



## **NOTES DE CONFÉRENCES – 12 OCTOBRE 2005**

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### **OVERCLASS ET FINANCIARISATION : COMMENT LA FINANCE CONTRIBUE À L'ACCROISSEMENT DES INÉGALITÉS AU CANADA**

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# The Overclass hypothesis:

*A research agenda for the study of the link between  
Financialization and Growing Social Inequality*

Eric Pineault, Sociology, UQAM, 2005

# Presentation Outline

- I. Postulates on financialization and advanced capitalism
- II. The Overclass according to Lind
- III. The Overclass hypothesis: towards a theory of financial exploitation

# 1.1 Postulates on advanced capitalism

- Advanced capitalism is corporate capitalism (Bowman, 1994)
  - Predominance of corporation as the accumulation structure, marginalization of the bourgeois capitalist, liquidification of capital
  - But also marginalization of the classical proletariat
- Development of advanced capitalism in the 20th century has sustained a process of “wage-ification” (salarialisation) (R. Castel, 1997)
  - Process seen as an *integration mechanism*, working at both ends of the stratification
  - Linked to fordist accumulation regime
- this process has produced an extended middle class of wage earners
  - Process is economic, but also political and cultural (an identity)
  - The middle class is thus not conceived as a veil or an illusion but as an objective (and socially significant) category of social stratification typical of advanced capitalism (Bowman, 1994)

# 1.2 FINANCIALISATION as process in/of advanced capitalism

- Financialization refers to a social process whereby financial assets, relations and institutions become core features of the accumulation regime of advanced capitalism
- *In a regulationist perspective this implies a gradual shift of the institutional basis of capitalist accumulation from the wage-labour nexus of industrial capital to a new social nexus based on financial capital (Boyer, 1999)*

# 1.3 Defining FINANCIALISATION

## *sociologically*

- Financialisation as “total social process” (Simmel) :
  - which encompasses cultural and political spheres of society
  - and comes together as an “Economy/society nexus” defining the general articulation of capitalism as a social system to society as totality and to social subjects as identities,
  - and most importantly establishing at the ideological level a link between economic development and historicity.
- It thus effects social stratification and inequality which is the subject of our paper today

# 1.4 Some empirics on financialisation and inequality

-A growing number of studies highlight growing social inequality in Canada

-whether measured by income or wealth

-Saez and Veall, 2003, high incomes

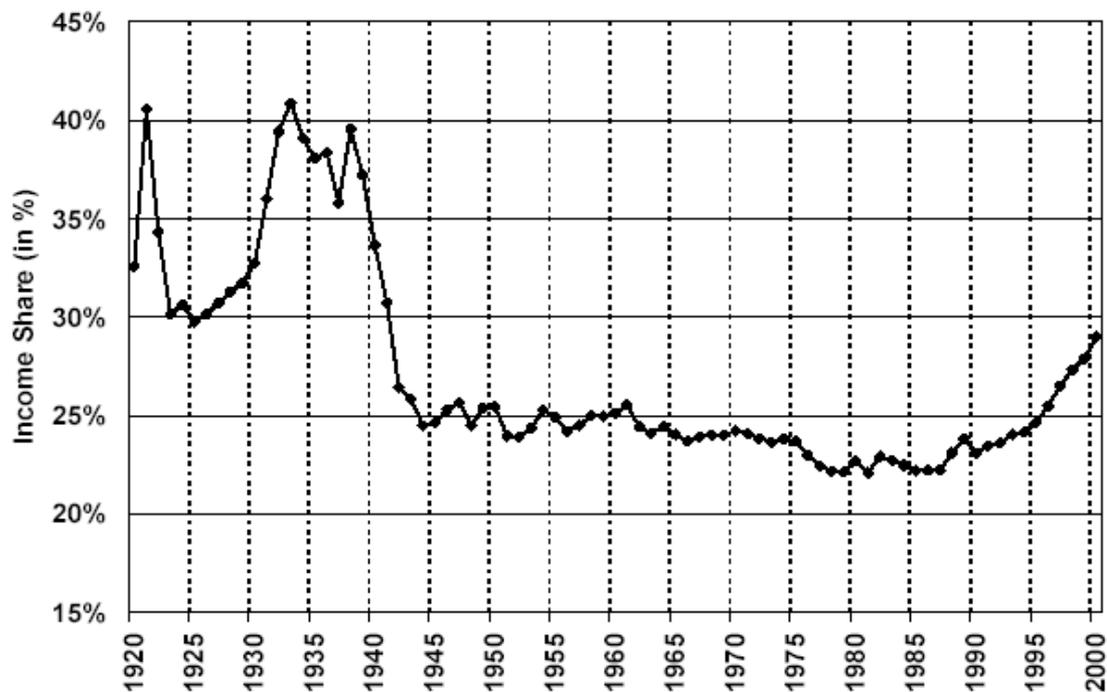
-Morrissette et al., 2003, wealth

-Kerstedder, 2002, income and wealth

# This must be contrasted to Fordist income growth

- According to Saez and Veall (among others)
  - The postwar period of managerial capitalism and relative “financial repression” is characterized by average real income growth and high levels of GDP growth generally.
  - During this period inequality diminished, as measured for example by high income share of total individual income.

# High income share in Canada, 1920 - 2000, top 5%



**FIGURE 2**

The Top 5% Income Share (P95-100) in Canada, 1920-2000

Saez and Veall, 2003

# High income share, top 10, 5, 1%

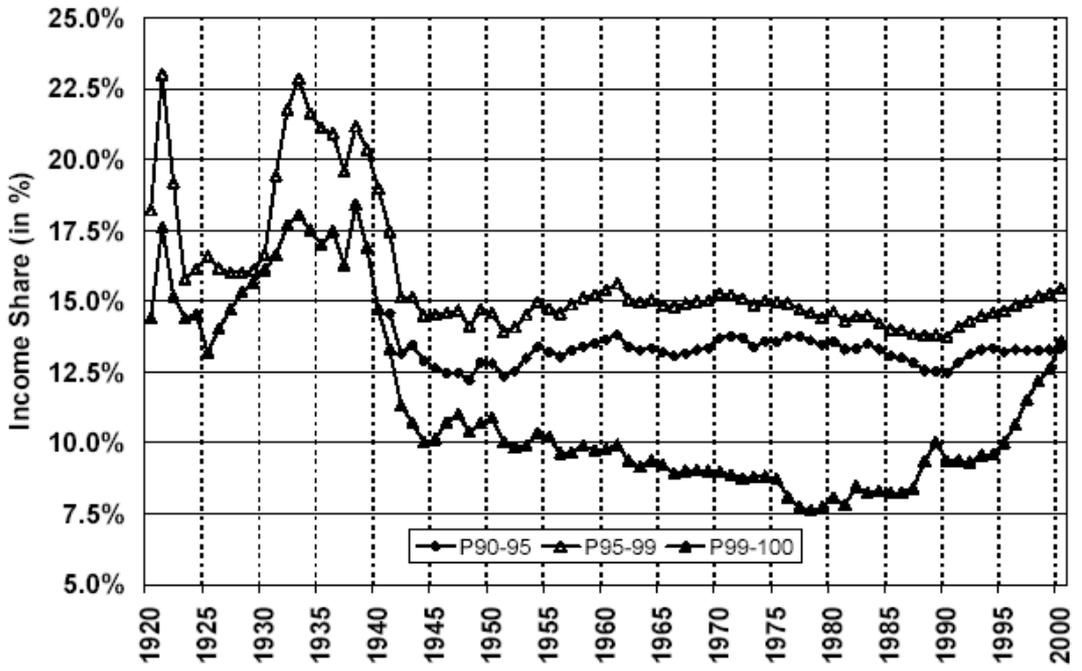


FIGURE 3

The Income Shares of P90-95, P95-99, and P99-100 in Canada, 1920-2000

Saez and Veall, 2003

# Wealth inequality

## 1984 - 1999 and Finance

- Study by Morissette, Zang and Drolet, based on Survey of financial security, 1999 by Statistics Canada
- Conclusions:
  - “wealth inequality has increased between 1984 and 1999”
  - “only the 10th (...) decile has increased its share of total net worth between 1984 and 1999;”
  - “in a purely accounting (and not causal) sense, registered retirement savings plans (RRSPs) have, of all wealth components, contributed the most to the increase in wealth inequality.”
  - “when we consider all family units, the growth of wealth inequality can be explained, in an accounting sense, mainly by the growing contribution of RRSPs and stocks, bonds and mutual funds to overall inequality, which is partially offset by the declining contribution of business equity and deposits.”

# 1.6 Growing social inequality in Canada: an interpretation

- Whether one measures income or wealth, since the 80's one sees a growing tendency of deepening inequality.
- Financial assets and relations are at the heart of this process of a tentative “re-polarization”

- at the high end of the distribution (1% income and 10% in terms of wealth)
  - financial placements (some tax deductible)
  - financial component of wage-income (stock-options)
  - higher proportion of direct (or speculative) financial investment than passive financial investment
- at the middle and low end of the distribution
  - main asset is owned home equity
  - high debt/asset ratio, consumer debt gains in importance as we go down the income/wealth distribution
  - financial investment mainly passive and organized, rights on pension funds, or mutual funds and life insurance
    - (timed trading, difference between passive mutual funds and active hedge funds)

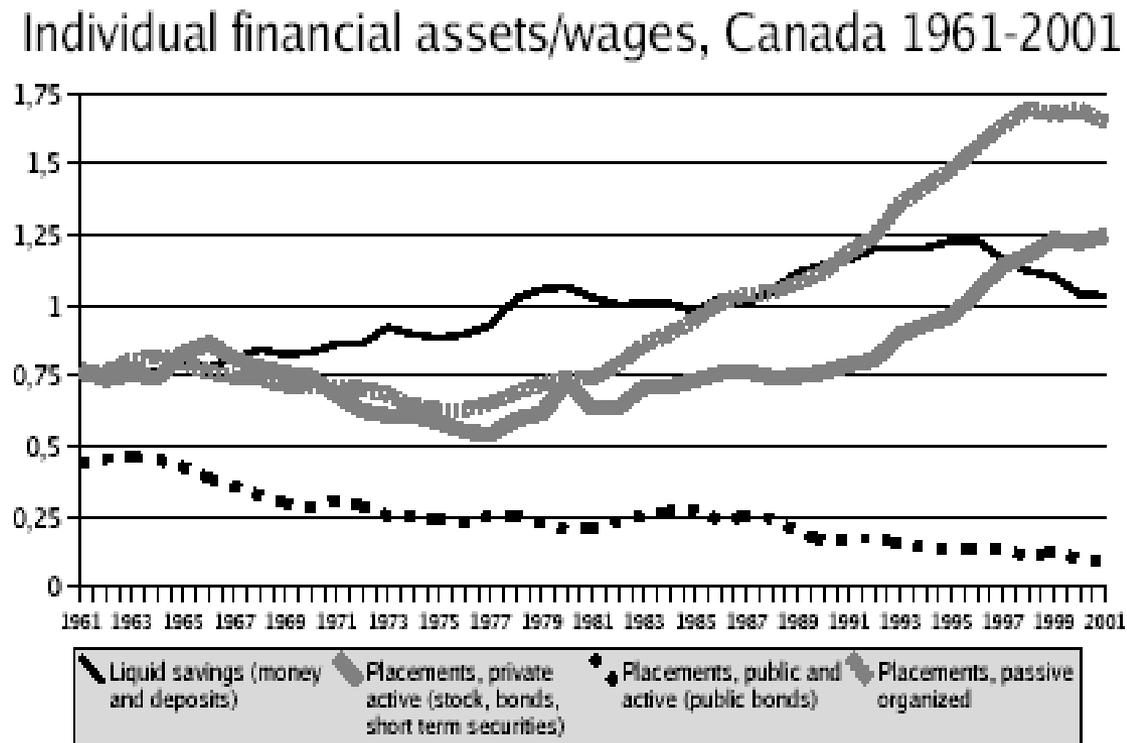
# An example: Pension funds vs stock options

- Pension funds: main financial asset of middle class
  - passive and organized mass savings
  - represents a claim to a future income stream
  - savings converted into financial capital by money managers who control the social power resulting from conversion
    - Highly concentrated industry, in Canada, from 1994 to 2004 asset concentration up, top five managers went from control over 25% of pension fund assets to more a little over 50% of fund assets

# Stock-option:

- Mainly used to remunerate upper level management, executive class
  - (varies from 100 to 1 to 10 to 1 wage to stock option gain ratio)
- represents a financial virtuality, the right to perform a speculative transaction in the future
- Pervasive among canadian corporate executives,
  - no known link to certain sectors or to performance,
  - exercise of options linked to general stock market dynamics not firm specific,
  - governance discourse has not yet impacted grants (65% of top 100 ceo's received substantial stock option packages in 2004).

# Evolution of the gross value of financial assets



Source: Statistics Canada, 2003, compiled by author

## 1.7 Critical questions

1. Is this a link between financialisation and inequality ?
2. Can this link be thought of in terms of class polarization typical of financialized advanced capitalism
3. Are the two trajectories outlined by the data above socially articulated to one another ?

- Michael Lind's overclass theory while not providing definite answers to this set of questions has provided line of inquiry that seems fruitfull

## II. The Overclass according to Michael Lind

- in the mid nineties political critic Michael Lind coins term “Overclass”
  - (in example the *Next American Nation*, 1995 and in an essay published in *Harpers*, 1995, “To have and to have not”)
- The concept is constructed in reference to the underclass,
  - like the underclass the overclass exists through a process of social exclusion from an extended and inclusive middle class
    - with its internal stratification (lower, middle and upper)

# II.1 Lind's definition of the americal overclass

According to Lind, overclass is new guise of the American oligarchy or ruling class in the neoliberal era

- Controls access to institutional elite positions
- Defined in terms of wealth alternatively as
  - a compact of the 20% richest families
  - or on top 1% of income earners
- Social selection mechanisms are explained by status (formal education and marriage) while social power derives from economic mechanisms

# Lind's Overclass: material and cultural base

- Material relationship to society
  - constructed on the principle of auto-exclusion from institutional structure of managerial capitalism,
    - flight to financial and global sphere
    - class war against wage earning middle class
- Cultural relation to society
  - Spatial exclusion of lifeworld
    - Gated communities, distinct consumption spaces and exclusive tastes
  - Development of a cosmopolitan elite culture

## II .2 Lind's class war:

### Financial Overclass against the salaried middle class

- According to Lind the Overclass constructed its social power against the middle class institutions of American society and capitalism, this implies
  - regressive tax reform
  - dominance of financial accumulation over “industrial accumulation”
  - centrality of financial income among the overclass,
    - most pervasive form is the use of stock-option by the executive managerial elite.

# A methodological appraisal

- Our objective is not to fully critique Lind on an empirical or theoretical level but to borrow certain key insights he has developed,
- These insights are mobilized with the intention of developing an analysis of financial exploitation,
  - thus the weberian status based part his argument is not adopted
  - While the more marxian elements are,
    - We are not analyzing a transversal institutional elite
    - But a class formation process based on exploitation

# III Our overclass hypothesis: questions

- Point of departure objectivity of middle class as a cultural economic « category of practice and identity» (Freitag, 1986) is the backdrop of our analysis
- Overclass primarily understood as a process of social exclusion from wage-centered economic and political integration mechanisms constructed during fordist era
- Financial relations are at the heart of this process

# III Financial exploitation: analytical apparatus

- What criteria can we use to identify class formation processes embedded in the current accumulation regime ?
  - Presence of structural asymmetries as distinct relations to accumulation in reproduction
    - The marxian (and Kojévian idea) The production of the relative position of one reproduces the relative position of the other, this social relation is the basic dynamic of the structure of accumulation
    - Map the social relations of financial exploitation: the articulation of active and passive placements, the role of consumer credit, the dialectic between pension funds and stock options, shareholder value discourse vs wage earner precarity
      - (ex. Mutual funds vs hedge funds and timed trading scandal)

# Overclass vs middle class consciousness

- And examine the two following elements relating to what one could understand as financial class consciousness
  - construction of objective situational intentionalities
    - Discern the contours of the financial exploitation class as a community capable of performance in the creation and control of financial relations.
      - Base is largely a self-referential community of performance as seen by Keynes and Orléan based on communication
      - Community is structured and textured by different positions and functions:
        - Executives, money managers, communicators
    - Versus mass waged class
  - emergence of distinct and opposed worldviews.

# Conclusions

- Research agenda rather than general interpretation
- Way of looking at the impact of financial relations and assets on social inequality
- Breaks with skewed view of class as based bourgeois property relations
- Elite vs mass perspective could be used but not as a transversal institutional elite
- Could help explain link between hegemony of finance and growing inequality