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Financialization and income inequality: bringing class struggle back in

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Abstract

Financialization and rising income inequality are two of the most pronounced economic developments of recent decades, and there is increasing evidence that these trends are somehow related. However, explanations of this link are still limited, and pay little attention to workers themselves. As a result, the impact of financialization on income inequality appears at most as an unfortunate side-effect. This article takes a different approach by investigating both financialization and income inequality from within the historical development of the class struggle in the United States economy. It shows that the economic problems of the 1970s that provided the impetus for financialization were closely related to the escalating conflicts between labor and capital, in which the state served as an increasingly important terrain of struggle. Viewed from this perspective, rising income inequality appears less as an unexpected outcome of financialization and more as its very raison d'etre.

Keywords

financialization, class struggle, labor, trade unions, income inequality, shareholder value

Introduction

Financialization, broadly understood as the growing size and importance of financial markets, institutions, and activities, is one of the key economic developments of recent decades (Epstein, 2005; Mader et al., 2000; van der Zwan, 2014). The rise of finance coincides with a period of increasing income inequality across advanced economies. Since the financial crisis of 2008, scholars have devoted increasing attention to the relationship between these developments, and provided ample evidence of a strong statistical association between indicators of financialization and measures of income inequality at different levels of analysis.

Much of this emerging literature is located within the heterodox school of post-Keynesian economics and focuses mainly on a macro-level analysis (e.g., Jayadev and Epstein, 2007; Hein and

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Schoder, 2011; Hein, 2012; Stockhammer, 2012; Dünhaupt, 2012; Hein and Detzer, 2015). A smaller group of studies comes mainly from economic sociologists, who are more concerned with the financialization of nonfinancial corporations (NFCs) and its impact on income distribution and employment within the firm (e.g., Tomaskovic-Devey and Lin, 2013; Alvarez, 2015; Jung, 2015; Lin, 2016). Although both groups recognize that it is labor that ends up paying the price of financialization through stagnant wages and increased job insecurity, workers themselves remain conspicuously absent from their accounts. Rather than the struggle between labor and capital, these studies focus mainly on the conflict between managers and shareholders or the subordination of production to finance. As a result, the impact of financialization on income inequality appears at most as an unintended consequence or unfortunate side-effect, and it remains unclear where workers were when this was taking place.

The present article takes a different approach by exploring the shift toward finance as part of the historical development of the class struggle between labor and capital. This does not mean that I treat 'class' as one of the causal factors contributing to the rise of finance, nor do I argue that financialization itself can be reduced to a preexisting set of class interests. Rather, the notion of class struggle is used to indicate a specific analytic framework through which to examine the relationship between financialization and income inequality within a specific historical context. In classical Marxism, class struggle is often described as 'the motor of history' (Wright, 2005). For the purpose of the present article, I will settle for the more modest claim that the dynamics of the class struggle are essential for understanding the historical trajectory of capitalist economies.

To be sure, the goal of this article is not to offer a full historical analysis of financialization, its various causes, and multiple outcomes. Rather, I seek to show how existing accounts can be reframed in class terms, and draw out some important implications for our understanding of financialization and income inequality. For this purpose, I focus specifically on the U.S. economy, where financialization first became evident and where it has advanced the most. While scholars of financialization view it as a response to the economic problems in the U.S. economy during the 1970s—including the crisis of corporate profitability and high levels of inflation—the article shows that these problems themselves were closely related to the escalating class struggle during the period. Viewed from this perspective, the impact of financialization on income inequality appears less as an unintended consequence and more as its very raison d'etre.

Beyond shareholders and rentiers

Despite the rich academic literature of *financialization*—or perhaps because of it—there is still no clear and widely accepted definition of the term. In its broadest meaning, financialization is understood as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005: 3). In a narrower sense, financialization refers to 'a pattern of accumulation in which profits accrue primarily through financial channels' (Krippner, 2005: 174). For some scholars, financialization reflects the growing dominance of financial actors over the 'real' economy (e.g., Orhangazi 2008; Stockhammer, 2012; Palley, 2013). Others relate the term to the growing size and liquidity of financial markets (e.g., Aglietta and Rebérioux, 2005; Carruthers, 2015). In short, financialization is a broad label that covers various empirical phenomena at different levels of analysis (Van der Zwan, 2014).

Regardless of their preferred definition, most scholars agree that financialization is more than a quantitative growth in certain indicators, and corresponds in some way to a deeper historical transformation in the structure of capitalist economies. The roots of this transformation are usually traced to the decline of the economic expansion that followed World War II, often considered 'the golden age of capitalist'. In the U.S., this decline became evident in the late 1960s with a slowdown of growth, and a decline in corporate profitability, and rising inflation. These problems continued in the following years, exacerbated by a stock market crash and an oil crisis in 1973, a prolonged recession, and the novel phenomena of stagflation, that is, combination of rising unemployment and high inflation. Financialization, in one way or another, is viewed as a response to the economic problems of the 1970s. However, the nature of the remedy it provided is viewed differently in different approaches, and depends on their specific interpretation of the postwar era and its decline.

According to post-Keynesian economists, the prosperity of the postwar era was ensured by the active involvement of the state in managing aggregated demand through public policies that promoted full employment, increased social spending, and rising wages (Crotty, 2000; Minsky, 1986; Palley, 2013). These policies came under increased pressures with the high inflation of the 1970s, which constrained the ability of the U.S. government to maintain the required level of aggregated demand through monetary expansion. This led policymakers to sacrifice the goal of full employment in favor of price stability. In the new regime that emerged from these changes, aggregated demand was maintained through rising levels of household debt rather than rising wages, and inflation was brought under control through cuts to social spending and restrictive monetary policies (Hein, 2012; Orhangazi, 2008; Palley, 2013).

At the center of financialization, post-Keynesians locate the figure of the *rentier*, a term used to refer to 'wealthy people who get most of their incomes from owning financial assets, rather than working or from owning productive assets' (Epstein and Power, 2003: 3). Post-Keynesian studies of financialization and income inequality focus on the changes in *rentiers' income*, alternatively defined as the share of interest and dividends in the national income (e.g., Stockhammer 2004; Orhangazi, 2008; Hein and Schoder, 2011), total interest payments plus profits of financial institutions (e.g., Epstein and Power, 2003; Jayadev and Epstein, 2007), or net property income of households (e.g., Dünhaupt, 2012; Hein and Detzer, 2015). They show that the advance of financialization is associated with rising rentiers' income, and conclude that it reflects the growing power of a *rentier class*, which was able to appropriate an increasing share of the national income.

Post-Keynesians provide valuable insights into the macro-level implications of financialization. However, their models are mainly geared toward economic analysis and offer a thin conception of class and social relations. The figure of the exploitive *rentier* is drawn directly from Keynes, who employed a three-class model of society, which included an investing class (rentiers), a business class (entrepreneurs), and an earning class (workers). Whether or not this model once corresponded to 'a social cleavage and an actual divergence of interest' (Keynes, 1924: 5), the growing dominance of large corporations during the 20th century has made the distinction between rentiers and a business class much less tenable. This problem is reflected in the difficulty of post-Keynesians to decide who should be included in the rentier class: some exclude the shareholders of NFCs, who are viewed more as akin to the industrial capitalist of the 19th century (e.g., Epstein and Power, 2003; Jayadev and Epstein, 2007), while others include all corporate shareholders within the rentier class, and regard managers as the modern incarnation of the industrial capitalist (e.g., Stockhammer, 2004; Dünhaupt, 2012; Hein and Detzer, 2015).

Economic sociologists focus more on the sphere of corporate governance and the wide adoption of a *shareholder value* (SV) model as a driving force behind both financialization and income inequality. According to this story, the dominant figures of the postwar era were the managers of large corporations, who often sought to increase their own power and influence by reinvesting corporate profits in diversifying their activities and entering new markets (e.g., Fligstein, 1993; Dobbin and Zorn, 2005; Shin, 2013). From the mid-1960s, American NFCs faced increased competitive pressures from foreign manufacturers, leading to a decline in their rate of profit. This brought about increased criticism of these powerful managers, who seemed unable to adapt to the changing economic conditions. This criticism undermined the established 'rules of the game' for corporate governance and provided an opportunity for outsiders to promote their own set of practices and strategies as a suitable solution to these novel challenges. By the early 1980s, the SV model of corporate governance emerged as the preferred solution. This approach, in which the sole responsibility of corporate managers is to maximize the returns to their shareholders, was articulated by financial economists as a way to address the agency problem related to the separation of ownership and control in the modern corporation (e.g., Jensen and Meckling, 1976). It enjoyed the support of institutional investors, financial analysts, and private investment firms; managers themselves were brought on board with the promise of increased income through stock-based compensation (Fligstein, 1993; Dobbin and Jung, 2010).

In contrast to post-Keynesians, sociologists focus more on the financialization of NFCs and its impact on employment and income distribution within the corporation. Their studies show that key indicators of financialization at the firm-level - including a growing reliance on finance-based income and rising levels of corporate debt - are strongly associated with a decline in the labor-share of corporate income paid to workers (e.g., Tomaskovic-Devey and Lin, 2013; Alvarez, 2015), an increasing wage gap between average workers and top-level managers (e.g., Flaherty, 2015) and more frequent layoffs and downsizing (e.g., Jung, 2015; Lin, 2016). They conclude that financialization reflects the growing power of corporate shareholders, who were able to align the incentives of managers with their own interests.

The focus on the firm-level provides a better vantage point from which to examine specific processes associated with financialization and their impact on income distribution within NFCs. However, similar problems to the post-Keynesian approach appear once we move to the level of society as a whole. While it is easy enough to identify the shareholders of a specific corporation, it is much less clear who should be included in this group from a macro-social perspective. Everyone who owns stocks, regardless of their amount or total value? Only active shareholders with a substantial stake in the firm? What about institutional investors, which were central advocates of the SV model?

While the diverging interests of managers and shareholders can be help account for the decisions taken within a specific firm, the idea that these are two distinct social groups *on par* with the working class is far from convincing. Even at the height of 'managerial capitalism', Mills (1956: 119) noted that chief executives and their wealthy shareholders 'are both very much mixed up in the corporate world of property and privilege', while Baran and Sweezy (1966: 34) insisted that 'the managerial stratum is the most active and influential part of the propertied class'. Indeed, corporate executives are usually among the largest shareholders in the corporations they manage and hold a substantial stake in other corporations as well. More often than not, what appears as a conflict between managers and shareholders is a battle between competing groups of shareholders, each holding a substantive stake in the corporation. It is also widely acknowledged the rise of the SV model was actually very beneficial to corporate managers, who saw their compensation packages skyrocket (e.g., Dobbin and Jung, 2010; Lazonick, 2014). This trend seems inconsistent with the idea of declining managerial power or the subordination of managers to the interests of shareholders.

Although the literature on the SV model recognizes the role of the state in shaping the economic environment in which large corporations operate, state actions are treated as exogenous to the conflict between managers and shareholders. Noting this gap in the literature, Krippner (2011) suggests that the financialization of the U.S. economy was driven by the attempts of state officials to avoid tough decisions related to credit provision in the context of rising inflation. In her account, deregulation of finance allowed the state to transfer responsibility for such decisions to the market and avoid a direct conflict with the various social groups competing for these resources. She sees the turn toward finance as an improvised rather than a planned process, which developed according to contingent discoveries made by policymakers. Krippner clearly recognizes that the social unrest of the 1970s played an important role in the shift toward finance. However, in her account the state itself enjoys a 'relative autonomy' from the influence of social groups and special interests. She is especially critical of the tendency to impute too much coherence on the state and the capitalist class 'by assuming a seamless alliance between government officials and business elites' (Krippner, 2011: 13).

Krippner is certainly right that the state is more than a 'managing committee' for the common interest of the capitalist class. However, this does not mean that state officials act as impartial arbiters in the conflict between labor and capital. Far from being external to the class struggle, the state serves as an important terrain on which such battles were waged and won. While it is likely that policy-making processes in general are more improvised than they appear from the outside, the direction they take can hardly be viewed as coincidental. Regardless of how they came into being, the policies adopted by the Reagan administration during the 1980s cannot be described as impartial to the struggle between labor and capital. Given this record, the fact that financial deregulation helped undermine the power of workers seems an unlikely coincidence.

Existing approaches to financialization and income inequality pay little attention to the development of the class struggle during the period. However, the problems they identify as the root cause of financialization were closely related to the escalating conflicts between labor and capital throughout the 1970s. The alternative approach adopted in this article maintains some of the insights provided by existing accounts, but incorporates them within a broader framework that prioritizes the class struggle between labor and capital over the conflict between managers and shareholders or finance and industry. By reframing these problems from a class perspective, the relationship between financialization and income inequality is brought closer to the surface. No less important, this class struggle framework gives agency to labor, as opposed to its passive role in existing accounts. Rather than being innocent victims of developments they have nothing to do with, its shows that the financialization of the U.S. economy was only accomplished after fierce battles, as workers and their unions fought to protect the gains achieved during the postwar era. That these battles ended in the defeat of organized labor should not lead us to ignore them, or assume that financialization automatically reduced the wages of workers without any response. In other words, the article suggests that the impact of financialization on income inequality should be viewed as the contingent outcome of the development of the class struggle.

Profitability, inflation, and class relations

After dominating global markets since the end of WWII, from the mid-1960s American corporations faced increased foreign competition. Large U.S. manufacturers saw their market shares shrink as imported goods increasingly penetrated their domestic markets. At the same time, the growth of productivity in the nonfinancial corporate sector started to decline. Real output per hour, which grew at an average rate of 3.3% in the first half of the decade, slowed down to an average of 1.6% between 1965 and 1969. The rate of profit for the nonfinancial business sector (calculated as profits before tax divided by assets at historical costs) declined from 8.8% in 1965 to 5.4% in 1970 (figure 1). As a share of the Gross National Product (GNP), corporate profits declined from 11.1% to 7.1% during the period (Nordhaus, 1974).

It is certainly true that the decline in the rate of profit of American NFCs was a major source of concern for management and shareholders alike. However, managers hardly sat idle while they wait for a new model of corporate governance to emerge. Instead, they tried to resolve the problem by increasing productivity while holding down wages. Between 1967 and 1973, capital

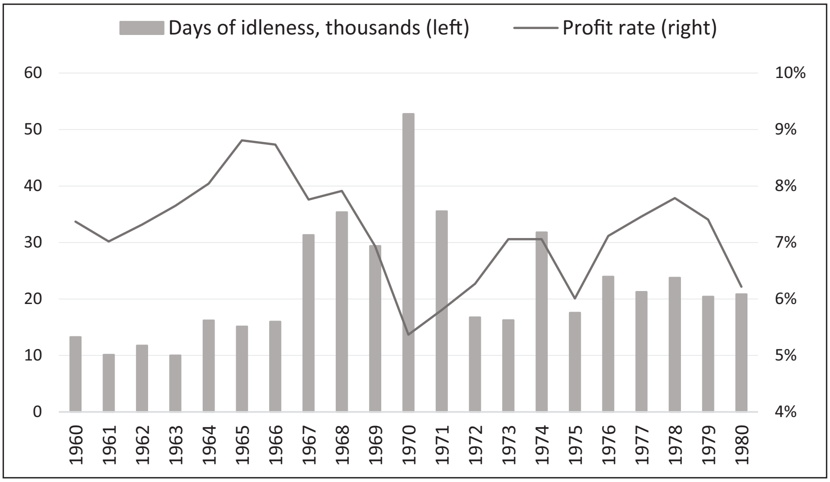

Figure 1. Idle days due to work stoppage and profit rate for NFCs, 1960–1980.
Note: Profit rate calculated as profit before taxes over total assets at historical cost.
Source: Calculated from the U.S. Bureau of Labor Statistics and Federal Reserve Bank of St. Louis data.

investments in the nonfinancial corporate sector grew at a record rate of 4.3% per year (adjusted for inflation), compared with an average of 3.1% through most of the postwar era (Gindin and Panitch, 2012). Productivity indeed grew faster, but not as fast as wages, which continued to rise at a high rate despite the economic downturn (Bowles and Gintis, 1982). The militancy of rank-and-file union leaders that emerged with the full employment of the mid-1960s proved effective in resisting the reorganization of work that accompanied the increased rate of investment (Gindin and Panitch, 2012: 137).

The mobilization of labor from the late 1960s is evident in the increased frequency and scope of strike activity. While in the first half of the decade there was an average of 3,600 work stoppages per year, in the second half the average number of work stoppages was higher than 5,000 per year. The number of large strikes (involving 1,000 workers or more) rose from an annual average of 220 in 1961–1965 to 377 in 1966–1970, while the number of workers involved in these activities more than doubled. In 1970 there were a record number of 5,716 strikes, and the number of idle days due to these activities was 55% higher than in 1969 (US Bureau of Labor Statistics, 1972).

Major industrial strikes included a 64-day walk-out of 23,000 rubber workers, a wildcat strike of 25,000 coal miners, a national strike at General Electric involving more than 130,000 workers and lasting 102 days, and a strike in General Motors involving 355,000 workers (Moody, 2010). Wildcat strikes accounted for more than a third of the strikes in the late 1960s and early 1970s, including the U.S. postal strike (the largest in U.S. history), and a 110,000 Teamsters wildcat strike against the interstate trucking companies (Winslow, 2010).

Thus, while foreign competition certainly placed increased pressures on American NFCs, its actual impact on their rate of profit was the outcome of the class struggle, as labor mobilized to prevent management from shifting the burden onto the shoulders of workers. This aspect becomes even clearer when we examine the distribution of gross value added (GVA) instead of the rate of profit (figure 2).[1] While the profits of the nonfinancial business sector as a share of GVA declined from 12.4% in 1965 to 7.8% in 1970 (figure 2), the share of compensation paid to employees rose from 58.0% to 61.8% of GVA. This trend was even more dramatic in the manufacturing sector, where profits declined from 18.4% to 10.1% while the labor-share paid as compensation rose from 66.2% to 73.1%.

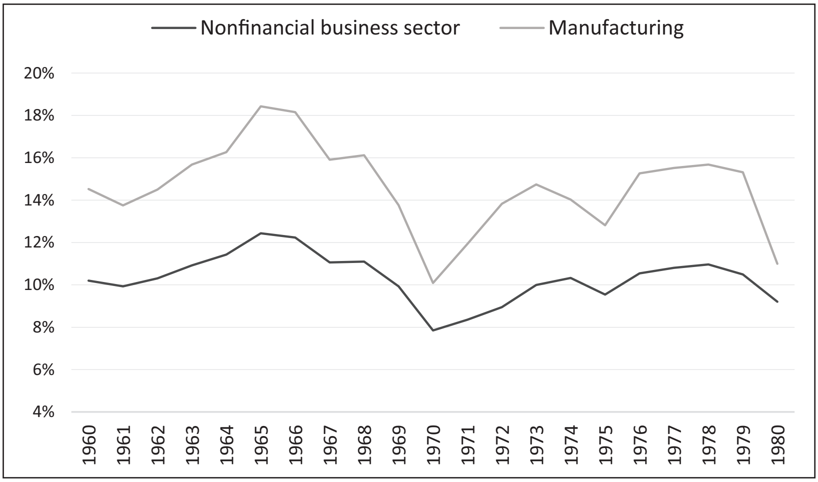

Figure 2. Profit before tax as a share of Gross Value Added, 1960–1980.
Source: Calculated from the US Bureau of Economic Analysis data.

The mobilization of labor from the late 1960s played a central role in driving up consumer prices. Although the oil crises of the 1970s certainly contributed to this trend, inflation in the U.S. economy started to rise already in the mid-1960s as a result of increased government expenditure on the Vietnam War and the expansion of welfare programs under the Johnson administration. It increased from an annual average of 1.3% in 1960-64 to 4.3% in 1965-69 and hit a high point of 5.8% in 1970. After a short-lived decline following the price and wage controls set by President Nixon in 1971, inflation continued to rise, reaching more than 11% in 1974.

While increasing government expenditures was a necessary condition for rising prices, the 'great inflation' of the 1970s also reflected the escalating class conflicts, as commentators during the period noted (e.g., Sachs, 1978; Hirsch and Goldthorpe, 1978). It was driven by continued struggles between workers, who sought to protect the purchasing power of their wages, and employers, who tried to maintain their profit rate (Hung and Thompson, 2016). This tug of war created occasional episodes of 'wage-price spirals', in which higher prices prompted demands for wage increases, which in turn led firms to raise prices even more and so on (figure 3). In this sense, the inflation of the 1970s can be viewed as a 'monetary expression' of class struggle (Volscho, 2017).

Such wage-price spirals would not have been possible without the expansionary policies adopted by the Federal Reserve to accommodate the increased demand for money and credit. This decision was strongly influenced by political interests, as President Nixon did not hesitate to pressure the Federal Reserve Chairman Arthur Burns on that point (Abrams, 2006). Nixon blamed the rise in the unemployment rate in 1960 for his loss in the election that year and was determined not to let it happen again in 1972. Indeed, early in his term Nixon assured the leadership of the AFL-CIO that controlling inflation would not come at the cost of higher unemployment (DeLong, 1997). The loose monetary policy, coupled with the deteriorating balance of trade and rising government deficits, increased pressures on the U.S. dollar, which under the Bretton Woods System served as the global reserve currency. Rather than subordinating the U.S. domestic economic policies to these external pressures, Nixon decided to unilaterally close the gold window, suspending the direct convertibility of the dollar to gold in a move that effectively ended the international monetary system set up in Bretton Woods.

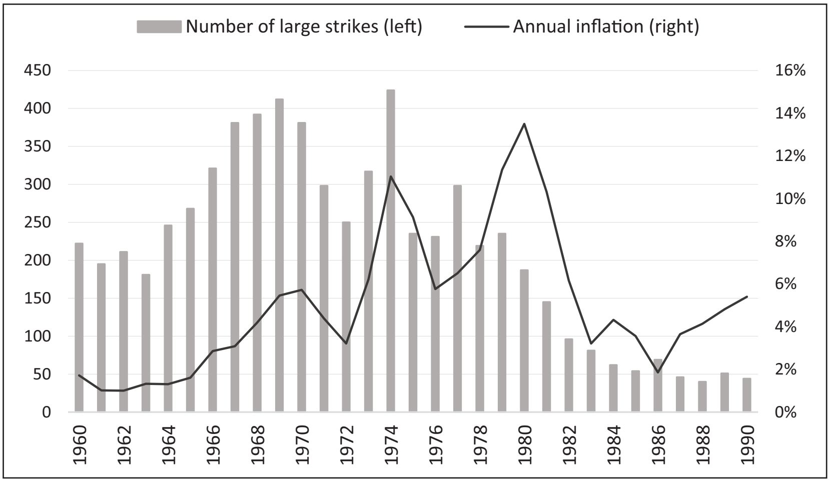

Figure 3. Large strikes (involving more than a 1,000 workers) and annual inflation, 1960–1990.
Source: US Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis.

The inflation of the early 1970s was not necessarily unwelcomed by large American NFCs, for several reasons. First, since the assets on their balance sheet are reported at historical costs, their devaluation through inflation meant an increase in the reported rate of profit (Duménil and Lévy, 2004). Second, the devaluation of the dollar that followed the collapse of the Bretton Woods System improved the competitiveness of American manufacturers on the global market, since it reduced their dollar-denominated costs relative to German and Japanese producers. Third, inflation eroded the value of corporate debt by decreasing the purchasing power of each dollar. In other words, high inflation means that debtors pay back their debt in money that is worth less than the money they originally borrowed.

However, inflation was a major cause of concern for financiers and investors, as it eroded the value of their financial assets and reduced the returns on their investments (Volscho, 2017). These concerns were articulated by the famous investor Warren Buffet (1977: 253), who complained over the pages of *Fortune Magazine* that ‘inflation is a far more devastating tax than anything that has been enacted by our legislatures’. Buffet also noted that the persistence of high inflation is likely to undermine investments in capital assets, as investors will be less willing to continue financing the nonfinancial sectors.

Indeed, as the economic problems of the 1970s persisted, the financial media grew concerned about the high leverage of NFCs, warning that the mountain of corporate debt poses a serious threat to the economy (e.g., Hopper, 1975; U.S. News & World Report, 1975). By the end of the decade, the risk of inflation was driving many away from the corporate bond market, forcing NFCs to rely more heavily on banks and other sources of short-term finance (Rowe, 1980). This made it harder for firms to continue recycling their debts by taking on new obligations to repay the existing ones. Thus, rather than deepen the divide between finance and industry, the high inflation that persisted through the decade provided the basis for cross-sectorial cooperation.

The state as a terrain of struggle

While the financialization literature emphasizes the conflict between managers and shareholders or the subordination of industry to finance as central to the shift toward finance, a long-standing scholarship has shown that the 1970s were a period of growing unity within the capitalist class and wide political mobilization of corporate America (e.g., Ferguson and Rogers, 1986; Clawson and Neustadtl, 1989; Akard, 1992; Himmelstein, 1992; Phillips-Fein, 2010). In August 1971, the soon-to-be Supreme Court Judge Lewis Powell penned down the infamous 'Powell Memo', in which he called corporations to adopt a more aggressive approach to shaping the public discourse on businesses, politics, and law (Volscho, 2017). The following years have shown that many in the capitalist class shared the same sentiment.

Throughout the decade, big business provided free-market advocates greater access to funding, helped spread conservative ideas, and assisted in transforming right-wing economic theories into government policies. Cross-industry coalitions were formed to defeat the Foreign Trade and Investment Act of 1973, which would have put in place import quotas and restrictions on the export of capital, and to ensure the approval of the 1974 Trade Act, which gave large businesses more influence on trade policies (Gindin and Panitch, 2012). Business organizations put forward specific policy proposals and lobbied congress and the executive branch, while more specialized organizations mobilized 'grassroots' political pressure (Akard, 1992). They extended support to a growing network of conservative think tanks and policy centers, and by the late 1970s were spending hundreds of millions of dollars on advocacy advertising (Himmelstein, 1992).

This mobilization of corporate America is also evident in its financial support to right-wing politicians: between 1978 and 1980 the average share of corporate contributions to Republican challengers increased from 17.4% to 29.3%, while corporate PACs' contributions to Republican candidates were about twice as high as Democrats (Burris and Salt, 1990). Such efforts played an important part in the election of Reagan to the presidency in 1980, which some view as the culmination of a decade-long effort (e.g., Piven and Cloward, 1982; Ferguson and Rogers, 1986).

Central to this corporate mobilization was the increasing cooperation between the financial sector and large industry. Already in the 1930s, an alliance between capital-intensive corporations and large financial institutions became the center of Roosevelt's new deal coalition (Ferguson and Rogers, 1986). Beginning in the late 1960s, conservative think tanks and pro-business organizations worked to bring together representatives from financial institutions and large industrial corporations (Himmelstein, 1992). This alliance between finance and large corporations led the charge against government regulation, social spending, and 'excessive taxation' of corporate income (Ferguson and Rogers, 1986).

The 1970s were also a pivotal decade for U.S. organized labor. While organizing attempts continued as before, workers found it harder and harder to win union elections in face of stronger resistance from employers, who were increasingly willing to engage in unfair labor practices and various tactics to intimidate workers (Windham, 2017). The National Labor Relations Act (NLRA) of 1935, which was originally designed to encourage unionization and collective bargaining, became in the 1970s 'a legal cul-de-sac from which workers never emerged, falling victim to delay tactics, intimidation, and aggressive employers' (Cowie, 2012: 289).

Facing increased resistance from employers, unions sought to strengthen workers' rights through the Labor Law Reform Act of 1977 (Windham, 2017). The bill - the first suggested revision of the Federal labor laws since the Taft-Hartley Act of 1947 - was designed to bolster the efficacy of the NLRA Act and make unionization easier. The *New York Times* reported that the AFL-CIO's decision to push through this legislation 'opens a fight that is as much social and political as it is economic' (Ruskin, 1977: 27). However, by the mid-1970s organized labor in the United States had lost much of its political clout (Ferguson & Rogers 1986). Already in 1972, AFL-CIO refused to endorse the Democratic candidate George McGovern, which many viewed as an implicit endorsement of Nixon. In the 1974 election, the Democratic Party gained a net of four seats in the Senate and 49 seats in the house, yet very few of these newly elected officials had close ties to labor and unions. As one union lobbyist explained, 'the freshman Democrat today is likely to be an upper-income type' (quoted in Cowie, 2012: 236). Carter's victory in 1976 did little to change this trend. Although unlike in 1972, the AFL-CIO fell in place behind him once he secured the nomination, 'a few months into the Carter administration it was clear that working-class issues were not on the president's shortlist' (Cowie, 2012: 262).

Carter did end up endorsing the labor reform bill after removing some of its core principles, but even in its modest form, the bill was killed in the Senate by a Republican-led filibuster. The Full Employment and Balanced Growth Act of 1978, the other pillar of labor's legislation agenda, did not fare much better. Although Carter declared that the goals of the bill are 'laudable', his attitude quickly changed once in office (Cowie, 2012). Rather than openly rejecting it and risking alienating labor and other key constitutes, the administration sought to turn the bill into a symbolic gesture by replacing concrete plans with long-term goals that would be regarded as little more than suggestions. When the bill was eventually signed into law, even the AFL-CIO confessed that it was 'more symbol than substance' (quoted in Cowie, 2012: 286).

Instead of full employment or unfair labor practices, the main economic concern of the Carter administration was inflation, a concern shared by the financial sector and large industrial corporations. Indeed, the alliance between finance and large industry only grew stronger with the high inflation of the 1970s and the escalation of the class struggle: by the end of the decade, most industrial sectors 'came to accept the need to give priority to fighting inflation and defeating labor, and agreed that the strengthening of financial capital this would involve was in their own interest' (Gindin and Panitch, 2012: 163).

The problem of inflation was eventually overcome in the early 1980s when Federal Reserve chair Paul Volcker pushed interest rates to an unprecedented height with the explicit goal of 'breaking the back of inflation'. This policy shift, which later became known as the 'Volcker Shock', is considered by many to mark the beginning of the neoliberal era (e.g., Harvey, 2011; Volscho, 2017) and a decisive step towards the financialization of the U.S. economy (e.g., Duménil and Lévy, 2004; Bryan and Rafferty, 2006).

The war on inflation as class warfare

The appointment of Volcker as chair of the Federal Reserve marked an important victory for capital in its struggle against labor and a critical step in the rise of finance. It was a clear signal to Wall Street and its industrial allies that their grievances would be addressed. Carter was insistent on appointing a chairman who had the blessing of the financial sector, offering the position to David Rockefeller from Chase Manhattan Bank, then to Robert Roosa from the private bank Brown Brothers Harriman & Co., and then to Alden W. Clausen, chairman of Bank of America (Ferguson and Rogers, 1986). Only after all three declined he turned to Volcker, who was known for his strong anti-inflation stance and enjoyed wide support in the financial community. Stuart Eizenstat, Carter's domestic policy advisor, explained that 'Volcker was selected because he was the candidate of Wall Street. This was their price' (quoted in Greider, 1989: 47).

Volcker's appointment, the *Washington Post* reported, 'was hailed almost unanimously on Wall Street and in financial centers abroad' (Pine and Berry, 1979). John H. Perkins, president of the American Bankers Association, expressed a similar sentiment. This was also felt on the stock exchange, which rose sharply following the announcement (Facts on File World News Digest, 1979). Volcker's close ties to the financial sector were viewed a little more critically in his confirmation hearings, where Senator William Proxmire noted that he is viewed by many as 'a hard money, big business conservative' (U.S. Congress, Senate Committee, 1979: 3).

There can be little doubt that for Volcker, 'breaking the back of inflation' necessarily meant holding down wages. Volcker himself was quite explicit on this point. In a meeting with the American Bankers Association in October 1979 he expressed his hope that 'the whole wage bargaining process. . . will not proceed oblivious of the problems of inflation' (Volcker, 1979: 3). A few months later he told the Joint Economic Committee that with the decline in growth 'it is even more apparent that moderation in wage growth is needed' (Volcker, 1980: 15). In a testimony before the Senate Banking Committee in July, he emphasized the need for wage restraint to assist in the battle against inflation (Atkinson, 1980). A few months later he told a House subcommittee that it is impossible to fight inflation unless steps are taken to slow the rate of wage increases (Slevin, 1980). In short, Volcker 'wanted wages to fall, the faster the better' (Greider, 1989: 429).

With Volcker at the helm, the Federal Reserve adopted a tighter monetary policy that involved targeting the money supply and raising the federal funds rate to double digits. Unsurprisingly, this policy drove the United States into a deep recession, as consumer credit became more expensive and aggregated demand dropped sharply. The first industries to take the hit were auto manufacturing and residential construction, which traditionally relied on the ability of consumers to obtain mortgages and car loans. As the decline in demand continued, the crisis spread to capital goods industries. Unemployment, which was already at 6% when Volcker took office, rose to 7.8% by June 1980. It remained above 7% even as the economy was showing signs of recovery, and jumped to 8.5% by the end of 1981, as the U.S. entered another recession, which was more severe than the first. The unemployment rate continued to rise through 1982, reaching 10.8% by the end of the year—its highest level since December 1940.

The potential implications of raising interest rates to unprecedented levels were well-known in advance. During his confirmation hearing, Senator Proxmire asked Volcker to address the fears that he may choose to push interest rates 'to levels that would. . . create more unemployment and be very difficult for small business, the farmer, and the working people'. Volcker replied that he did not want interest rates to be 'any higher than they have to be' (U.S. Congress, Senate Committee, 1979: 3).

Volcker himself clearly understood the potential outcomes of his monetary policy. A few months after his appointment he met with the senior editors of the *Wall Street Journal* and asked them if they will still support him 'when there's blood all over the floor' (quoted in Melloan 2003). That holding down wages meant a conflict with organized labor was also quite clear. In his pocket, Volcker carried a card on which he kept track of the collective agreements signed by major trade unions (Greider, 1989: 429). When Chrysler was facing bankruptcy and asked the government for an emergency loan, Volcker became a member of a three-man committee to oversee the bailout. In that capacity, he invited Doug Fraser, the president of the United Automobile Workers (UAW) union, to meet in his office, pressuring him to accept significant cuts in wages and fringe benefits. According to Volcker, Fraser 'later reportedly said I was the toughest negotiating counterparty he ever had' (Volcker and Harper, 2018: 122).

Perhaps most telling is the praise Volcker gave President Reagan for breaking the Professional Air Traffic Controllers Organization (PATCO) strike in 1981, which he regarded as the most important contribution of the administration in the fight against inflation. In a private interview he stated that the breaking of PATCO did more to break the morale of labor than the earlier breaking of the pattern of wage push in the auto industry (Gindin and Panitch, 2012: 172).

The economic recessions that followed the Volcker Shock combined with the high level of debt already carried by NFCs gave rise to the novel phenomena of *concession bargaining* in many U.S. industries. If conventional collective bargaining usually involved compromises from both unions and employers, with concession bargaining these came almost entirely from the side of labor and were much more extreme (Chaison, 2012). Of course, unions made sporadic concessions during the 1960s and 1970s, yet with the recessions of the early 1980s concession bargaining became more and more frequent, affecting almost all American industries (Moody, 1988). Thomas Miner (1983: 985), Chrysler's Vice President of Industrial Relations, later explained that the interest hikes of 1979 and the severe recession that followed 'caused managements to take a firm position with unions'. This, as explained above, was the explicit goal of the Volcker Shock. Like Hernán Cortés burning his own ships to force his men to fight or die, raising the interest rate was meant to prevent management from retreating into the old pattern of 'wage-price spiral'.

Trade unions in the United States also recognized that Volcker's 'war on inflation' was in fact a form of class warfare, and strongly opposed his re-nomination in 1983. In a letter sent by union leaders to the Senate before Volcker's renomination hearing, the message was quite clear: 'Anyone who does not act forcefully to dump Volcker now is the friend neither of American Labor, nor of America itself' (U.S. Congress, Senate Committee, 1983: 100).

Conclusions

Since the financial crisis of 2008 scholars have provided increasing evidence of a strong statistical association between indicators of financialization and income inequality. While these studies show the negative impact of financialization on labor, their explanations pay little attention to workers themselves. The alternative approach adopted in this article is to examine the shift toward finance from within the development of the class struggle between labor and capital. The article shows that the problems in the U.S. economy during the 1970s, which provided the impetus for the shift toward finance, were closely related to the escalation of class conflicts during the period and the successful mobilization of workers and organized labor. However, the growing unity within the capitalist class shifted this balance of power, and after a decade of weak growth, inflationary spirals, and increased international competition, corporate managers were willing to go much further and make greater sacrifices to break the power of organized labor.

During this pivotal decade, U.S. unions lost much of their political clout, as large NFCs and financial institutions moved to reshape American politics through their lobbying activities, support for conservative think tanks, and direct political contributions. Appointing Volcker as chair of the Federal Reserve marked an important victory in this decade-long struggle and a decisive step in the financialization of the U.S. economy. Bringing inflation under control was a necessary condition for the continued appreciation of financial assets and the spectacular growth of financial income that has taken place ever since. However, 'breaking the back of inflation' necessarily meant breaking the power of organized labor. It was during and through the economic recessions that followed the Volcker Shock that American unions suffered a decisive defeat, from which they have yet to recover. The decline of organized labor in the United States is widely recognized as an important factor in the rise of income inequality (e.g., Morris and Western, 1999; Kristal, 2010; Western and Rosenfeld, 2011). Viewed from this perspective, rising income inequality appears less as an unintended consequence and more as an integral component of financialization.

This is not meant to deny the insights provided by existing approaches, but to incorporate them within a broader perspective that can better account for the impact of financialization on the distribution of income. By reframing the economic problems of the 1970s in class terms, it becomes clearer why financialization was strongly felt on this battlefield. Equally important, this class struggle framework gives agency to labor, which is largely denied in the existing literature. Rather than being passive victims of developments they have nothing to do with, its shows that the financialization of the U.S. economy was only accomplished after fierce battles, as workers and their unions fought to protect the gains achieved during the postwar era. That these battles ended in the defeat of organized labor should not lead us to ignore these efforts, or assume that financialization automatically reduced the wages of workers without any response.

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Note

1. GVA is defined as gross output of an industry or a sector less its intermediate input. Components of GVA include the sum of compensation of employees, taxes on production and imports less subsidies, corporate profits, consumption of fixed capital, proprietors' income, and net business current transfer payments.

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