From Financial Capitalism to a Renewal of Social Democracy

Michel Aglietta[1]

and Antoine Rebérioux[2]

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[1] Michel Aglietta is a professor at the Université de Paris-X, a researcher at the FORUM research centre, and a consultant for the Centre d'études prospectives et d'informations internationales (CEPII).

[2] Antoine Rebérioux is an associate professor at the Université de Paris-X and a researcher at the FORUM research centre.

Summary

Recent corporate governance scandals have brought to the fore the inherent contradictions of a capitalism dominated by financial markets. This text argues that capitalism's basic premise – that companies be managed in the sole interest of their shareholders – is incongruent with the current environment of liquid markets, profit-hungry investors and chronic financial instability. In this context, this text also analyses the financial scandals of the Enron era, going beyond the malfunctioning of the gatekeepers (auditors, financial analysts, ratings agencies) to stress the failure of shareholder value and the inadequacy of measures intended to prevent such scandals.

A company should be managed as an institution where common objectives are developed for all stakeholders, and this democratic principle should be extended to the management of collective savings to reduce macro-financial instability. These two conditions could make contemporary capitalism a vehicle for social progress, giving shape to a new kind of social democracy.

This *Prisme* presents the conclusions of *Corporate Governance Adrift: A Critique of Shareholder Value*, published by Edward Elgar Publishing in 2005.

1. Introduction

The rise to power of market finance since the mid-1970s has radically altered the characteristic traits of contemporary capitalism. Two movements drive this process of "financialization". The first movement involves the breakdown of risks into elementary factors and their quantification by statistical methods, making them transferable by market instruments (derivative products). The second movement is the rise of institutional investors. These investors group household savings and diversify their investments to obtain returns corrected for risk, which bank intermediation was unable to attain. These two processes have widened the range of interdependent markets, have deepened these markets, and thus have improved markedly their liquidity.

Far from remaining limited solely to the financial sphere, these changes have profoundly affected listed companies, the main players in the world economy. In this respect, the ideology of "shareholder sovereignty" has and continues to play an essential role. According to this ideology, the responsibility of the corporation and of its executives is to serve the interests of its stockholders. As a consequence, a firm's success is measured only through the growth of its stock market valuation. The concept of "finance-led capitalism" can be used to describe this new growth regime, in which a decisive role is given to the profitability of stock market assets, in both the creation and distribution of value added.

The conception of finance-led capitalism, which currently prevails in academic and political circles, can be summed up in two propositions.

- The strengthening of the finance-led model results in better risk-sharing and greater economic efficiency in the allocation of capital.
- Shareholder primacy puts an end to the usurpation of power that has afflicted managerial capitalism. It (re-)establishes the respect of private property – the linchpin of capitalism.

Accepting these propositions leads one to foretell the "end of history", as capitalism succeeds in imposing an efficient form of regulation throughout the world.

The succession of financial scandals involving the management of large listed firms (Enron, Worldcom, Parmalat, etc.) has not brought into question this prediction. In the same way, the instability of financial markets[3] — which have only been controlled through sustained intervention of exceptional duration and on an unequalled scale by the Federal Reserve Board — has failed to dent this apologetic vision of financial capitalism. The two phenomena have been treated separately in recent literature. On the one hand, the stock market crash has been attributed to market exuberance. On the other hand, failures in corporate governance[4] have been explained as a deterioration in managerial ethics, the origins of which are extra-economic. We do not agree with these hypotheses: these crises are the symptom of the inherent contradictions of financial capitalism.

To advance this thesis, it is necessary to study in detail the developments in contemporary finance, the logic of its functioning and its sources of fragility. The nature of the modern firm, the powers it contains and the objectives actually pursued by its executives must be explored without being blinded by the ideology of shareholder sovereignty, which persists despite the profound crisis provoked by its application. Above all, it is necessary to analyse the close links between the expansion of market finance and the strategies adopted by firms to highlight the perversity of a model of capitalism in which stock markets play a dominant role.

This text will therefore be structured around the three following questions.

- What are the consequences, in terms of stability and cyclicity, of the increase in the liquidity of capital markets?
- What transformations have occurred in corporate governance?
- How does this governance, in return, influence the dynamic of the growth regime?

Our analysis of contemporary, finance-dominated capitalism brings to light four results. The first concerns the firm. In its technical, financial, cognitive,

[3] From spring 2000 to mid-autumn 2002, Western stock markets fell by 50 per cent to 80 per cent, according to indexes.

[4] This term refers to the ensemble of operations, procedures, institutions, practices, and so on, that determine, at a given time, the exercise of power in a firm.

and organizational aspects, the development of capitalism has reinforced the collective nature of the firm. It is a place of both cooperation, which underlies production, and conflicts of power. It is driven by interests that cannot be dissociated, but which are in part contradictory. In that respect, businesses are partnerships by their very nature. Therefore, the first concern of governance is not control, but the formation of a collective interest, a goal recognized and accepted by the company's stakeholders.

The second result concerns finance. The last 30 years have seen a major evolution from intermediary finance towards market finance. This evolution signifies a paradigm shift in risk assessment and management. The digital revolution allowed risk to be broken down into basic elements, arranged into tradable financial products and transferred to all financial institutions. The consequences of this revolution are far-reaching, yet hard to assess. This trend is not a linear evolution toward a utopia of perfect market systems. There are multiple possibilities for risk diversification, but risk transfer creates interdependencies that provoke destabilizing feedback when macroeconomic problems arise. Available funds increase, but the strong link between indebtedness and the valuation of equity capital leads to financial fragility. Reorganization of financial portfolios seems limitless thanks to market liquidity. Liquidity, however, depends on the intersubjectivity between market players, which is affected by fluctuations in trust. The final result is a finance that is more unstable, that has a strong influence on the economic cycle and that is difficult to control through economic policy.

The third result concerns corporate governance specific to financial capitalism. Market finance's rise to power not only overturned the business environment, it also transformed firms' internal structures and objectives. The balance of power of the corporate hierarchy of the "Fordist" era[5] was destroyed, while the figure of the shareholder was vaulted to the pinnacle of the firm by the doctrine of shareholder sovereignty and the demands of profitability. Finance introduced irrevocably a contradiction into the system of governance. By promoting

[5] "Fordism" corresponds to the growth regime centred on mass consumption specific to the "Golden Age of Capitalism" after WWII. For a precise definition of the concept, see in particular Aglietta (1997), and Boyer and Saillard (1995).

liquidity, finance separated shareholders from the firms they were supposed to control. The primacy of institutional investors in collecting household savings and the delegated management of investments exacerbated this trend. Controlling firms now means nothing more for shareholders than buying or selling shares, behaviour which is influenced by collective fluctuations that either raise or lower markets. Thus, a major dysfunction is introduced at the core of governance. In periods of stock market euphoria, collusion occurs between company managers with floating capital and shareholders hoping for unlimited enrichment. The collusion extends to financial professionals who benefit from the windfall. Stock price increases benefit everyone. When no internal opposition force exists, managers' hubris can lead to headlong pursuit of risky, secret operations with strong leverage effect. Financial instability is invisible, because it is not in the interest of any of the financial agents in a position to pinpoint and denounce it to do so. When share prices fall, losses deepen and conflicts of interest arise.

The fourth result is that the failure of shareholder sovereignty does not stay within the bounds of the relationship between managers and their shareholders. Because credit as a whole is directly dependent on the stock market (thanks to "fair value" accounting[6] and bank evaluation models of credit risk), the entire economy is subject to financial instability. The governance crisis is therefore irrevocably linked to the worrying drift of a financial capitalism which, far from making finance a vehicle for investments and social progress, instead makes stock market capital gains the Alpha and Omega of economic activity. Economic logic is turned completely upside-down. Firms seek primarily to protect shareholders from risk during periods of financial deflation. Risk is transferred to employees by aggressive restructuring and massive lay-offs in order to reduce debt. It is also transferred to the nation as a whole by the continual drop in fiscal pressure on capital.

These results run counter to the dominant ideology, which brandishes morality but is little interested in the reasons behind the phenomena. This ideology regrets the aberrations of corporate governance. It is filled with

[6] The success of this accounting valuation method is part of the process of financialization. Indeed, the European Union's preference for this very controversial valuation method, through its adoption of the International Accounting Standards (IAS) for large firms (ISAN 1606/2002/CE), is cause for questioning.

indignation over the gross misappropriation of funds by powerful corporate executives. It points the finger at the complicity of certain links in the financial chain: auditors, but also financial analysts.[7] Whether coming from the media, the academic community, financial supervisory boards or political authorities, the recommended treatment is often the same: shareholder control of firms must be upheld directly by threat of hostile takeover, or indirectly, by shareholders' demands on financial returns. They claim the doctrine of shareholder sovereignty is not only the best way, but also the only way compatible with the supremacy of market finance, attributed with every virtue. Financial capitalism will constitute the ultimate form of capitalism, blending the end of the nineteenth century's respect for private property with the effectiveness of the concentration of productive capital specific to managerial capitalism. It is thus advisable to tighten regulations on control and to make punishments for deviancy harsher.

2. The Interweaving of Economics and Politics

How do partisans of the doctrine of shareholder value view the role of politics? This doctrine is based on two hypotheses. On the one hand, corporations are property held by shareholders. The latter are the only legitimate candidates for controlling firms. On the other hand, the stock market is the institution which best reallocates this ownership on the condition that it remains transparent. Nevertheless, the "invisible hand" of the market cannot move without help which, according to the most enlightened authors of the liberal spectrum, can only be provided by the State. It is their opinion that the State must provide the institutional base needed to keep market rationale working properly. A contradiction that menaces financial capitalism introduces itself at this level (Rajan and Zingales, 2003), because if governments are indispensable, they do not act automatically in the general interest. Influential special interests can turn government action toward market repression or corruption.

[7] It nevertheless leaves out investment banks, audit firms and ratings agencies, whose responsibility in the most sensational fraudulent bankruptcies is more than obvious.

Reforms must therefore be found which allow governments to support markets without interfering in their workings. If that is done, governance can move towards what is considered to be the best possible model: control by stock markets, which has no equal in creating wealth and the opportunity to innovate. In this regard, the Sarbanes-Oxley Act – adopted in the United States in response to the multiplication of financial scandals involving the management of large firms – is moving in the right direction. This law is nonetheless paradoxical – since it introduces detailed public standardization of corporate governance to the point of specifying the exact make-up of boards of directors – to ensure that shareholders' interests are integrated into firms' strategies. Other reforms should follow to hinder special interests from paralysing the disciplinary role of markets or from turning markets to their advantage: anti-trust laws to crack down on abusive concentrations of power; a security net for victims of competition; unrestricted access to foreign capital; an all-out ideological offensive exhorting public opinion to ignore the siren-song of anti-globalization incantations.

In this apologetic conception of financial markets, politics follows the markets' lead. The search for the general interest consists in working for a "pure and perfect" market. This normative approach is based on a homogenizing ideological construction. It claims, in effect, that it is possible to make the economy evolve towards a non-contradictory state. If markets are perfect, there is no longer a separation between private and social interests. In equilibrium, as defined by economic theory, there remain no contradictions among private interests: every individual plan is realized. This is why the ideal of perfect markets equals the ideal of perfect planning, as demonstrated by the theoretical debates of the 1930s. When one is not content with imagining these ideals as part of an impossible reality, but instead tries to force them on real societies, the result is a totalitarian nightmare. This is the common destiny of ultra-liberalism and communism. Both claim to move beyond politics to a state where each individual is in harmony with society.

One does not create satisfactory social order by claiming to move towards utopia. Stalinist socialism was not a move towards communism. Nevertheless, people believe, or say they believe, that liberal reform is a move towards perfect markets. That is why the International Monetary Fund (IMF) gave its blessing to, and even encouraged, disgraceful acts in the name of liberalism: the organized theft of public property under Yeltsin; the selling off of the public domain to foreign interests under Menem. In both cases, the destruction of national sovereignty led to social chaos.

These extreme phenomena are not aberrations. They are found at the end of the ideological path that denies the inextricable character of social contradictions. In secular societies, where sovereignty emanates from the people, democracy is the only political process that can avert the drift toward totalitarianism. The market, in contrast, accommodates itself to any political regime that affirms and supports the primacy of private enrichment. In other words, the market and democracy are two profoundly different forms of social relationships.

We think that the freedom of one translates into the oppression of others, if that freedom is not reined in by an institutional framework elaborated through political processes. This unanimity, however, is fleeting, constantly called into question by clashes between contradictory economic interests. That is why markets are inherently unstable. The social bond it produces – namely liquidity – polarizes these conflicts. Because it accords a certain protection to those who can acquire it, liquidity sets rich against poor, lenders against debtors, capitalists against employees, and long-term production against the immediateness of private wealth.

Democracy proceeds from a logic of deliberation whose goal is the formation of a collective interest. In deliberation, parties' private interests are transformed: collective interest is neither the aggregation nor the confrontation of special interests. The political process forms progressive compromises between vested interests. Compromises are the result of democracy overcoming conflict. In that way, collective interest does not pre-date the process that elaborates it. Such is the significance of majority rule, which sanctions this process. Unanimity is not found in the outcome of deliberation, but in the adherence to democratic sovereignty. This adherence means accepting from the beginning that special interests be transformed through deliberation in order to conform to compromise.

The intimate interweaving of economics and politics in the social sphere is not without consequence for economic theory. It means that no pure economics exists.[8] In effect, the pure economy approach presupposes the possibility of elaborating a science of the effectiveness of means to achieve pre-existing ends, expressed in separate, individual utility. This hypothesis is consubstantial with equilibrium, being the absence of contradiction. In human societies, ends and means are reciprocal. They are two aspects of contradictory interests put into motion by the formation of compromises, which in turn provoke new contradictions, and so on and so forth. In no way is this development a convergence toward an equilibrium.

It follows that politics is not separate from society. Politics is present in any human group where the idea of collective interest or common good exists, regardless of the group's size or activity. Firms, as human groupings involved in production for others, cannot escape politics. Therefore, the current governance crisis is symptomatic of a much deeper problem. In the 30 years following WWII, the interweaving of economics and politics created a mixed economy capable of promoting social progress. The financial liberalization that has developed since the 1970s broke this rationale, or at least made it incoherent. It did not provide a model of the firm capable of taking up the threads of social progress. The consequences are dramatic: recurring crises, greater inequality, the corrosion of social cohesion because of long-term unemployment, and the disappearance of any hope of progress for large social categories of citizens. The daunting question behind the corporate governance crisis is thus the following: what kind of political economy is needed to put financial capitalism back on the road to social progress?

3. The Failure of Shareholder Sovereignty

Politics springs up in a corporation when private ownership dissociates itself from the power of coordinating the human resources involved in production. This separation is inherent to the development of capitalism: owners search for an adequate form of protection through liquidity. Financial markets constitute the right social organizations to realize these ends. With market liquidity, the

[8] Here, we are talking about an economic theory that could free itself from the other social sciences, whether history, sociology, law, political science or anthropology.

corporation ceases to be an object of ownership; it requires the elaboration of a collective interest.

As early as 1932, Berle and Means showed the extent of dissociation in the United States between ownership focussed on liquidity and the firm. Between the beginning of the twentieth century and the 1930s, firms developed an operating structure that was complex and hierarchical as they increased in size (concentration of capital) and scope (business diversification). The decades that followed would see an ever-greater divide between a theoretical representation of capitalism, which denied that the separation of ownership and control made social contradictions greater, and the reality of an economy in which large managerial firms, distanced from their shareholders, were gaining ground.

Legal and liberal conceptions of private property, like pure market economic theory, refused to take account of the transformation of private property as stock market liquidity progressed. In the United States at least, jurisprudence used the doctrine of shareholder sovereignty to affirm shareholders as the only legitimate agents of control in large firms. This affirmation presupposed a double semantic slide:

Ownership of capital equity ⇔ Ownership of corporations ⇔ Ownership of firms.

From these equivalences, the firm is considered as an object of property that legal subjects (shareholders) are authorized to control. These equivalences, however, are sophisms. A listed corporation is a legal entity, which is considered as a moral person with legal rights. Shareholders have the right to dividend payments as owners of equity capital. Therefore, they have a special interest, among other special interests, in the distribution of the added value produced by the firm. This sharing-out nevertheless follows from the collective interest elaborated within the firm.

While legal and economic theories were espousing shareholder sovereignty, internally controlled managerial firms blossomed in both Europe and the United States within a growth regime that fostered the development of collective bargaining and social rights. In correlation, financial markets were put under strict public surveillance after being discredited by the excessive speculation of the 1920s.

It is interesting to observe the manner in which economics and politics interwove in managerial firms at the height of the Fordist growth regime (Aglietta, 1992). While stock markets were reduced to insignificance, the development of the industrial firm led to the expansion of wage-earning labour, organized into socio-professional strata into the technostructure of firms. The recognition of common interests among employees led to a dual union organization (sector and profession), the importance of which in any given country was influenced by the existence or non-existence of powerful socialist parties. Union activism in return provoked professional employer associations to use pressure tactics from product markets to labour markets. Political negotiation of social compromises resulted in collective agreements and legislation. A huge domain of social rights was instituted (from working conditions to health insurance), the extent of which varied from country to country. These rights nevertheless had a large enough common base in all Western countries that it was justifiable to speak of the advent of the "labour society" (Aglietta and Brender, 1984).

The labour society reinforced managerial power while strictly limiting its arbitrariness. The rules of increasing income with seniority, of promotion, of worker recruitment from various social categories all became part of the hierarchical structure of firms. This was so much the case that managers were controlled by the technostructure that produced these counter-powers. Managers were free in their productive and strategic choices to maximize the growth of the firm, but within negotiated limits incorporated into the organization of the firm. These limits, which restricted managerial power at the microeconomic level, were at the heart of a virtuous macroeconomic circle. Worker income, the spread of consumer models and the progress of productivity strengthened each other. Thanks to the advance of democracy into labour law (social rights), the dynamism of capitalism was the vehicle of social progress for several decades.

4. The Perverse Return of the Shareholder

In the 1980s, a change occurred. Shareholder value began to receive support from two sources: the growing power of institutional investors and the development, in economics, of the agency theory.[9] In the United States, the law, particularly federal, followed this movement. Control mechanisms, such as financial transparency requirements, the power of the US Securities and Exchange Commission (SEC), the regulation of the auditing profession, and so on, did not cease to grow during the 1980s and 1990s. More than ever, at the theoretical level, corporate governance was thought of in terms of control, in a strictly disciplinary fashion: managers must answer to the demands of equity holders.

In this regard, the crisis that has been shaking up the US business world since 2001, with a series of bankruptcies and financial scandals, is quite instructive. None of the control mechanisms worked, highlighting the fragility of the governance system in the United States. An even more paradoxical process comes to light behind this crisis. Never have managers been as powerful, or at least well remunerated, as they have been since the return in force of the shareholder.

The liberalization of financial markets and the rise to power of the savings collected by institutional investors did not transfer power from managers to shareholders. Rather, that power was displaced, from entrenched managers to a managerial elite supported by investment banks. This elite, which passes from firm to firm through the processes of mergers and acquisitions, no longer seems to have as its objective the growth of the firm as it did during the Fordist era. The aim is rather to get a maximum cash flow from the firm into its own pockets by taking advantage of stock market liquidity. Since investment banks are interested in encouraging a maximum exchange of stocks, it is not surprising that mergers and acquisitions explode during periods of stock market euphoria, nor is it surprising that the economic effectiveness of many of these mergers and acquisitions is debatable. Their purpose is often the redistribution of power within a privileged social category; in doing this, exorbitant incomes are made (Lordon, 2002).

[9] Cf. for example Jensen (1986).

Whereas entrenched managers were controlled by the technostructure of their firms, today's managers, at least those in firms that largely depend on stock markets, do not have this safeguard. Structural changes – from pyramidal to a decentralized network – crushed the intermediate strata of the technostructure. The financial constraints of national governments, the weakening of employees' collective interests, the appearance of professionals exercising their power of individual negotiation and the pressure for large financial returns have collectively contributed to reducing social rights in continental Europe, and to dismantling them completely in Great Britain and the United States. The dissolution of internal checks and balances in firms has left managers with a great deal of power.

Drawing support from the financialization of firms, the managerial elite is a network of managers, investment bankers, law firm partners and organization and management consultants. These agents occupy overlapping positions on boards of directors and nomination and remuneration committees. When a nomination takes place, the committee determines the conditions of the contracts based on the most recent situations of the firms to which the committee members belong. As manager rotation among firms has become more and more rapid, there is greater opportunity for higher remuneration at each changeover, creating an increasing spiral effect that is running out of control.

By freeing itself from social constraints and the worry of keeping the hierarchical structure of firms stable, the managerial elite, especially within the "new economy", can drain firms' value added to increase its personal gain. The interest of today's managers lies in manipulating stock market prices in the short-term, even by fraudulent means, in order to realize as quickly as possible gains on their own stock options, all to the detriment of shareholders. The consequences lead to either the dilution of capital or to the massive outflow of cash to buy back shares. The result is that in 2001, CEO remuneration in stock options rose 43.6 per cent in value on the SP500 Index, while total returns from equity capital fell by 12 per cent. When the stock market is not buoyant, CEOs resort to expedient "golden parachutes" to inflate their incomes. These comprise enormous severance packages, going so far as to give lifetime benefits to CEOs who leave the company, and to their families.

The reinforcement of this elite's power figures in the income explosion of the top managers of the largest firms. In 1980, the average income of the CEOs of these firms in the United States was 40 times the average salary of a worker. In 1990, it was 85 times greater, and in 2003, it jumped to 400 times greater. While in recent years average worker salaries have stagnated, profits fallen and stock markets plunged, the growth of managers' incomes has accelerated. At work is a veritable re-concentration of wealth that is sending the United States back to the "gilded age" of social inequality, the first third of the twentieth century (Krugman, 2002). Note that as services gain increasing importance in Western economies, productivity and wealth creation assessment become more problematic. This process hides, in part, the income transfers that lead to the re-concentration of wealth in the hands of the richest.

Even though media reports of the excesses of the former CEOs of Vivendi, General Electric, or the New York Stock Exchange enraged public opinion, the underlying transformations that permitted and validated these excesses, which are infecting capitalism, are far from being understood.

5. The Paradox of Shareholder Sovereignty

In their 1932 work, Berle and Means offer an interesting key to interpreting the current paradox, in which the number of reforms in defence of the shareholder is multiplying while the managerial elite is increasingly abusing value. The two authors pointed out the law's powerlessness to contain the excesses of managers. The abuses of value are intrinsically linked to business conduct and management. It is in their choices of investment or acquisition strategies that managers most often increase their personal wealth to the detriment of shareholders and/or workers. It is thus always possible to justify these choices in the name of industrial or financial strategy, and it is difficult for courts to contest. Courts, by definition, do not have the capacity to judge for themselves the merit of managers' decisions. They are exterior to the firm as much as the shareholders concerned with preserving the liquidity of their shares. In the end, objectively perceptible cases that involve straight-out abuse (for example, insider trading or the misuse of corporate funds) are fairly rare. In the same manner, gatekeepers (auditors, financial analysts, ratings agencies) that are supposed to guarantee the transparency of capital markets have little to say in managerial decisions. Outside of the firms, they can only monitor a firm's behaviour *ex post*, the limits of which are now evident. This is no doubt the crucial point: shareholder sovereignty is fundamentally unstable, because it cannot be realized. The main principle of this doctrine is to combine liquidity and control. Liquidity, however, implies maintaining a distance and is synonymous with exteriority. Berle (1963) expresses this idea most clearly:

> *To accomplish this liquidity, it is necessary that the property* […] *have no relation whatever to its owner except that relation arising from the owner's capacity to transfer it. Nothing can be liquid if any value assigned to it depends upon the capacity or effort or will of the owner. Marble would stop being readily salable if its value depended on having the sculptor transferred along with it* (p. 25).

Shareholder value intends to construct an institutional architecture aimed at annihilating the autonomous nature of firms, which results from financial market liquidity. It is a worthy endeavour, but the more the interests of shareholders are privileged, the more the firm must be managed in the name of an exterior party (financial markets). This contributes to making managerial power less responsible. Shareholder value reinforces the discretionary power of managers rather than limiting it.

Berle and Means's critique of the doctrine of shareholder value is thus two-fold. On one hand, they claim that this doctrine is mistaken. It refuses to take note of the ways private ownership is changing with the development of market liquidity. Shareholders cannot claim control, because they have traded it for liquidity. On the other hand, Berle and Means see shareholder value as a dead end: it is useless to try to give shareholders control through positive laws. It must be noted that this double critique comes from an analysis that is more legal than economic. In other words, Berle and Means reject the doctrine of shareholder value without studying other processes of value creation in firms (microeconomic analysis) or how financial markets function (macroeconomic analysis). Taking these two dimensions (microeconomic and macroeconomic) into account, however, tends to reinforce their arguments against shareholder value.

Wealth in a firm is created by bringing together human, financial and physical capital specific to firms. The complementarity and the synergy between these factors provide firms with the continuity of its value over time. It is not its instantaneous cash value, as evaluated by stock markets. Organizing the collaboration of all these competencies gives managers power of which shareholders have no direct hold and of which markets have a hard time evaluating. The radical uncertainty weighing on the temporal progression of this combination of resources, as well as the difficulty of putting collective action into motion, argues for an exercise of power that favours the involvement of the various stakeholders. In contrast, by sending a signal to all the stakeholders that the resolution of unforeseen problems will be handled in the sole interest of the shareholders, shareholder primacy runs the risk of deteriorating the quality of these commitments, and thus the competitiveness of the firm.

Capital market instability upholds Berle and Means's conclusion as well. On one hand, market excesses favour the hi-jacking of value, or fraudulent behaviour, on the part of managers. Markets are even easier to manipulate when they are buoyant (when there is a market bubble). Evidence is found in the manner in which the executives of Worldcom, Enron, and so on, took advantage of blind confidence in markets despite the safeguards set up to prevent such abuse. This predatory behaviour, disguising the misappropriation of wealth as the creation of value for shareholders, tends to increase market instability. On the other hand, the more sensitive firms are to shareholder interests (or the more they are penetrated by financial logic), the more affected they are by market instability. One need only look at the increasing threat of goodwill to firms. The presence of blockholdings is one way of limiting capital market instability. Protecting these blocks, which are part of a continental European model of governance, is therefore desirable. This can be done most notably through preserving the legal mechanisms that support these blockholdings (shares with multiple voting rights, limited voting rights, and so on).

In fact, shareholder value is no more tenable from an economic point of view than it is from a legal one. Remember that the economic justification for shareholder primacy is that the shareholders are the only ones assuming the residual risks of the firm. Observation over the last two decades shows the contrary: shareholders have not ceased to transfer risk to workers through the gradual dismantling of the social rights acquired during the expansion of the labour society.

In the historic phase of managerial control up until the end of the 1970s, workers were insured against risk through collective agreements and employment stability. Banks suffered losses only in the case of default, because the value of debt did not depend on market assessment. Shareholders took upon themselves the largest part of the risk. The significant stock market losses of the 1970s led to the renewal of the doctrine of shareholder primacy. Today, there is a completely new power game being played. Even though they do not control firms, shareholders manage to use financial market pressure on firms to redistribute risk to workers through wage and employment adjustments. Productivity gains are reflected in profitability without improving actual wages. The share of dividends on profits increases, especially when markets drop. The macroeconomic relationships that constituted the virtuous circle in the labour society have been turned completely upside down.

The study of financial logics shows also that banks no longer play their role in risk transformation. They largely redistribute it to households by way of transfers to institutional investors. In addition, the growing weight of defined-contribution pension funds tends to substitute an obligation of results with an obligation of means in the management of collective savings. This contributes to the transfer of risk to workers.

In spite of individual episodes where managers extorted exorbitant incomes by profiting from shareholders' inability to control them, these two categories of agents both benefit from the pressure financial markets place on firms. This leads to ineffective risk distribution. More and more risk is taken on by those agents least able to diversify it – employees as producers and as savers. This perverse evolution of contemporary capitalism can only be challenged by greater economic democracy.

6. Economic Democracy Beyond Shareholder Sovereignty

The firm is not the property of the shareholders. Shareholders are the owners of nothing but their capital investment in equities for which the company, as a legal entity, has fiduciary duties. Moreover, the greater the liquidity of financial markets, the more external shareholders are to the company, and the more the running of the company becomes entirely dependent on a managerial elite.

The concentration of power at the top of a company is the price paid in exchange for capital market liquidity. This concentration of power, it must be noted, is also an efficiency factor, guaranteeing a specialization in business management. Must it then be accepted without further discussion? Berle and Means's answer is no. To the contrary, it is necessary to harness this power so that it will be exercised not in the interests of the ones wielding it (managers), but in the interest of the ones it affects: shareholders, certainly, but also workers and, even further, the communities in which these companies thrive. In other words, power must be given a purpose distinct from the interests of those who hold it. The notion of ownership supposes precisely the opposite: a moral person possesses "subjective" power over his or her object of ownership, in the sense that this moral person can do as he or she pleases with it (cf. Robé, 1999).

The tradability of securities and the liquidity of markets allow firms to escape the sphere of ownership: neither shareholders nor managers can claim to have subjective power over the firm. A parallel can be drawn with the State. The distinctive feature of a democratic State is that the concentration of power within its apparatus, necessary to its effectiveness, is only possible if this power is given a final end different from the interest of the apparatus itself. The exercise of power is subject to the will of the people (the national community), according to democratic procedures. Thus, the idea defended by Berle and Means is that capital market liquidity necessitates a rethinking of the nature of power in large corporations. Power must be exercised in the name of the community that constitutes the corporation. The separation of ownership and control renders the firm autonomous of its shareholders. It would be advisable to make managers answerable to all of the company's stakeholders, not just shareholders. The firm is not an object of ownership, but an institution, and must be governed as such.

Berle and Means's analysis is surprisingly pertinent to the present day. Faced with the aberrations of shareholder value, an alternative mode of corporate governance is proposed. Managers' responsibilities to the company, as a collective entity, are the source of their legitimacy. Note that this mode of governance is upheld by the current economic theory of the firm that says the scope of directors' and executives' responsibilities must be enlarged in order to favour the involvement of the various stakeholders (see Blair and Stout, 1999, for example). Managers' power therefore consists in coordinating assets specific to the company, the first of those being employee skills. This kind of coordination sets a productive power into motion. Thus, governance must be thought of as the search for ways to make managerial power more accountable in order to implement the collective interest of the firm.

This truth should gain ground because of its very obviousness. There are firms that employ hundreds of thousands of people, whose added value surpasses the GDP of the world's poorest countries, and whose strategies directly affect the lives of millions of people. How can one still claim that such entities are objects of ownership? Civil law – the basis of legal theory – conceives of corporate relationships only in terms of subject and object of ownership. The dominant economic theory postulates that the economy is a system of autonomous contractual relationships in society, regulated solely by market mechanisms. This crucible of academic representations leads to a conception of the firm as either an object of ownership or a nexus of contracts. Both negate the necessity of establishing a collective interest to orientate company management. This denial has a high price: the eruption of social contradictions for which no adequate regulatory mediation can be found.

In the 1920s, as in the 1990s, the effervescence of unrestricted financial markets led to major crises. If the macroeconomic effects have been different, it is only due to the political action taken concerning monetary and fiscal policy, making the United States the most interventionist State in history outside the two world wars. As we already stated, the response to the corporate governance crisis of the period between WWI and WWII was structural: internally controlled managerial firms incorporating compromises from the labour society.

There is no doubt that if there is not a profound change in governance, financial disturbances will continue to erupt, misappropriation of funds to prosper, social inequalities to increase and democracy to decline. The poor control of collective risks and the disengagement of citizens are two evils undermining democracy; the only way to lessen their impact is to further implicate democracy in the collective entity at the heart of contemporary societies: the firm.

Nevertheless, one must not commit the error of thinking that it suffices to return to the first sort of labour society. In the last 30 years, capitalism has produced irreversible changes, rendering the old system of governance by internal control obsolete. The hierarchical technostructure has been increasingly replaced by the network firm integrating decentralized units through the flow of information and money. Financial markets, which experienced a decline after the Great Depression, will continue to play an essential role, that of transforming and allocating risk. More and more, innovative technologies require collective action: increasing returns to scale, network effects with externalities of demand, environmental and ethical implications. The productive choices of firms have large-scale social implications. They are political.

It follows that the social compromises of the Fordist era have ceased to apply. There can no longer be a question of shared responsibilities, where company managers had exclusive control of the organization of production and where economic democracy progressed through the development of social rights. Democracy must now take hold of the entirety of company goals; it must elaborate the collective interest, which in turn lends legitimacy to corporations' activities.

The firm is by nature a partnership. It associates participants who must be stakeholders in the definition and the control of a firm's objectives, because their involvement in the company constitutes risks that cannot be contractualized. Employees who bring specific skills to a firm share in its risks much more than the widely dispersed shareholders whose stake in the company has the advantage of being liquid. What is more, employee competencies gain value through their complementarity. Employees with specific skills are not only concerned with their individual incomes, but with the evolution of the firm over time, whose value depends on the value given to human capital. Economic Democracy is the deliberative process by which the interests of human capital define the interests of the firm.

The board of directors must play a crucial role in this governance.[10] As a firm's central organ, it must be in charge of the procedural definition of company interest and of the control (*ex post*) of managers. The implications of this general principle on the composition of the board of directors, in comparison to the recommendations that follow from the doctrine of shareholder value, are immediate. To begin with, let us briefly review these recommendations. According to shareholder value, the board of directors cannot be a deliberative body, to the extent that this doctrine stipulates that the purpose of a firm is to maximize financial returns for shareholders. The interests that the board must take into account in its strategic decisions are defined *ex ante*, without any deliberation or compromise. Under these circumstances, the purpose of the board of directors is control. The contradiction at the base of shareholder value – the desire to combine exteriority (liquidity) and control – is found here: in order to prevent collusion between the controllers (board members) and the controlled (managers), the independence of the former becomes a cardinal virtue. There is no longer one code of "good governance" that does not favour the independence of a certain number of directors or that does not strive to offer an operational definition of what "independence" could be. In the end, this independence can be expressed by one word: exteriority. It is the rationale of shareholder value: controlling an internal power from the outside. As much as possible, board members should have no links to management. In concentrated sectors, this most often means having no

[10] Boards of directors are part of 'mono-partite' internal governance systems, while supervisory boards are part of 'bi-partite' systems (cf. Chapter 3 of *Corporate Governance Adrift*). The difference between the two is of secondary importance. It is simply a question of organization, which does not relate to the responsibility or the goal of a firm. Shareholder value can be implemented in both mono-partite and bi-partite systems. In that case, either boards of directors or supervisory boards should be composed exclusively of shareholder representatives. To the contrary, co-determination does not presuppose a German type of bi-partite system, as is too often thought. In Sweden, for example, co-determination is associated with a mono-partite system with employee representatives sitting directly on the boards of directors. Thus, we think that the mono-partite vs. bi-partite debate is a false one. It turns attention away from the fundamental question of corporate responsibility. As a result, the commentary that follows on boards of directors is equally applicable to supervisory boards.

links with either the sector or the profession. The assessment of the board of directors offered by the doctrine of shareholder value is paradoxical in that it advocates an increasing exteriority for this internal mode of control. This exteriority obviously has a price: incompetence.

When the board of directors is conceived as a deliberative body, in charge of defining the general interest and controlling its implementation, there is no longer any reason to insist on board member exteriority. Instead, individuals are needed who, without complying to management's demands, must still possess the knowledge needed to clearly elaborate the compromises necessary to the firm's development. Here is not the place to advocate a particular model for the organization or composition of boards of directors. Rather than outline an optimal model in the manner of contract theory, it is necessary to underline the fact that the definition of general interest is political in nature. It depends on culturally legitimate representations, meaning representations that are recognized as fair and that favour involvement and cooperation. In the same way that a democratic state does not specify an ideal form of the organization of power, corporate governance must be capable of functioning within diverse forms of capitalism which remain quite real, contrary to the "end of history" argument.

This vision of the board of directors gives new appeal to German and Swedish governance models that are often considered obsolete. They present an original configuration: opening supervisory boards (Germany) or boards of directors (Sweden) to employee representatives with rights equal to shareholder representatives. Worker information/consultation rights are insufficient. The elected worker representatives must have a deliberative voice in corporate decision making (Olivier and Sainsaulieu, 2001). As the weight of financial considerations in the decision-making process tends to increase, opening the board of directors to employees, representative of a firm's collective competencies, allows for the formation of adequate checks and balances of power. The presence of employee representatives results in a board of directors that is both strategic, in defining the general interest, and disciplinary, in scrutinizing the value of management's decisions. In effect, these representatives have a dual status that combines independence and competence: independence, because their intentions would not be the same as those of management; competence, because they have a status internal to the firm, contrary to the typical "ideal" board member defended by shareholder sovereignty.

Among other things, our analysis argues for a rejection of mechanisms that aim at short-circuiting the board of directors or the supervisory board during hostile takeovers, which is done simply because shareholders are the only ones who have the right to decide on the fate of the company (as a moral person or a legal entity). This "principle of neutrality", at the heart of European Directive 13 on takeover bids, enters into profound conflict with the democratic implementation of a collective interest in the firm.[11]

If there is no direct participation of workers on the board of directors or the supervisory board, then works councils constitute employees' main vehicle of involvement in the decision-making process. A first step is granting employees the right to information and consultation, accompanied by an obligation on the part of managers to take information from workers into consideration when making decisions. This form of involvement, weaker than democratic governance through the board of directors, is characteristic of continental European countries. It allows for the creation of an interface with management (Wheeler, 1997). Nevertheless, this involvement must be concrete so that employees do not find that strategic decisions for mergers or relocation are announced as finalities, as has too often been the case these last years. Endowing works councils with real rights of co-determination is something that must be given consideration. An example would be to accord a veto to workers on certain subjects of primary importance (Le Crom, 2003) like the *Betriebstrat* does in Germany.

7. Economic Democracy and Social Ownership of Capital

The development of network technologies is increasingly distancing intra-periodical exchanges from the fiction of a perfect market (Currien and Muet, 2003). Demographic shifts lead to intergenerational exchanges which render the

[11] On this point, see Beffa, Langenlach and Touffut (2003).

fiction of the private ownership of firms, already called into question by liquidity, more and more untenable.

The first epoch of the labour society was the socialization of income according to a principle of horizontal solidarity. According to the quality of the democratic demand for social cohesion, this solidarity took either the form of contribution (Germany, France) or redistribution (Northern Europe). Vertical solidarity is the socialization of capital, which marks the new epoch of the labour society. The non-recognition of this evolution – the privatization of intergenerational social rights – has already provoked human tragedy in Japan, the United Kingdom and the United States. As demographic changes move forward, political conflicts provoked by financial losses of private, non-guaranteed pension funds will intensify. Intergenerational contradictions will give birth to political mediation allowing compromises that guarantee rights to deferred income. These compromises will affect the social ownership of capital and thus will have a strong effect on corporate governance.

The point is to find the best possible way of managing collective employee savings, whether they be worker savings plans or worker pension plans. It is a political action that raises the problem of corporate responsibility concerning these savings, because they are, in effect, deferred wages. The earnings from these savings are not personal income resulting from the individual choice of deferred consumption. They are primary income, the result of participation in production.

Worker savings plans are financed in part by salary contributions and in part by deductions from the company's gross profit. Worker representatives must therefore be involved in creating these plans and in controlling the manner in which they are invested. Worker pension plans are compensation for a social debt. In effect, they are rights acquired in return for services rendered during a working life. Inscribed in the liability of pension funds and life-insurance companies, these rights are the obligation of society as a whole. They are inalienable and must be politically recognized as such. The ability to honour them must be a commitment on the part of the entire nation, because it is the condition of citizen participation.

It follows that funds raised by these two types of collective savings must not be managed like private financial institutions. In compensation for the social debt registered in their liability, the property held in their asset must be considered as social property. In the same way that banks are subject to specific regulation, because they manage to their liability a collective (public) good (money), collective savings funds must also be managed under the control of society, whether they be public, corporate or associative. That is what is at stake in a renewal of democracy in the labour society. Politics must dominate finance, not be led by it.

Such an approach is indispensable in guaranteeing a proper retirement to all citizens. This approach goes against financial logics, which led to excessive speculation in the 1990s, to huge losses on the part of insurance companies and to gaping holes in the capitalization of private pension funds that followed the collapse of the stock market.

Collective savings can and must influence the financial industry in its entirety, if the recognition of the social responsibilities these savings imply leads to management principles that do not transfer risk to savers. The diversification of investments is necessary in order to limit this risk. These worker savings or pension funds must not have any particular attachment, as shareholders, to their companies of origin. More globally, collective savings funds could help reduce financial instability if they were supervised more rigorously on the prudential level and controlled by the representatives of the subscribing savers according to criteria that take the implementation of democratic mechanisms in the firm into consideration.

The behaviour of the financial industry shows that this industry presents two characteristics that are totally opposed to the demands of truly social ownership of capital. First, savers have no control over the investment of their savings placed in collective investment funds or in private pension funds. Second, management of mutual funds is transferring more and more of the risk onto savers because of pressure from financial lobby groups and managers of large corporations: mutual funds, which only have short-term obligations, and pension funds, which are moving more and more towards defined contributions. In addition, the delegation of funds results in high commissions. Savers' return on investment is thus burdened by highly onerous management and administration fees. In fact, thousands of people offering the same service, constituting an enormously over-capacitated industry, must be paid by these collective funds.

These non-guaranteed funds proliferated because the financial industry benefited from tax breaks that channelled investments to their advantage. Thus, the entire financial chain of analysts, brokers, investment bankers and ratings agencies must also be paid – for financial returns that fluctuate with stock markets.

Reaffirming democratic control of this industry would significantly lower costs and socialize risks. Putting savings in the hands of the financial industry is a trend that must be reversed. To do so, a debate oriented along social-democratic lines must be engaged in European countries where it has not already begun. This debate must promote public (state) funds and statutory company funds, making it possible to capitalize on worker savings and pension funds while respecting strict criteria of social utility.

In order to benefit from tax incentives, funds that claim to manage collective investments should respect terms and conditions incorporating the following criteria:

- formal contributor representation in the proceedings on the orientation and the control of investment fund policies;
- introduction of social responsibilities in the form of redistribution of benefits to contributors with the lowest incomes;
- enlargement of performance indicators for the assets in which the funds are invested, in order to take into account a company's goals and its ability to achieve them (amount of human capital; research and development; quality of working conditions, particularly in developing countries; investment in environmentally friendly practices);
- return objectives on a three-to-five-year period, rather than a three-to-six-month period, in order to avoid overbidding by managers looking to beat their competitors in the short-term; this competition leads to mimetic behaviour that amplifies market ebbs and flows;
- direct management of the allocation of capital among the large categories of financial assets, and strict control of delegated

management inside these categories with the constraint of a minimum return, possibly indexed using macroeconomic indicators and having goals compatible with those of the funds themselves.

Two types of regulatory organizations must be created to reinforce the process of the socialization of savings. Governments should favour the creation of ratings agencies financed by taxes levied on financial institutions. These agencies would take into account broader performance criteria, differentiating themselves from existing mercantile agencies. Independent public agencies must also be created to supervise funds' compliance to the terms and conditions.

There is no doubt that such a political initiative would have a considerable stabilizing influence on market finance. Combined with a reform of prudential regulation of financial intermediaries and of broader objectives for monetary policy, the aforementioned initiative would constitute a suitable institutional framework for financial globalization, if pursued in the largest market economies. It is useless to say that the behaviour of finance, as it exists today, does not allow for these reforms. The problem must be approached from another angle. It is a matter of having the political and institutional means necessary to making finance take the criteria of social returns into account.

An appropriate response must also be found to the threat the future deterioration of demographic balance poses to contributory pension schemes, while preserving the solidarity inherent to this principle. Whatever the legal form of retirement rights, it is first necessary to note that, from a macroeconomic point of view, the benefits of a given period are taken from the production of that same period. On the other hand, the return from contributory pensions is based on the economic growth rate while the return from capitalized pensions is based on the actual interest rate. The risks associated with these two regimes are just as different. The public contributory system is subject to the risk of intergenerational political conflict if the active population is not happy with the elevated fiscal pressure of maintaining the system, or if public debt eats up an ever-greater portion of GDP. Capitalization systems, when they are private and non-guaranteed, are vulnerable to risks associated with financial instability.

Faced with these contradictions, the accumulation of obligatory contributions in a public (state) fund would have the following advantages.

- The first and most evident advantage, far from negligible, is *operational*. The operational costs of an obligatory public fund per unit of invested savings is lower than private collective investment funds, because over-capacities are eliminated and exaggerated fund-management income is avoided.
- The second advantage is *political* and decisive. Being invested in permanent public capital, the rights held by the accumulated savings of citizens have institutional guarantees that are much more solid than the transfer rights included in the annual budget.
- The third advantage is *financial*. As capital invested in production, public funds reduce the burden of public debt on future generations, on the condition that the return is superior to the interest rate on the public debt.
- This leads to the fourth advantage, which is *economic*. An investment fund gives public power the means of raising potential growth if it allows public-private collaboration in infrastructure, education and technological innovation.

Countries that saw ahead were those where public debate led to a political accord, authorizing a marginal and regular rate of annual contributions and a capitalization of the funds thus raised. Such is the path of Canadian reform, which is taking advantage of this period in which the demographic structure remains favourable to the active population.

Of course, the effectiveness of a public (state) fund depends on the manner in which it is invested. It must respect the general criteria outlined above. In countries where such funds have recently been established, they should be placed under Parliamentary control and be managed by an independent public authority. The most important condition to fulfil is that at absolutely no moment, and on absolutely no pretext, can the Treasury access these resources. These conditions can assure public confidence in the continuity of this public capital.

8. In Favour of a European Model of Governance

The oppositions between continental European governance practices and the US model, which today is in crisis, are important. Financial globalization certainly contaminated a number of firms. Furthermore, the European system of majority blockholdings is not without some grotesque caricatures. The worst occurred in Italy: the Parmalat scandal is the largest to date in the European Union. In France, France Télécom's enormous debt also revealed an upset in governance that the shareholder State did not curb.

Nevertheless, the deceptive liberalism reigning in Europe, which is busy undermining State authority and dismantling the public domain, is much more of a threat to democracy than the risk of being submerged by the US model. The 1990s showed very clearly that the socialist and social-democratic parties in power were paralysed, stunned even, by the rising wave of stock market speculation. They endorsed the abandonment of sovereignty that came with the creation of the Euro, without trying to construct so much as the embryo of a European economic policy (Fitoussi, 2002).

One recurring theme of the political campaign following the ratification of the Maastricht treaty was that the formation of a European economic area unified by a common currency would give back the autonomy that was being threatened by financial globalization. Europe, however, has never been so much in the tow of the United States as since the creation of the Euro. The Euro in and of itself is not the problem, but the renouncing of an active economic policy. Held in the shackles of EU regulations, stripped of monetary tools by a central bank mired in an outmoded doctrine, paralysed before the prospect of federalism but incapable of the slightest cooperation, member-state governments are completely powerless in the face of the instability of the world economy. Is it so surprising that democracy in Europe is on the retreat, when political leaders present financial logic as inevitable?

The principle lesson of our analysis is that capitalism cannot promote social progress if the market is not subject to democratic control. In the current phase of the labour society, the stakes should lead to the mobilization of a large political interest in favour of a double reform: *on the one hand, to introduce democracy into the heart of the firm in order to elaborate a collective interest and to control its implementation; on the other hand, to develop the means of regulating finance by supervising all financial institutions and by reforming the criteria for the investment of collective savings.* It is not possible to regain the means of public action against global risks and against the ripping apart of social cohesion, under attack from growing inequality and intolerable injustices, without engaging in these structural reforms. They counter the defeatist attitude that is running about Europe under the pretence of economic liberalism.

Social democracy promoted a doctrine of political action that favoured social progress during a period of strong growth, after the Second World War up until the early 1970s. It was successful in asserting the State's role in macroeconomic management. Social democracy was skilful also at building intermediary institutions capable of managing conflicts relating to income distribution. The socialization of income according to collective norms, and their progression in parallel to productivity, ensured cohesion between social groups.

Mutations in capitalism spurred by finance give the directions necessary for recovering social progress. Political action should find its footing in finance in order to give a new expansion to the labour society. Society must recover its control of savings that the neo-liberal financial doctrine managed to bury under the pretence of shareholder primacy. This kind of control can only be efficient if the firm is considered as an institution that is governed by a collective interest defined by and based on participative democratic initiatives. Because social democracy is a philosophy of "humanization" through reforms, social democracy in Europe must make itself responsible for the historical period we are now entering: the era of the socialization of equity capital.

What are the social forces that could support this system of governance? There are some managers of European multinational companies who understand just how much their legitimacy is threatened by this financial game. The recent possibility of conferring a European status to companies operating in several EU member states gives a legal basis for negotiating governance principles that give controlling bodies in corporations the capacity to elaborate a collective interest. Such initiatives would speed up collaboration between the labour unions of several countries in order to defend democratic principles of governance that go beyond national borders.

But that is not enough. A category of shareholders must be introduced into finance whose interest lies in promoting performance criteria that hold to democratic principles of governance. These shareholders must become preponderant in the allocation of capital. This category of shareholder exists, but it is mute, dispersed, without influence and manipulated by the financial industry. It is the large mass of saving workers for which current forms of financial investment are unable to guarantee an acceptable retirement.

It falls to the governments of European countries to promote collective savings funds with defined benefits, vested by the law and monitored by independent public agencies. A government initiative to harmonize the requirements of public (state) funds would also open the door to a European fund. This would especially guarantee the transfer of worker rights under the conditions of job mobility, while at the same time respecting the fundamental obligation of defined benefits.

At this moment, the European Union is a sundry collection of countries suffocated by paralysing EU regulations, undermined by conflicts of interest and endowed with inadequate common institutions. It is foolish to believe that reform can come from such an assembly. Whether we call them “reinforced cooperation”, the “hard core” or “variable geometry”, initiatives leading the way out of stagnation can only come from a constellation of countries around France and Germany, or they will not come at all.

It would be vain to hope that a transformation of capitalism in Europe could restore its economic power of the past. Over the next 50 years, economic power will irrevocably shift toward Asia. Europe, however, can still propose a model of economic democracy to help new and growing labour societies find the lost path of social progress.

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