THE DIALECTICS OF MANAGEMENT AND POLITICS

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One of the most productive labor economists and historians of our generation, Sanford Jacoby, has chronicled the transformation of the American business enterprise from small, entrepreneurial firms through the rise of the large, managerial firm, and the new, stockholder-dominated modern business enterprise. Whether studying the origins of modern management in the Progressive Era or welfare capitalism and the rise of social welfare state in the New Deal, Jacoby has avoided simple or ideological answers to show the role of all parties in class conflict. Rather than focusing exclusively on workers and their organizations, Jacoby has shown that good labor history, good history of any type, should include managers, employers, small owners, and others in the middle classes. Only when all the different social actors are included, does it become possible to apply a proper historical dialectic, one where each human action and each social conflict creates within itself the possibility for further social development.

I think that it was Robert Solow who called rising inequality the central economic question of the day. Jacoby brings to this question the same historical consciousness and dialectical analysis that he displayed in his earlier work. For those of us who skim through the text in search of tables of numbers, Jacoby lays out the key questions in the first of the paper's two tables where he shows the dramatic rise in stock values throughout Western Europe, the United States, and Japan, and an almost equally dramatic increase in economic inequality in the United States and the United Kingdom but not in the rest of Europe or Japan. Jacoby's paper relates these two empirical findings, rising stock values throughout the world and rising inequality in the Anglo-Saxon countries, and places them in a historic context to show the possibilities for social and political action.

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Using Karl Polanyi's classic *The Great Transformation* as a template, Jacoby explores a "double movement" in liberal capitalism. On one side is economic liberalism "aiming at the establishment of a self-regulating market"; against this is "social protection aiming at the conservation of man and nature." In the United States, Jacoby shows how the conflict between these two movements has been played out in the struggle over the regulation of financial capital between financial interests and a "producerist coalition" uniting workers and some managers and others in the working middle classes. Putting a familiar history in a new light, Jacoby shows how Greenbackers, Populists, and Silverites fought in the 19th century to place banks and financial markets under greater public regulation. While their struggles were generally unsuccessful, the economic and political collapse of the Great Depression revived calls for regulation by discrediting economic liberalism. Measures like the Glass-Steagall Act were enacted to restrict banks and the Securities and Exchange Commission was established to supervise financial markets. In cooperation with other countries, the Bretton Woods accords established a global regulatory web intended to support domestic Keynesian policies. Combined with the rise of an American welfare state and a large and politically powerful labor movement, these were major victories for producers over owners. Protected from the demands of financial markets for quick returns, companies adopted new policies to promote commitment and internal learning through policies of lifetime employment. Wages rose sharply as did the share of income going to labor. Owners did not fare as well. Despite decades of economic growth, stock market values did not return to their 1920s level until the 1980s.

Jacoby's account of labor's "trifecta of high bargaining, organizing, and political power" in the 1940s and 1950s appears superficially familiar. The novel and particularly insightful part of his story is his interpretation of how labor's victory was won and how corporate managers worked with labor to set limits on finance capital. Rather than a triumph of the working class, Jacoby argues that the New Deal was built from a "producerist" alliance uniting labor and management against owners. It was this alliance that regulated financial markets, penned in finance capital, restricted owners and shareholders, because managers and others in the middle-classes came to share labor's desire to restrict finance capital even if they never agreed with labor's campaign to transform capitalism. In this environment, the concept of "management rights" and "managerial autonomy" took on new meaning; they were not only the right to

supervise workers but the right to autonomy from owners. No special priority was to be given stockholders; they were held to be entitled to a "fair return" while management defended its right to reserve retained earnings for reinvestment, for worker training, and to fulfill responsibilities to all stakeholders. The establishment and retention of an area for managerial discretion free of financial market constraint, Jacoby explains, accounts for the steady decline in annual dividend yields from the late 1930s through the 1960s.

Transcending traditional (Marxian) class conflict, this producerist alliance of management and workers, Jacoby argues, extended beyond the unionized sector to include nonunion firms and rarely-unionized white-collar occupations. The key to this new "proclivity to cooperate" was not class conflict or fear of labor unrest, but, rather, a decision by managers to invest in employee relations, to build trust and confidence as part of a long-term corporate strategy. Because such a strategy depends on building corporate loyalty and productivity over a long-time horizon, it depends not only on managerial patience but on patient finance, the availability of long-term patient money. The new strategy depended on newly regulated financial capital markets. But, deploying his historical dialectic, Jacoby also shows how the new management strategy also undermined financial-market regulations. Labor unrest was transformed by management policies designed to bind workers by providing long-term rewards, especially pension benefits. By creating new sources of centralized financial power, these new pension funds were able to spearhead the transformation and deregulation of American financial markets.

Building on his account of the post-war years, Jacoby explains that the producerist alliance was collapsing by the late-1970s and finance capital was regaining independence and power. The problem, according to Jacoby, was not only that the labor movement lost strength, but that the producerist alliance itself fragmented. This was partly due to the victory of right-wing economics, the spread of market fundamentalism by Heritage and other right-wing think tanks. Perhaps even more important, however, was the growth of a new alliance system uniting pension-fund holders, including unions and workers, with other shareholders against patient management. The new alliance system freed financial markets, giving stockholders power over managers, eliminating managerial discretion to invest in trust building and other long-term strategies. The New Deal coalition collapsed, Jacoby concludes, not because the labor movement lost power but because labor's victories had created a new alliance system built on a new source of concentrated financial power.

This is a provocative and novel revision of the familiar Marxist story of the breakup of the post-war Labor Accord. While acknowledging the usual suspects, the breakup of the New Deal coalition and labor's political weakness, Jacoby shows dialectically how it was labor's successes that came to undermine the New Deal coalition. It was the establishment of massive retirement pension plans that opened the door to corporate raiders and others who undermined managerial autonomy. With hundreds of billions of dollars and mandated to seek the highest returns, pension funds provided the centralized direction previously lacking to the financial markets. Managerial liberals, Jacoby suggests, did not abandon labor. On the contrary, they were abandoned by their former worker allies when pension funds, like California's CalPERS, financed corporate raiders and other shareholder rebellions that freed owners from having to tolerate managerial discretion and made impossible the old managerial strategy of stakeholder responsibility, long-term planning, and trust building. Ironically, by searching for higher returns for their worker-owners, labor's pension funds adopted stockholder activism that helped to bury the New Deal Labor Accord, ultimately destroying the economic policies that had created these pension funds.

Clearly unhappy with the economic changes of the past thirty years, a political agenda lies behind Jacoby's work. Financial deregulation has rewarded financial elites enormously, and it has done so with real costs to the rest of the economy. The average citizen has little to show for the liberation of financial markets except the greater risk that comes from greater market volatility. And there is no evidence supporting some economists' promises that liberating financial markets would lead to higher rates of economic growth or productivity increases. So what is to be done? Jacoby suggests that our political thinking has been limited by a Marxian focus on class conflict rather than an historical appreciation of the diversity of political alliances that have promoted healthy change in American history. By stepping away from a simplistic Marxian analysis, by framing the fight against financial deregulation as a campaign against "financial short-termism," Jacoby suggests that organized labor can identify new allies. Joining with corporate liberals, advocates of managerial autonomy and long-term thinking, and with middle-class citizens frightened by the great risk shift caused by financial liberation, we can restore balance in Polanyi's double movement.

Jacoby's analysis reaches a tenable political conclusion: a producerist alliance against abusive finance capital reminiscent of the New Deal coalition. But before we run out to embrace our corporate

manager, we should carefully ponder their real interests, and the role they have played in the transformations of the last thirty years. I recognize that managers engaged in long-term thinking, promoted trust among stakeholders, and invested in their workers rather than seeking short-term profits. My question is about their motives. Was this a strategy that they wanted to pursue, or was it imposed on them by the strength of organized labor? Were managers allies, or did they reluctantly cooperate with labor?

Jacoby's key evidence on this point is the behavior of large nonunion companies who acted like their unionized counterparts proving, he suggests, that corporate managers were genuinely interested in long-term thinking and "high road" management. But I find this to be dubious evidence because there could be other, nonideological reasons for this behavior, most notably the threat effect from strong and aggressive unions and a desire to maintain nonunion status. Nor am I persuaded by studies like Francis Sutton et al., *The American Business Creed*, which report managerial concern to build trust and provide benefits for all stakeholders. Not only is talk cheap; but I can easily believe that when managers act from fear of unions, they will feel more comfortable attributing their actions to deeply held beliefs and values. More persuasive may be the behavior of corporate managers when they were freed of union power. When economic and political circumstances changed in the 1980s, when they had a choice of maintaining long-term relationships or pursuing short-term profits, we saw how little many valued long-term contracts. Given a free choice, both nonunion companies like IBM, and union companies like GM, walked away from their implicit contracts and gift exchanges.

Rather than abandoning stake-holder capitalism because of pressure from financial markets, many American managers acted because they no longer felt bound to a moribund labor movement. Indeed, we can see in many companies a long-term strategy to get out from under union power, a strategy to relocate production away from union centers, to shift workers out of union bargaining units and into management, and a policy to outsource production. (Some of these strategies are described in Jefferson Cowie's excellent book, *Capital Moves: RCA's Seventy-Year Quest for Cheap Labor*, and in his coedited collection, *Beyond the Ruins: The Meanings of Deindustrialization*.) The point for Jacoby is that once freed of unions, managers found a renewed common class interest with investors. The great run-up in CEO pay, for example, came with financial market deregulation because both reflected the weakness of

the American labor movement. No longer restrained by the need to bargain with unions, or even to explain their actions to their workers, managers began to walk away with seemingly ever rising pay including enhanced stock options and other forms of compensation. Here again we see a real problem for Jacoby's analysis because management income and shareholder returns both benefited from the collapse of the labor movement over the last thirty years, the collapse of the producerist coalition. Instead of a producerist coalition where managers shared interests with workers, it appears more that managers tolerated workers only from fear of strong unions and a renewed rank-and-file explosion like that of the mid-1930s. Only when they were freed from these fears by union weakness and far-right political victories were managers able to renew their natural alliance with shareholders, including a common interest in crushing labor. Certainly this is the lesson of the international comparisons in Jacoby's work: where labor is stronger (the European continent), differentials have remained relatively narrow. Only in the United States and United Kingdom, the lands of Reagan and Thatcher, can a decimated labor movement no longer prevent rising differentials and extraordinary CEO incomes.

This suggests an alternative political payoff. If we view the last thirty years as the loss of a producerist coalition then we seek to renew this coalition by emphasizing areas of progressive cooperation between workers and managers against financial liberalization. If there were managers and others ready to join a producerist coalition against finance capital then this path could lead to a more efficient and just economy. But one may doubt whether there are such allies. Why, after all, would managers seek to renew financial regulations when they themselves benefit so much from free capital markets and weak unions? And what sort of producerist alliance can be formed when so many American businesses have become hollow corporations, marketing agencies for products produced elsewhere? Against a united employer class, we might have to abandon any illusions that there are any more friends in management than among those who own America or control financial capital.

But if Jacoby's specific political alternatives appear lacking, his approach remains invaluable. Jacoby's most important scholarly contribution remains his ability to grasp social change as a product of multiple social actors, a talent that allows him to wield the historical dialectic to such great effect. Any who would suggest another path, one of unremitting class conflict pitting workers against managers and owners, needs acknowledge that social progress in the past came

through alliances like those Jacoby sees behind the New Deal reforms. Today, as then, labor remains the weaker party in any class conflict with capital; labor needs allies to regulate capital but where are reformers to find these allies to rein in finance capital?

Jacoby brilliantly identifies the questions of the day. Whatever my disagreements with the specifics of his argument, Sanford Jacoby has deepened our understanding by raising the most profound questions. His paper is important and provocative; rarely have I learned so much from a journal article. My only regret is that I did not recruit it for my own journal!