

## **The Organizational Revolution and the phases of capitalism**

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A revolution made capitalism to become managers' capitalism, the Second Industrial Revolution, at the end of the nineteenth century, a technological revolution based on the discovery of electricity, on the motor to the explosion and on the assembly line, which implied on the sociological standpoint, the Organizational Revolution – the moment in history at which the basic unit of production ceased to be the family, or the family enterprise, to become the big bureaucratic organizations that are the modern corporations. I call it Organizational Revolution because organizations are units of production managed according to the criterion of instrumental rationality; the corporations are private organizations in which the profit is the objective and the means to achieve it is an efficient management. These two revolutions begun in the United States, already indicating the hegemonic character that this country would assume in the twentieth century.

I call the social class that emerged with the Organizational managerial or technobureaucratic class or just technobureaucracy. Other denominations existing in the sociological literature are new middle-class and salaried middle-class. Managerial class indicates the manager or the expert uses his knowledge to direct and advise bureaucratic organizations; technobureaucratic class suggests the combination of the classic Weberian bureaucrat with the modern expert. The managerial class is always a middle-class; when he or she becomes rich, it turns also capitalist. In contrast to the average capitalist, who, when enriched, rises socially within the same class, the managerial who becomes rich – something more and more frequent – starts to own capital and become part of the upper bourgeoisie. By becoming wealthy and staying active, the manager will be part of both classes. It is common to speak or read about the great "middle-class" that characterizes modern societies. In fact, the middle layer or middle class represents an increasing part of modern so, but we must keep in mind that there are two social classes: the capitalist and the managerial middle-class.

Technobureaucracy is also a name of the managerial class, but it can also be used, following Max Weber, a system of domination – a system that is endowed with legitimacy insofar as it obeys the rational-legal criterion. From this point of view, the technobureaucracy conflicts with democracy, either if the technobureaucratic domination is extended to the whole society. I do not use the word "technocracy", because in addition to the specialists or experts it includes managers and all other people whose income is salary. Thus, the concept of managerial or technobureaucrat that I use is broad. Managers are individuals who seek to rationalize or turn efficient action; who have a systematic and in-depth knowledge of any technique and use this knowledge in a managerial way. This knowledge may have been obtained exclusively through experience but, in principle, will be based on formal university-

level training. The managerial is thus a manager, a consultant or an expert who works for organizations directly or outsourced. Teachers, scientists, cultural animators, and, more broadly, intellectuals are also part of this class, as long as their main income is salary and an equivalent. Among the managers are those who run other men (managers and military officers), those who are able to develop and manipulate machines and raw materials more efficiently (engineers and mid-level technicians) and those who work with ideas (intellectuals and scientists). The concept of a managerial is not normative, but, unlike the bureaucrat, he has a positive image in the modern world; an image that was challenged by neoliberalism, but without success. Often the managerial is associated with reason, logic, ideological neutrality and efficiency. In the same way, including the incompetent and careerists among them may seem strange, but since I am trying to analyze a particular social actor – the managerial – and not a being idealized in our fantasies and aspirations, admitting the existence of incompetent managers and careerists has nothing strange. What defines the managerial is the role he occupies in bureaucratic organizations.

### **Alternative views**

The Industrial Revolution made capital the dominant production relation in entrepreneurs' capitalism; the Second Industrial Revolution and the associated organizational revolution promoted the shift from the strategic factor of production of capital to technical and administrative knowledge and made the emergence of the managerial class a definitive historical phenomenon. Faced with this fact, some major liberal economists, such as Joseph Schumpeter, saw the new class rise and the size of the state apparatus increased, feared for capitalism. Others, such as Adolphe Berle, Daniel Bell and Ralph Dahrendorf, saw in the emergence of managers or managers a profound reorganization of the system, which made society more rational and freer from class conflict. A third group, made up of intellectuals such as Wright Mills and John K. Galbraith, realized that capitalism had changed and that a new class had emerged, which did not mean that society would cease to be a class society. Finally, a fourth group, including Bruno Rizzi, Cornelius Castoriadis, Claude Lefort, and George Orwell focused on the Soviet Union and showed that the socialist revolution had led the country to a technobureaucratic society and to an authoritarian political system dominated by a "nomenclature" that aspired to be the model for the whole world. But, as we know, capitalism was not superseded by statism, which, after all, was only a form of late industrial revolution in which the state had an absolute rather than a predominant role. Meanwhile, in advanced capitalism, there was an organizational revolution that gave birth to a mixed social formation, technobureaucratic-capitalist.

These issues were the subject of much debate in the 1970s, of which I participated actively. Marxists who claimed to be orthodox refused the idea of a new class not foreseen by Marx, either because, in relation to the communist countries, they did not accept that they had become statist, or because, in relation to the advanced capitalist countries, they did not admit that the capitalist class was being supplanted by the managerial class. They were not right about the first point, but right the second. The bourgeoisie, now associated with the technobureaucracy, remained rich and powerful. The substitution of managers or top

executives for business entrepreneurs in the control of the corporations, and, in a second moment, the substitution of the rentiers for the business entrepreneurs in the ownership of the same corporations undoubtedly occurred in the United States, but rarely implied the complete loss of shareholder power. According to Maurice Zeitlin (1989, pp. 7-9), "bureaucratic management does not mean bureaucratic control; it is necessary to consider the control centers at the top of the system or outside the bureaucracy itself. " It is for this reason that I see managers' capitalism as a system in which capitalists and managers share power and privilege and, at the same time, struggle with each other to gain a greater share of that power and privilege for their group. They are two distinct classes and not, as Zeitlin suggests, "members of the same social class." For this statement to make sense, it would be necessary to ignore the historical roots of these two social classes.

Today, this discussion is over. It is impossible to ignore or reject the emergence of the managerial class. However, the question of the political role of this social class remains open. We know that it has an ideology, but it is not possible to deduce a coherent political behavior. If in the past this seemed possible, today it is no longer because the technobureaucratic class has become large and diverse. Its interests are related to both the state and economic development, sometimes with companies and their growth. Now its leaders may make part of class developmental class coalition, as was the Fordist or Golden Era class coalition from the New Deal to the mid 1970s, but, when they came under attack of the rentier-financier class coalition, they fast adhered to the new order – the Neoliberal Years of Capitalism. (1979-2008). In this case, they were accepting a diminution of power, because the neoliberal hegemony that occurred in that period was directed not only against the workers, when seeking to reduce their labor rights to make the companies more competitive, but also against the managerial class, since it was she who really competed with the rentier capitalists. By associating themselves with rentiers and financiers, they were undermining their own power, because the rentier-financier coalition turned both against the social achievements of the workers and against the power of public and private managers: in the public sector, through the struggle for the minimum state ; in the private sector, through the struggle of shareholders against the dominance of top executives over large corporations. Struggle that was always moderate or disguised, because the political relation between the bourgeoisie and the technobureaucracy is rather of agreement and mutual concessions than of conflict.

It is clear today that statism is not a real alternative to capitalism. As an economic system, it only showed effectiveness in the first stages of economic growth. Politically, it was not able to coexist with democracy. But the concepts of statism and of the technobureaucratic or managerial class remain essential not only to understand the communist societies that presently face collapse, but also contemporary capitalism – managers' capitalism. In this book, I will present the theory of the technobureaucratic mode of production. It represents a theoretical tool for the understanding of capitalism, if we acknowledge that there is no such a thing as "pure capitalism", that contemporary capitalism is the mixed reality of capitalism and technobureaucratism.

## Phases of capitalist development

Capitalism is mode of production inserted in history, which, today, is already, a long history. Thus, we can distinguish phases of capitalist development. In another work, I discussed these phases per an economic criterion – of the types of economic progress and their consequences in distribution. Here, I will suggest phases according to the sociological criterion, which is summed up in Table 2.1. From the sixteenth to the eighteenth century, according to the sociological criterion, we had mercantilism or merchants' capitalism, while the class coalition associated the great bourgeoisie with the monarch and his patrimonial court; this was the 1<sup>st</sup> developmentalism. From the 1830s to 1929, we have entrepreneurs' capitalism and the class coalition associated the capitalist entrepreneurs with the decadent aristocracy. From the 1930s to the mid 1970s, we have managers' capitalism, while the social democratic or Fordist class coalition was a broad coalition associating entrepreneurs, managers and the working class; this were the Golden Era of Capitalism and corresponded to the second developmentalism. From the mid 1970s to 2008, we continue to have managers' capitalism, but the class coalition is a narrow rentier-financier coalition, and the ideology is neoliberal, *in conflict* with the managerial character of technobureaucratic capitalism. From 2008, capitalism remains managerial, and we have been seeing a more active intervention of the state in the economy, but it is too soon to say which is the ruling class coalition.

Mercantilism was the phase when the first industrial and capitalist revolutions, in England, France and Belgium, were completed; it involved intervention of the state in the economy, and, thus, was historically the first developmentalism, but we didn't need the word developmentalism to define it. Following, capitalism turned liberal in England, Belgium and France, and, again there was no reason for the concept of developmentalism. The same cannot be said, however, of the late industrializations in the United States, Germany and Japan.<sup>i</sup> In these countries the state had to be developmental to succeed in industrializing their economies against the interests of England and France, which had industrialized first and turned powerful. It was not by chance that the two patrons of developmentalism were an American, Alexander Hamilton (1792) and a German, Friedrich List (1846). Germany, Russia and Japan, where the industrial revolution took place late, never had a fully liberal state. Contrarily to England and France, but also to the United States, where the intermediate stage of economic liberalism was present, these countries passed directly from the absolutist state and merchants' capitalism to the managers' capitalism. They skipped the stage of liberal economic capitalism, going directly from mercantile capitalism to social democratic and developmental capitalism. This phenomenon also implied a technological jump. Veblen noted this writing on:

Germany combines the results of English experience in the development of modern technology with a state of the other arts of life more nearly equivalent to what prevailed in England before the modern industrial regime came on; so that the German people have been enabled to take up the technological heritage of the English without having paid for it in the habits of thought... (1915: 86).

**Table 2.1: Phases of capitalist development**

Approximate dates	Capitalism	Class Coalition
Sec XVI to XVIII	Mercantilism	Bourgeoisie-Monarch (1 <sup>st</sup> developmentalism)
1830s – 1929	Liberal capitalism	Entrepreneurs-aristocracy
1930s – 1970s	Technobureaucratic capitalism	Entrepreneurs-workers (2 <sup>nd</sup> developmentalism)
1970s – ...	Crisis	Rentiers-financiers (neoliberal)

Veblen also extended this observation to other western countries. In the case of Russia, a developmental and managers' capitalism did not succeed in developing fully as the result of the disparagement of a socialist revolution and eventually the dominance of a statist social formation, where the distinction between the state and civil society was absent. In any case, it is important to emphasize that the stages of capitalist development that I am identifying in this brief analysis are not necessary stages. As the less technologically advanced economic systems enter in relation to more advanced ones and begin to compete internationally, they may skip stages. With the Great Depression, the developmental state substituted for the liberal state now in all the central capitalist countries, although in different degrees, while entrepreneurial capitalism changed to managers' capitalism. On one side, the increasing sophistication of production, and, on the other, the increasing control of corporations over the market have required a more active and managerial coordination of these corporations and of the national economies. Just after managers' capitalism has risen, social democratic and developmental capitalism also emerged. While the managerial class was gaining social and political clout, the state, from the 1930s, beginning with the New Deal, was assuming new economic and social functions. This process began at the end of nineteenth century, when the late industrial revolutions in Germany and Japan took place, but only turned dominant after the Great Depression of the 1930s, when Keynes' macroeconomics and the ensuing macroeconomic policy turned widespread. Then, it became clear that the profit rate of and the growth rate depended on fiscal policy for sustaining aggregate demand. Thus, the path was open for the state and its managerial class to broaden its functions and to begin to intervene decisively in the economy.

After World War II, in the Golden Era of Capitalism, when a technobureaucratic, developmental, and social-democratic capitalism was dominant, the state took on the role in complementing the market in the coordination of the economy. It assumed the promotion of economic and technological development, in performing indicative economic planning, and

in macroeconomic policymaking. The new functions of the state became necessary not only because society was no longer willing to accept the excessively financial instability typical of liberal capitalism, but also because private cartelized oligopolies, which were incessantly being formed impaired the market and required a more government action. Today, after forty years of neoliberal attack on the state, there was not a real reduction on its size, and its basic social and economic roles (educational, healthcare care, social security, macroeconomic policy, planning of the investments in the infrastructure and in basic inputs industries, support to science and technology, industrial policy, a system to finance investment in the long-term, and, mainly, the practice of a macroeconomic policy that keeps the five macroeconomic prices right) have been reduced, but not much, despite the huge ideological investment made by neoliberal capitalists and their ideologues. This resilience of managers' capitalism and of social democracy and developmentalism shows how unrealistic is the neoliberal utopia.

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<sup>i</sup> Gerschenkron, writing about the Eastern Europe nations, showed that the more backward the country, the more important the role of the state as *agens movens* of industrialization (1965). For the case of Japan, there is the testimony of the Japanese government: "It is a natural fact for a country destitute of private capital to depend on governmental capital in the initial stages of its economic development. The government not only was the supplier of the necessary funds, but also played the vital role of entrepreneur, which represented an indispensable factor for the establishment of modern industry" (Bulletin of the Japanese Embassy in Brazil, March 15, 1962; quoted by Barbosa Lima Sobrinho, 1973: 77). In relation to Germany, Thorstein Veblen's observation is significant: "...the technological advance which enforced a larger scale of industry and trade, as well as a larger and more expensive equipment and strategy in the art of war, also drove the dynastic State to reorganization on a new and enlarged plan, involving an increased differentiation of the administrative machinery and a more detailed and exacting control of the sources of revenue" (1966: 78-79).