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The Three Ages of Capitalism

by Hervé Joly

The age of commerce, the age of the factory, the age of finance: for Pierre François and Claire Lemercier, the chronology of capitalism is the same all over the world.

About: Pierre François, Claire Lemercier, *Sociologie historique du capitalisme*, La Découverte, 2021, 428 p., €26.

Based on courses given at Sciences Po Paris and the University of Lausanne, this book by the sociologist Pierre François and the historian Claire Lemercier is an ambitious one. As the conclusion says, "to reconstruct the history of capitalism is in many respects to attempt to write the history of the world since the end of the 17th century" (p. 383). If it is possible to observe capitalist behavior, defined as the individual's quest for profit, in medieval or ancient societies, it remains on just an individual level. It is only since the end of the 17th century that we can speak of capitalism on the level of a society, to the extent that "a large majority of people either adopt capitalist behavior or are directly affected by those who have adopted it" (p. 383). The geographical scope of the book is also very large: if it is centered on the two countries that the authors know best, France and the United States, it also involves incursions, notably in the form of text boxes, into many other territories. The authors do not deny privileging their own two disciplines at the expense of economics, which they only use for empirical purposes. The book's main thesis is that "despite the obvious differences from one point of its space to another, the chronology of capitalism is everywhere the same, because it is on the global level that its great inflections take place" (p. 385); these are marked by three successive ages, whose impact on consumption, work, firms, etc., François and Lemercier try, more or less convincingly as we shall see, to ascertain.

The first age, the age of commerce (around 1680 to 1880), is embodied by the figure of the merchant, who commands complex chains of manufacturing subcontracting within the framework of a networked organization of rather small-sized structures. The next, the age of the factory (around 1880 to 1980), is characterized by the transition from the workshop to the factory, with work for wages as the dominant model on the labor market model and organizations that aspire to become bigger and bigger. The last age, the age of finance (starting in the 1980s), is introduced cautiously with a question mark to the extent that finance, which is "consubstantial with capitalism" (p. 18), is not something new in the 1980s. It simply becomes more dominant, which translates into a call for firms to become more "flexible" rather than bigger necessarily.

Overall, the distinction between the ages of commerce and of the factory works well on the different topics studied in the successive chapters provided we look here, as the authors do, for "overlapping tiles" rather than a "substitution pure and simple" (p. 14).

In terms of consumption (chapter 2), the age of commerce is characterized by the appearance of new goods, both foodstuffs (tea, coffee and tobacco) and objects (combs, razors, watches, etc.), as daily necessities, even if buying them remains an exception for the poorest sections of the population. The factory age marks the beginning of mass consumption and the development of store chains, which, unlike 19th century department stores, attract the working classes. But consumption only explodes after the Second World War, with the spectacular social expansion of electrical appliances and the automobile. As the authors acknowledge, the specificities in terms of consumption are less obvious for the age of finance; mass consumption continues to spread, new products or new commercial forms appear, but there is not a fundamental break.

Work and the Firm

In terms of the work variable (chapter 3), there is again a clear evolution from the age of commerce, characterized by the "work leasing" of the worker or of the craftsman, who only undertakes to deliver a product to the client, without putting all his or her time at the latter's disposal, to the factory age, which is characterized by the generalization of wage work, even if it has never become exclusive of course, within the framework of an employment contract that exchanges subordination for protection. Here again, the age of finance is not empirically marked by such a clear break. On the one hand, precariousness already existed for certain social groups in the factory age. On the other hand, salaried employees remain the large majority; there is no spectacular increase in the number of self-employed people, but merely greater flexibility in certain segments of the labor market: among young people without a college degree in particular, who, in France, are especially affected by the overall decline in contracts of indefinite duration from 93% of employees in 1982 to 85% in 2018. Recourse to short-term employment can also affect people with college degrees, artists, journalists and intellectuals. Even before the development of "uberization," what the jurist Alain Supiot calls the "return of merchantry"[1] is a real phenomenon, but still of limited scope. François and Lemercier acknowledge that the age of finance is more characterized by the promotion of self-employment as political objective than by its massive spread.

Chapter 4 looks at the evolution of the forms of the firm. The "distributed" firm, which is characterized by a network of small, specialized organizations connected by contractual relationships and which is proper to the age of commerce, tends to be replaced in the factory age by the "integrated" firm: a large organization that is recognized as autonomous. The age of finance is characterized by a sort of return to the distributed firm. Here again, François and Lemercier are cautious about perceiving ruptures. While there were very few integrated firms in the age of commerce, distributed firms are far from having disappeared in the factory age, and the integrated firms of the age of finance are even bigger than previously. It is above all the dominant discourses that have changed. Thus, according to the model of the economist Michael J. Piore and the lawyer Charles Sabel,[2] emphasis is placed in the age of finance on flexible organizations, which allow for the production of a wider variety of goods for differentiated markets with more rapidly changing consumer tastes. Following Boltanski and Chiapello,[3] the networked firm has become a "normative model," even if it has not made integrated firms disappear; the latter, like Walmart (2.1 million employees in 2010) or Amazon (650,000 in 2018), are bigger than ever.

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[1] *Au delà de l'emploi. Transformation du travail et devenir du droit du travail en Europe*, Paris, Flammarion, 1999.

[2] *Les Chemins de la prospérité. De la production de masse à la spécialisation souple,* Paris, Hachette, 1989 (first edition 1984).

[3] Luc Bolstanki, Éve Chiapello, *Le Nouvel Esprit du capitalisme*, Paris, Gallimard, 1999.

Who Possesses Capital?

In chapter 5 on "capitalists," the move from control of firms by "shareholders" – it would be better to say owners, since joint-stock companies were not very common in the age of commerce – to "managers" is highly typical of the transition that occurred in the factory age, provided we take all the precautions that the authors recall: this transfer is gradual and, at least in France, does not correspond to a very clear change in the profile of the operators, who remain in all ages characterized by their closeness to the state. The fact that managers conduct business differently from owners, prioritizing development of the firm over quick profits, is even less well established: many owners, in keeping with a dynastic family logic, also adopted a long-term perspective. It is in terms of this aspect that the age of finance marks a particularly clear break: it is characterized by the triumph of "shareholder value," to which the most financialized firms are subjected.

The demand for profitability is stronger, particularly in the United States; conglomerates, of which the financial markets do not approve, are dismantled in order for companies to refocus on their "core competency"; investment funds assembling the money of private households have become better informed, more powerful shareholders. The model does not work as well in Europe, particularly in France, where funds are less present in the capital of big companies. Nonetheless, financialization is evident in France in a more than sixfold increase in the share of dividends in earnings from the end of the 1980s to the mid-2000s, which occurs at the expense of wages. As for managers, if they lose here in terms of job stability, they gain considerably in terms of remuneration, with sharply rising salaries and the distribution of stock options that assimilate them to shareholders.

We also, of course, expect to encounter the impact of the age of finance in chapter 6, which is devoted to capital. But, here too, in concentrating on the French case, François and Lemercier have to admit that the developments are not clearly distinct. It is difficult to distinguish between the age of the factory and the age of commerce in the opposition they draw between financing by banks and financing by the stock market. The first stock exchanges appeared in the 18th century, even if they were severely restricted until the French Revolution. Their development is contemporaneous with the emergence of the factory age, but they only come to be generalized to the economy as a whole in the 1920s, before receding again after 1945 due to nationalizations, with the state massively playing the role of a bank. As a result of the privatizations and liberalization of the 1980s, the stock exchange undergoes a new expansion coinciding with the age of finance, but this does not occur to the detriment of banks. As the authors admit, the two systems are tightly interdependent: issuing shares on the financial markets is only possible with support from the banks, which derive substantial commissions from this business.

The Institutional Pillars of Capitalism

Chapter VII on "Institutions and Relations" is more heterogeneous, and the section on the rather immutable relations between religions and capitalism has trouble being fit into the trilogy of ages. The section on accounting works better in this regard. In the age of commerce, the purpose of accounting was less to provide a precise calculation of gains and losses than to maintain a network of relationships for spreading out risk. In the factory age, accounting became a matter of state, making it possible, particularly for fiscal reasons, to determine the profits of firms. In the age of finance, standards get privatized by way of international harmonization, leaving states less sovereign. The section that looks at family businesses, on the other hand, shows that the latter tend to transcend the different epochs. Inasmuch as strategies are diversified between short and long term, it is impossible to give a clear answer to the question raised as to whether the family protects against financialization.

The final chapter on the state underlines that the latter has an ambiguous relationship with capitalism, far from constructing itself in opposition to it. Even the state confined to a few domains of the liberal economists is indispensable for constructing the market in the age of commerce. In the factory age, the state is much stronger, with more employment of civil servants, more collecting of tax resources, more assuring social security, new means such as nationalizations and planning. But these instruments are not used in opposition to firms; on the contrary, in exchange for charges the firms have to pay, they offer the latter services that are useful for their workforce like education, housing and health. The age of finance is not characterized by a rolling-back of the state; public expenditure remains very high, but it is simply devoted more to aid or exemptions that benefit firms than to direct intervention.

François and Lemercier's brilliant socio-historical analysis of capitalism is thus well-served by this very stimulating trilogy of ages that they use in a very flexible way. Nonetheless, we need not follow them in abandoning the question mark about the age of finance: the break that is evident in the fact of "placing financial logics at the heart [of capitalism] that the previous century had relegated to the background" (p. 386) appears to be more evident in discourse than in practice. The mentioned six-fold increase in dividends[4] is based on an overestimation of a transient development. On the one hand, everything depends on where you place the initial cursor, possibly at a moment when dividends are historically low. On the other hand, dividends are only one way of creating wealth for shareholders; consider Amazon, for example, which has never paid dividends. Rising share price, increased capital reserves, etc., can be much more effective. Here again, as they do for other variables, François and Lemercier should insist on the fact that the age of finance is characterized more by a change in discourse than by a radical transformation of practice.

The idea that shareholders in France would expect a 15% return on equity is more a myth than anything else; a large proportion of listed companies, though not in difficulty, do not reach this target, there not being any upward trend in average rates between 1980 and 2016.[5] Precisely because it is consubstantial with capitalism, the financial logic is always present in different garb: whether or not a firm is financial, whether or not it is managed by finance professionals, whether it depends more or less on the financial markets, it is still – unless it is part of other contexts that fall outside the scope of this study (socialist economy, social sector, etc.) – dominated by the logic of profit, per the authors' initial definition. As the current health crisis shows even more, with the development of digital technology and the distancing it allows, the new age is perhaps more characterized by dematerialization than by financialization.

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[4] The magnitude, moreover, still needs to be confirmed: according to the article cited as support, from an after-tax a gross profit that rose from 30.3% of gross value added in 1992-1995 to 36.3% in 2004-2007 for SBF 250 listed companies, dividends paid increased from 2.0% to 6.2%. There appears only to be a three-fold increase then, a growing part of profits still being retained for self-financing of investment (from 22.0% to 27.3%); Renaud du Tertre, Yann Guy, "Les traits stylisés des grandes entreprises cotées en France à l'heure du capitalisme financier", *La Revue de l'IRES*, n° 62/3, 2009, pp. 7-38, in particular, table 2, p. 23.

[5] Christophe Bonnet, Michel M. Albouy, "Le ROE de 15 % : un mythe financier français ?", *Finance Contrôle Stratégie*, n° 23-4, 2020, doi.org/10.4000/fcs.6772.

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