The stabilization of inflation at low levels and the maintenance of high interest rates greatly increased the cost of indebtedness. Public debts became highly onerous, and debt-service obligations perpetuated budget deficits. The high interest rates encouraged financial investments with prospects of a high short-term return. And so, the flow of credit into productive investments involving industrial risks virtually dried up in favour of speculation on the prices of the existing instruments of private wealth—shares, the property market, building land and so on. The capitalist economies, rediscovering in this the characteristics of the Edwardian era, became sensitive again to credit cycles and to the price of property holdings. Where the nominal base value is guaranteed by a low and stable inflation rate, variations in interest rates set the tone for macroeconomic adjustments. The tensions that have emerged with regard to the settlement of debts are also affecting the rhythm of production and investment which is becoming more erratic. These fluctuations are occurring in the context of a steady discharging of company debts but also of government debts. Judged against the imperative of financial rigour, expenditure on social protection has to be reduced. The twofold vigilance of financial markets and central bankers has pared away means of funding the public services. The impotence of political action has combined with the problem of individualism to put the cohesion of the social fabric under serious threat.

Towards a New Age of the Wage Society

The wage societies of the developed world are trying to cope with the triple challenge of the globalization of capitalism, the disintegration of social identity and the shrinkage of the state. I have tried to show how these three ills are closely interlinked. The same applies to the encouraging trends, the initiatives and aspirations that might bring forth new mediation mechanisms capable of redefining the regulatory system. These are more visible in some Western countries than in others.

The fact that several types of wage society were able to coexist with Fordism testifies to the diversity of modes of regulation. These are coherent sets of mediation mechanisms, not a standard universal tuning system for all markets. The type of regulation system depends on the dominant mediation mechanisms. It was possible, for example, to distinguish an Anglo-Saxon form of capitalism, in which the markets and the state interacted within a framework of active economic policies, and a so-called Rhenish-type capitalism, where collective interests were organized and social compromises were negotiated and capable of making accumulation of capital and social progress consistent.

Globalization, technical changes outside the domain of mass production, and the proliferation of individualism had different effects on the different types of wage society. In the Anglo-Saxon versions, the incompatibility of these trends with Fordism manifested itself sooner in the form of contradictions which the markets intensified—inflation and financial innovations—and for which drastic monetary cures were prescribed: the monetary shocks experienced under Paul Volcker in the United States and Margaret Thatcher in the United Kingdom in 1979. The decline of manufacturing industry and the rise of the service sector were very rapid. The polarization between precarious jobs with no prospect of social mobility and highly valued jobs in the worlds of finance and multinational business was sharpened.

Parliamentary majorities adopted an intransigent economic liberalism that eroded the economic position of employees who had formerly enjoyed statutory protection. Excessive deregulation of public services in the United States and the headlong rush into privatizations in the United Kingdom wrought radical changes to the structure of industrial relations. These relations became highly competitive once more, resulting in violently fluctuating unemployment rates as the trade cycle turned. In the United States, the demand for labour varied greatly with cyclical changes. In the United Kingdom, the trade cycle mainly affected the supply of labour, the activity rate of the population having become far more sensitive to economic fluctuations. The essential feature of this type of labour regulation is the high turnover of staff in jobs. In the United States, unemployment was not a step on the road to exclusion, but disparities in income and education levels were such that the promise of upward social mobility, the essence of the American Dream, was seriously compromised.

Segmentation of the Labour Market

In Europe, deals negotiated between organized collective interests play a far greater part in the functioning of markets. Social rights strongly affect wage costs. The dominance of a hard core of major shareholders, the presence of employees on company boards or the control of enterprises by their own management create a variety of corporate models. The long-term continuity of the enterprise, the stability of the rules governing its operation and the maintenance of competitiveness are aims pursued by those who hold economic power in this form of capitalism. The style of personnel management that results from this favours the existence of an 'internal' labour market within firms, protected against competition from the 'external' market. This segmentation is an integral part of the organized capitalism that flourished in the Fordist era. That is the main reason for what was termed the rigidity of the European labour market.

Serving as the basis of a virtuous circle as long as growth was strong and steady, this segmentation was also at the root of the degradation of the employment structure that occurred under the impact of the radical change in the growth régime. One of the segmentation factors was certainly that of formal qualifications. Thus the steady increase in unemployment in France during the 1970s and 1980s essentially affected unskilled labour. Moreover, the existence of in-house labour markets produced hysteresis—effect lagging behind cause. Wage negotiations do not depend on the aggregate level of unemployment but on its variation. The terms under negotiation do not, in fact, depend on the potential competition from the dole queue, since segmentation has eliminated that, but on the threat to existing jobs. Whatever the level of unemployment, as soon as it is stable, the pay of the 'insiders' can be increased. When this happens, companies have to make other workers redundant to reduce their wage bills. Once unemployment has struck, once a person in France is in the 'external' labour market, the odds against finding another job within three months are four to five times greater than in the United States. As periods of unemployment lengthen, with the accompanying deterioration of working capacity and demoralization, the segmentation of the labour market condemns people to exclusion. The attempt to overcome this exclusion through many forms of assistance, often in the guise of recruitment incentives, ultimately foundered on the rock of massive public deficits.

The question of the future of the advanced wage societies is as follows: the factors we have analyzed that plunged the Fordist system into crisis were sufficiently powerful to lay the foundations of a new accumulation system. This system has borrowed from Anglo-Saxon capitalism the emphasis on competition, the control of companies by institutional shareholders and the place of profit and market value as the key criteria of success. But this type of capitalism is no less dependent on wage societies in their entirety, even though companies and financial institutions are less attached to any particular nation. But, in wage societies, the legitimacy of capitalism lies in the social progress that its dynamism sustains. The crisis of Fordism halted and even reversed social progress in the countries of continental Europe where it had flourished most abundantly. But market capitalism, even in conjunction with economic policies designed to maintain a high level of employment, cannot justify its existence in the absence of adequate regulation of social inequalities. Is it possible that the contradictions inherent in European societies will be resolved, that the enormous changes required to enable Europe to benefit from the new growth régime will be made and that a mode of regulation will emerge which is able to reconcile market capitalism with a renewed principle of solidarity?

Without claiming to answer such a vast question, we can state that it coincides with the renewal of the social-democratic blueprint for Europe. How can this blueprint be explained? According to regulation theory, it is necessary to identify the social mediation mechanisms which, in combination, will form the required mode of regulation. These mechanisms must be such that they work together to guide the accumulation of capital in the direction of a redistribution of income that will re-establish solidarity. A few propositions can be advanced, propositions which have profound implications and which may help to analyze the demise of Fordism as well as the new sources of growth.

Corporate Governance, Institutional Savings and the Redistribution of Income

Given the problem presented above, the viable mediation mechanisms are those that reconcile efficiency and equity. As the population ages, one crucial dimension of equity is that of fair treatment of different generations. But it is also a source of financial power through institutional savings. The institutional investors can surely be identified as the most important mediators in the new growth régime. The political implications attaching to institutional savings still have to be emphasized.

In the logic of Anglo-Saxon capitalism, the role of institutional investors is considered from an individualist and purely financial point of view. These bodies privately administer a fund made up of individual savings. Investment funds are numerous and competition between them is fierce. Performance criteria are relative, the aim of each being to produce a better average return than its competitors. Pension funds have developed into a portfolio structure in which shares predominate, because their long-term yield is superior to that of other financial assets. Because institutional savings have been advancing more rapidly than any other form of saving, these intermediaries acquire stakes in companies, which induce them to exercise influence, albeit passively, on company strategy. They impose the criterion of financial profitability. They insist on transparency of information, the suppression of corruption and the prevention of insider dealing. They do not hesitate to sell blocks of shares and reinvest in rival companies. In short, they are the agents of market discipline, ensuring that companies' sole concern is the profitability of capital.

But that idea is inadequate. It does not incorporate the financial dimension of industrial relations. Far from being only the intermediaries of individual saving, the institutional investors are also the potential agents of shareholding employees. The whole question, then, is who ultimately holds the companies' shares as a result of this mediatory mechanism. What may emerge through the mediation of the institutional investors is a capitalism of consolidated individual funds, the socialized ownership of enterprises. If this development is given political backing, it may lead to a wage society that is very different from Anglo-Saxon-style market capitalism while also abandoning the European models of corporate capitalism that marked the Fordist era.

If the trade unions are to regain the power to influence the distribution of income, they must realize that the battle to be fought and won is the battle for control of company shareholdings. The development of employees' funds will be the paramount mediation mechanism that will enable the capitalism of continental Europe to remain distinct from the Anglo-Saxon variety of capitalism.

The Primacy of Pension Funds

In fact the conversion of contractual savings into property rights in respect of companies implies a decisive change in the way companies are run. Companies are controlled to an ever-diminishing extent by their own organization in the manner of the managerial capitalism of Fordism and to an ever-increasing extent by pension funds. These funds impose criteria in terms of financial returns which determine the nature of investments and the distribution of the value added by the company. Anglo-Saxon pension funds, spurred on by competition and by the purely financial demands of their clients, require companies to achieve a very high yield—about 15 per cent—from their own funds. Since this performance standard is considerably higher than the real long-term risk-adjusted interest rate, it is reflected in the tremendous increase in equity market values. To comply with this financial constraint, companies invest primarily in information technology so as to minimize the cost of unskilled labour through quality control and on-line processes. In this way, individual savings patterns are becoming the main engine of the distribution of income via the institutional investors' governance of company behaviour.

So there are regulation principles that are now shared by all wage societies: the predominance of the financial link, in other words, of profit-sharing and shareholding, in income inequalities; the fact that the supranational, multi-product company has superseded the branch or industrial sector in the national economy as the unit within which the rules of income distribution are applied; the primacy of the profitable use of the company's own funds, dictated by financial globalization, instead of the negotiated sharing of the fruits of productivity gains in accordance with national standards governing increases in real wages.

In this mode of regulation, corporate governance is decisive. The rise of a shareholding labour force to assume control of the pension funds could alter the balance between the interests of savers and those of the workers. That would suit the trade unions of continental Europe. Their history calls on them to transcend the corporate interests of individual trades and to voice the needs of the entire labour force. In employees' funds they would find the mediation mechanism to influence the rules of profitability. Instead of a maximum short-term yield, they could demand a guaranteed long-term rate of return for a stable ownership of company assets, protecting the management from hostile take-overs. With a greater prospect of economic stability, companies could regain the room for manoeuvre to negotiate productivity contracts with their employees, which would include provision for linking real wage and productivity increases and adjustments in working hours. The opening of this window of opportunity on the European continent would have the advantage of hastening the advent of supranational collective bargaining in the enterprises whose activities are spread across the whole territory covered by monetary union. After these bad times, when national collective bargaining structures are being destroyed, a more hopeful phase may follow, in which the reorganization of industrial relations on a European scale can be launched in line with the needs of the companies themselves.

Government, Social Investment and Macroeconomic Regulation

To assess the globalization of capital, we must first recognize that enterprises are no longer the main generators of social integration within a nation. Enterprises create competition between the national collective factors of productivity: the level general of education, the scientific basis for technical progress and the infrastructural amenities in each country. Enhancing the collective basis of productivity growth to sell at a high price the fruits of expensive labour is the only acceptable solution for developed wage societies. It is the only way to entice companies concerned with global profitability to locate plants which create a high level of added value. But, since the collective sources of productivity are exploited for the accumulation of capital by enterprises that have played little part in their creation, a heavy burden of responsibility rests with governments. Reform of the state, of its aims and of its means of action, so that it becomes an investor in the living forces of productivity, is essential if the nation is to reclaim its place as the cradle of common values of social cohesion. In this respect there is no contradiction between competition among nations within the global competitive framework and improvements in national living standards.

If the separation between work, unemployment and inactivity is to be overcome, a means must be found of according social recognition to the idea of full activity throughout a person's working life. This implies considerable organizational changes of the type that have been explored in the Netherlands and the Scandinavian countries. Since employees' attachment to their companies loosens with the globalization of capitalism, it must be accepted that enterprises are not the only places where professional skills can be acquired and maintained. In the Fordist era the education system, besides determining the general level of education, also established the hierarchy of formal qualifications which held the key to recruitment and starting levels in companies and defined the scope for promotion during the working life of an employee. The education system must become far more involved in training human capital throughout the working lives of individuals. The investing state is the one that offers employees the means of acquiring evolutionary and mobile skills—in other words, skills that can be transferred from one company to another, through a system of periodic reversion to a formal learning process.

This is the first aspect of reduced working hours we should consider—namely a reduction of the individual's entire working life in order to enhance the productivity factors that he or she embodies. This basic concern must become an essential component of the social contract within nations, although there must also be scope for a very wide range of ways in which this principle can be put into practice.

Towards a Mobile Labour Force

Individuals who are less dependent on particular companies for the acquisition of specific skills can take advantage of the tendency to organize production processes in a more flexible manner, reconciling size and diversity. As we have seen, the Fordist enterprise had a vertical structure supporting a functional hierarchy. Conversely, the mobility of capital encourages companies to adopt a network structure. It favours a subtle mix of cooperation and competition between units belonging to the same enterprise. It alters the types of inducement offered to employees. Less attached to a particular enterprise, employees will largely tend to look for employment contracts in which their mobility is not penalized. The development of negotiable skills is a fundamental asset. But so are the availability of broader and more precise information about potential future jobs and working hours that enable the individual to seek new employment while working in his or her present job without having to endure a period of unemployment.

The relational aspect of work should also be able to operate in the domain of socially useful services in the regions and local communities. Collective and individual services are becoming front-line social issues in today's wage societies. It is imperative that the state should be the planning body, because the population will depend increasingly on the reliability and quality of a closely-woven network of services which shapes our living environment. It is up to regional and local authorities, with the support of central government, to develop combinations of public and private funding in order to fuel a latent demand which has enormous job-creation potential.

Commitment of the state to the training, preservation and renewal of human resources could not be further removed from the ideology of the minimalist state that was all the rage in the 1980s. The investing state is the natural ally of technical progress. The germs of growth lie in the creative capacity of brainwork. But forming the factors of innovation is a collective business, since the social return on that investment is greater than its private return. The impetus of the state in education, research and the social infrastructure, far from excluding private investment, actually complements such investment. It is a growth-enhancing input. This does mean, however, that governments have to invest with a view to improving the employability of the whole population rather than creating jobs in specific competitive sectors. Information technology, after all, has taken the market economy into areas hitherto regarded as non-commercial. And so the state is no longer called upon to provide, either directly or through intermediary companies, transport, telecommunication, postal, electricity and municipal maintenance services, and so forth. The concentration of budgetary expenditure on investments with wide-reaching external effects is one of the main aspects of the new mixed economy.

Refocusing the State

If the state were to refocus its activities on the development of the collective productivity factors, budgetary practices would have to be modified. Neither public accounting nor parliamentary procedures are conducive to investment. Depreciation is part and parcel of any type of capital. But that concept is absent from the principles of public accounting. Equally, no investment can be made without an evaluation of the return it is likely to yield. Those who produce analytical forecasts and public economic assessments should come out of the ivory towers of economic science and add their views to the political debate. There cannot be investment in the most basic factors of growth without a clear long-term perspective. The investment in research and the resources for higher education must be protected from the vagaries of the business cycle by means of laws establishing long-term programmes.

State responsibility for maintaining the rate of technical progress is the way to influence long-term growth. But the steady-state growth is also important. It implies political responsibility for anti-cyclical measures, which monetarism had denied. The first reason for this stems from the growth factors themselves. Where technical progress is chiefly linked to the experience of workers who gradually raise the productivity of their teams as they work together in the production process, recessions have adverse effects on growth patterns, because they diminish the employability of redundant workers, especially if they are lengthy and recovery is slow, as has been the case in Europe. Consequently, structural policies designed to improve the quality and flexibility of jobs cannot function independently of macroeconomic policies designed to stimulate growth. If structural measures are taken in a context of stagnation, and if macroeconomic policies remain neutral or restrictive, the increased mobility of labour only serves to convert a structural unemployment into Keynesian unemployment. The structural measures do nothing to improve productivity or growth.

A second reason for an active anti-cyclical policy relates to deflation in a globalized financial environment. Monetarist doctrine rationalized the monetary policy of the 1970s at a time when administered financial systems showed obvious signs of malfunctioning. The extreme elasticity of the supply of bank credit and the widespread indexation of wages and prices in national economies handed the initiative to debtors. Monetary policies generally consisted in restricting the liquidity of banks by curbing the supply of money from the central banks. This line of approach was rationalized by reference to the notion of a 'natural' equilibrium level of unemployment rate as expressed in the long-run vertical Phillips curve. Since long-term growth was independent of inflation, it was not the concern of monetary policy to respond to real shocks, so employment did not have to be treated as a policy aim.

The error made by governments in Europe, by contrast with the United States, was to treat this doctrine as axiomatic, whereas the extent to which it was true depended on a very specific set of financial circumstances. Let us recall that A.W. Phillips demonstrated a long-term inverse relationship between increases in money wages and unemployment.[17] This relationship was particularly clear-cut in the

[17] Phillips's original study covered the relationship between wage inflation and unemployment over almost a century. 'The Relationship Between Unemployment and the Rate of Change of Money Wage Rates in the UK, 1861–1957', *Economica*, November 1958.

half-century prior to World War I. From the point of view of financial adjustments, conditions in that period are considerably more relevant to us than those which prevailed twenty years ago. It was an era of financial globalization, of international competition, of changes in the division of labour resulting from the second Industrial Revolution. In the economic structures of that period, the financial markets themselves contained mechanisms for the correction of nominal price increases, which they accomplished by setting long-term interest rates. There could be no sustained inflationary trend in the form of a self-perpetuating price spiral. But that type of economy is vulnerable to international shocks, which destabilize the short-term relationship between inflation and unemployment. One reason for this instability is the behaviour of economic agents when inflation is close to zero.

Equilibrium and Unemployment

During periods when inflation is very low, many individual company prices should fall. But some key money prices are fixed by agreement or by the dictates of logic. Money wages do not fall spontaneously, nor do nominal interest rates become negative. This means that companies under pressure from their competitors, and forced to lower their money prices, are compelled to respond to the decimation of their profit margins by cutting jobs and reducing their debts. The net result of these adjustments is that unemployment becomes sensitive to the general level of prices in an equilibrium situation with very low inflation. It is the task of central banks to avoid this type of inefficient equilibrium and hence to seek the balance between inflation and unemployment that will best promote steady growth in the long run.

A third reason for closely involving the monetary authorities in macroeconomic regulation is concern for the stability of the financial systems. In a globalized financial structure the prices of financial assets are subject to considerable fluctuations. The behaviour patterns of financial operators may be affected at any moment by a burst of frenzied speculation. It is illusory to believe that prudential regulation and supervision of institutions will be enough to shore up the banks if the financial markets are unstable and the business cycle is substantial. Fragile banks will, in turn, impair the macroeconomic efficiency of monetary policy. They may neutralize the effect of a precautionary cut in monetary interest rates by not reflecting the cut in their own lending rates. They may offset the effect of an increase in the money supply by destroying some money in an effort to reduce their debts. And so, in globalized financial systems, central banks cannot separate monetary policy and prudential policy. One of their responsibilities is to ensure that waves of speculation in the financial assets markets do not assume dangerous proportions, as was the case in the late 1980s.

Statement of Social Rights and Fiscal Reform

The principles of regulation that have been suggested so far are compatible with the globalization of economies, the primacy of market competition and the mobility of labour, because they come into play before the price system and affect the global economic equilibrium. Before the price system enters the equation, it is the institutions which influence the control of enterprises and the employability of the labour force. As for the global level of regulation, which is governed by macroeconomic policy, it is justified by the existence of multiple equilibria and by the incapacity of market adjustments to achieve a satisfactory equilibrium in a spontaneous manner.

These principles, however, cannot of themselves resolve the problems resulting from the widening disparities and diminishing solidarity that have been experienced since the start of the 1980s. Solidarity is not guaranteed by commercial insurance policies. It is a set of rules through which a nation assumes the risks that threaten life in society. According to this solidaristic rationale, the ultimate foundation of solidarity is the impossibility of a purely individualistic society. Democracy cannot be vital and active unless concern for the res publica is incorporated into the aspirations of the people. This implies a quality and variety of social interaction through which individuals attain effective freedom, and that quality depends on universal membership of society. That is why real freedom within a society is measured by the resources of its poorest members. A highly inegalitarian society, consumed by the excesses of individualism, is liable to drift towards totalitarianism. The totalitarian temptation derives from endemic violence and from a loss of involvement in the democratic process. This drift can be an insidious development and may not lead all the way to the establishment of a totalitarian order. Marginalization of minority groups, segregationist ideologies, aggressive assertion of the rights of ethnic or cultural minorities, tax revolts and systematic denigration of the state under some tawdry libertarian banner—these are some of the symptoms of an ailing democracy.

Retrieving Citizenship

In the major Western countries these ailments developed with the decline of the Fordist mode of regulation. The disintegration of the cohesive social fabric occurred at the same time as capitalism was being freed from every constraint. It is high time that political discussion recovered some of its former vigour to set about redefining the standards of social justice, after years of open hostility or indifference to such standards in the name of economic liberalism. To establish a shared concept of social justice, and to ensure that it is incorporated into the rights which it is the duty of the state to enforce, is to give meaning once again to the notion of citizenship.

In the Fordist age, social rights were formulated on a basis of occupational solidarity. They developed with collective bargaining and were implemented by an increasingly complex and inscrutable system of social transfers. The redistributive element, designed to redress the disparities inherent in the struggle over rank, was combined with mechanisms affording protection against risks, the funding of which involved non-redistributive levies, particularly in France. The malfunctioning of the regulation structure provoked a deluge of urgent calls for action to mitigate the effects of the rise in unemployment and to finance spiralling health costs. The responses to these demands, entailing one extra cost after the other, increased the tax burden but also caused people to lose sight of the justification for the payment of tax. That is why redefining social rights also means being committed to the rehabilitation of the levy principle. The cohesion of a society may be judged by its acceptance of tax for what it should be, namely the reciprocal commitment of the citizen and the nation to provide highly productive work in return for a good quality of life. That is how social progress can be renewed in harmony with a regulatory principles which must strengthen the nation so that it can take advantage of the opportunities offered by global capitalism.

The reciprocal commitment of the individual and society cannot be renewed unless there is a moral imperative which clearly distinguishes moral rights from a purely passive form of solidarity. To an extent, it is a right of membership, the right not to be excluded, which must become the supreme value, as well as the kernel of the political debate. Freedom from exclusion must become the minimum right enshrined in the social contract, and hence the categorical imperative for the state. However, this aim, which ought to be at the heart of any new version of the social-democratic blueprint, is difficult to achieve, for changes in the work process have divided the wage society into three interest groups: those who benefit from technological modernity and globalization, those whose economic positions are still protected by statute or by their clientele, and those who are excluded. The last of these groups will inevitably remain a minority with no economic leverage. A policy for the promotion of solidarity cannot therefore derive from the interaction of economic forces. It cannot be driven by the occupational interest groups which fostered the development of social rights in the course of the Fordist era.

Democracy and Solidarity

The reaffirmation of solidarity today depends on the rehabilitation of politics as the main agent of social cohesion. The meaning of democracy must be rediscovered at its very roots: solidarity as a collective value without which the individual cannot develop. That is the only way to make the imperative of social cohesion compatible with the opening of the wage societies to globalization. Such an approach avoids the type of identity search which, though creating collective values, is also susceptible to the snares of populism and nationalism.

If the political blueprint succeeds in restating the need for solidarity, the economic resources required for its implementation will lead, especially in France, to the institution of a process of radical tax reform and to a redefinition of social rights. By the end of this process, the welfare state will have been completely overhauled.

Today's wage societies are characterized by a loosening of the link between pay and the per capita marginal productivity of labour, but also by continued regard for work as the paramount criterion of integration into society. Consequently, the fight against social exclusion means increasing the demand for labour while endeavouring to enhance the employability of the labour supply. It also means defining and gaining acceptance for the principle of equity in the distribution of revenue, so that employees receive a reasonably fair share of the total value added. Proper regulation of the division into wages and profits depends on the briskness of demand and the pace of investment. Governments can act on these two aspects of revenue distribution through the tax structure and redistribution.

When a comparison is made for each country between the structure of budgetary expenditure and the tax system with the aid of OECD statistics, two characteristics emerge. France and Germany devote far smaller amounts than the United States and Japan to public investment but allocate larger percentages to social transfers and operating expenditure. These two European countries derive a particularly small amount of their fiscal revenue from capital duties, which account for 12 per cent and 13 per cent respectively of all taxes levied, compared to almost 30 per cent in the United States and Japan. In more general terms, in all the Anglo-Saxon countries, where acceptance of capitalism and the primacy of the market is widespread in all strata of society, there is a far heavier fiscal burden on capital than on the European continent. This burden is offset in different ways—by lower excise duties in the United States, and even in Japan, or by lower income taxes in the United Kingdom and Australia.

Reforming the Tax System

These great disparities underline the fact that taxation systems are not carved in tablets of stone. Ambitious reforms are possible if they are guided by a clear focus on solidarity. As far as France and Germany are concerned, the urgent priority is to seek reductions in the welfare charges levied on the wages of unskilled workers. The modest start that has been made over the past few years ought to be developed a good deal further. But whatever else happens, we must not fall into the demagogues' snare by reducing the overall tax burden. As we saw above, governments have a crucial role to play in the new régime of growth. They need substantial resources to recover some room for manoeuvre, whilst getting to grips with the excessively high levels of public debt.

There is no miracle remedy that will remodel the tax structure in such a way as to turn activities with lower marginal revenue products into profitable ventures. It will no doubt be necessary to increase the tax burden on capital in countries such as France where it is unduly light. The French Government must scrap the arrangement whereby income tax is subordinated to demographic considerations through a system of child allowances. All individual income, whatever its origin, must be made taxable. If the tangle of benefits accorded to certain categories of person is eliminated, it will be possible to increase the revenue from income tax while preventing marginal rates from becoming excessive in the higher strata. Incidentally, the transparency resulting from a sensible tax reform would be part of a national policy of solidarity which would redefine the spectrum of social rights.

It is high time that part of the burden of charges levied on low wages was transferred to the widest possible range of other taxes. In substituting a universal welfare levy and VAT taxes for social security contributions on wages, a momentum can be created in favour of solidarity and the fight against exclusion. If taxes on wages are replaced by higher taxes on consumption, employees who are victims of international competition could share the benefits derived from this competition by the population as a whole through the import of consumer goods. It is enough to tax staple items at a lower rate to meet any fears that such a measure might ultimately run counter to the aim of redistributing wealth.

The logic that consists in using taxation to fund welfare benefits not covered by national insurance contributions is a result of the way in which the modern wage societies have developed. The political philosophy which regards solidarity as an attribute of citizenship is replacing the concept of social solidarity based on occupational categories, which has been undermined by the destruction of the corporatist fabric under the impact of technical progress and globalization. The result is that social rights must never again take the degrading form of state handouts, and that the aid currently given to companies should be focused on people. France is surely the country that has made most use of employment incentives, peppering companies with a variety of subsidies throughout the 1980s. This method was part of an extension of Fordism, based on the premise that the enterprise was still a vehicle of social integration. The French government persisted in this approach at the very time when companies were discarding unskilled labour and loosening their territorial roots. It is hardly surprising, then, that such aid has had little effect. What is more serious is its blind adherence to this practice in the course of the 1990s. Its illusions, however, have now been dispelled. The employment and poverty traps that this array of assistance schemes creates are being denounced from all sides. The time has come for a political blueprint for a radical reform of the redistribution system. It is a matter of establishing a guaranteed minimum income that will provide individuals with the economic resources on which the exercise of their inalienable rights depends. That is a mechanism designed to combine economic efficiency and social justice.

A Guaranteed Minimum Income

Economists have often made this type of proposal.[18] The advantage of a guaranteed minimum income is that it proceeds from a universal understanding of taxation as an incentive to work rather than a deterrent. Because this income is granted to everyone of working age, it avoids any discrimination between those who are on benefits and those who are not. Because this income is maintained whether the individual is in or out of work, it does not create a poverty trap. Finally, this income is an aid to individuals, not to companies. It corrects the disparities that result from huge pay differentials and makes it possible to employ low-skilled workers with limited marginal productivity.

This redistribution mechanism consists in determining the amount of a fixed-rate transfer without means testing. At the same time, a standard tax rate is set and is deducted at source from every type of income. Finally, an element of progressive taxation is introduced in the form of a surtax on large incomes. The average rate of taxation is assessed in such a manner as to ensure a net balance between receipts and expenditures. The minimum income can then replace the existing social transfers—child benefit and housing benefit in France—which amount to less than the minimum income; where such benefits exceed the minimum income, the excess amount of benefit would remain payable. With the same amount of income of whatever type being subject to the same amount of tax, this mechanism can be linked with the universal social levies, health insurance contributions and the remaining vestiges of child benefit.

The stage is therefore set for a political debate. The real challenge is certainly not to dismantle the welfare state or even to erode its benefits. On the contrary, there is a particularly pressing need for social cohesion. The purpose of the political debate is to devise a means of giving expression to people's social rights so that the new growth régime can put wage societies back on the road to social progress.

Translated by courtesy of Eurostat

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[18] It is mischievous to portray the right-wing economist Milton Friedman as the inventor of this proposal. It was put forward in France by L. Stoléru in the same vein, in other words, from a liberal perspective in which redistribution played a strictly limited role. The idea was incorporated into a completely different approach by P. Van Parijs and an entire post-Keynesian school for whom the development of collective productivity completely separates income from work (see Van Parijs, *Sauver la solidarité*, Paris 1995). A guaranteed income is the logical conclusion of a hypothesis according to which work is no longer a form of socialization of individuals. We, on the contrary, believe that work is still the principal means of social integration, and we subscribe to the pragmatic approach recently set forth by F. Bourguignon and P.A. Chiappori, *Fiscalité et redistribution*, Notes de la Fondation Saint-Simon, Paris 1997.