

Take the Money and Run: The Business Enterprise in the Age of Money Manager Capitalism

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Abstract

Most heterodox theories of the business enterprise base themselves on the Veblenian going concern in which managers pursue the long-run survival and growth of the enterprise, whereas absentee owners are occupied with short-run financial interests. Since Veblen's era, the capitalist social provisioning process has evolved toward money manager capitalism in a dialectical fashion. At the heart of the transformation are changes in the business enterprise. In this paper, we make a threefold argument. First, while the Veblenian account of a going concern still holds true for many enterprises, more and more of the economy is being directed toward financial concerns. Second, as a consequence, the social provisioning process becomes more unstable and people's welfare becomes more vulnerable. Third, the concept of a going concern is therefore to be modified in order to put the business enterprise in the context of money manager capitalism.

Key words: Thorstein B. Veblen, Hyman P. Minsky, Going Concern, Money Manager Capitalism, Mergers and Acquisitions, Social Provisioning Process

JEL Classifications: B5, D21, G34

1. Introduction

That the modern business enterprise is a going concern, first theorized by Thorstein Veblen, has been widely received by heterodox economists. The evolution of capitalism in recent decades characterized by the dominance of capital markets and the financialization of the corporation questions the Veblenian position on the business enterprise. Is the business enterprise in effect concerned about its survival and growth? Is Veblen's theory of the business enterprise formed in the early 20th century still relevant? Or does his theory still have potential, once it is updated in accordance with the changing capitalist *modus operandi*, for adding new insights to the understanding of the business enterprise in our time?

We argue that Veblen's going concern concept is still important in the account of an economy as a continuing process of social provisioning since a viable economy requires continuing business over historical time. The behavior of the business enterprise in recent times is, however, in contradiction to the "going" enterprise as well as the "continuing" economy. In particular, financially oriented business behavior makes the social provisioning process more unstable and renders people's welfare more vulnerable. This point was also anticipated by Veblen's evolutionary analysis of economy. We hence argue that the meaning of a going concern is to be updated with regard to the present business culture and institutions that drive the actions of managers and owners of the business enterprise.

In Section 2, Veblen's theory of the business enterprise is revisited in terms of the issues relevant to our questions in this paper. That is: 1) the separation of ownership and control; 2) the conflict of interest between the business enterprise and the community; 3) the control of the business enterprise by captains of industry and of finance; and 4) the nature of corporate finance—that is, capitalization of earning capacity. We then, in Section 3, move on to the going

concern concept in close relation to the social provisioning process. Here we argue that the distinction between what a going concern means and how it actually behaves should be established, and that Veblen's theory offers a theoretical foundation for the business enterprise in the ever-changing historical process of capitalism. In Section 4, we discuss the evolution of capitalism with a focus on the financialization of the business enterprise from the Veblen-cum-Minsky's perspective as well as from the social network perspective. Minsky's vision of money manager capitalism is reinforced by the updated Veblenian analysis of the business enterprise, and Veblen's position is in turn reinforced by Minsky's analysis. The final section concludes the paper.

2. The Place of the Business Enterprise in Veblen's Analysis of Credit Economy

In his 1904 *The Theory of Business Enterprise*, Thorstein Veblen advanced a theory of the then-modern corporation that fundamentally deviated from the conventional "theory of the firm." Rather than resting on a hypothetical mode of organization associated with the "handicraft" (small-scale) stage of capitalism, Veblen's analysis developed the argument within the stage of the "credit economy" in which the capital market dominates the goods market. Rather than production in order to "earn a livelihood," the point of the modern business enterprise is to make "profits on investment." His theory was influenced by his direct observation of the Great Merger Movement in the period from 1897 to 1904 and of the remarkable growth of Wall Street and absentee owners.

For our purposes, among other aspects of Veblen's analysis, several features stand out. Initially, there is a separation of management and ownership. Rather than the typical owner-

manager associated with the handicraft stage, one now finds absentee owners who hire professional managers to oversee the production operations of the enterprise. Managers pursue the long-run survival and growth of the enterprise, while owners are largely concerned with short-run financial interests. In this,

the holdings of industrial property that count... toward control of the business situation, the intangible assets (represented by common stock, good-will, and the like) are chiefly of consequence. Hence... the fortunes of property owners are in large measure dependent on the discretion of others—the owners of intangible property; and the management of the industrial equipment tends strongly to centre in the hands of men who do not own the industrial equipment, and who have only a remote interest in the efficient working of this equipment.... [T]he material processes of industry are under the control of men whose interest centres on an increased value of the immaterial assets. (Veblen [1904] 1975, 175-76).

Thus, “[t]he motive of business is pecuniary gain.... The aim and usual outcome is an accumulation of wealth” (Ibid., 20). To our understanding, Veblen’s observation implies that although the separation of ownership and control mirrors the changes in social classes (and in the structure of the business corporation), the interests of owners and managers tend to coincide under the regime of the credit economy. In other words, Veblen anticipated the dominance of Wall Street because of the very nature of the modern business corporation. Moreover, the distinction between a captain of industry and a captain of finance is not very important for Veblen to the extent that their interests are directed by the prevailing culture and institutions of

the time. A captain of industry, like J.P. Morgan, can also be a captain of finance, or one “mutates” into another. A captain’s primary interest lies in the making of “pecuniary gain” by means of (or the disruption of) productive activities or financial capitalization. The “Entrepreneur,” noted Veblen, “takes care of the financial end of things.... The typical entrepreneur is the corporation financier.... Indeed, it is nearly true that in current usage “producer” has come to mean “financial manager”” (Veblen 1921, 29, original emphasis). “The captain of industry, typified by the corporation financier, and latterly by the investment banker,” continues Veblen, “is one of the institutions that go to make up the new order of things, which has been coming on among all the civilized peoples ever since the Industrial Revolution set in” (Veblen 1921, 31). The transition from industrial capitalism to financial capitalism (or ownership society) is thus best delineated by “a redistribution of the ownership of property” (Veblen [1904] 1975, 114) from the debtor class to the creditor class.

Secondly, there arises a conflict of interest between the business enterprise and the community. “The outcome of this management of industrial affairs through pecuniary transactions...has been to dissociate the interests of those men who exercise the discretion from the interests of the community” (Veblen [1904] 1975, 29). That is, the welfare of the community, associated with the social provisioning process, is directly related to the production of output—the industrial process, while the interests of the “Captains of Industry” (or “Finance”) is purely of a pecuniary nature. And these interests might well, and probably will, diverge. While the industrial system could potentially function as something of an integrated, harmonious machine, the modern businessman is interested in “the interstitial adjustments of the industrial system” in which “[h]is gains (or losses) are related to the magnitude of the disturbances that take place, rather than to their bearing upon the welfare of the community” (Ibid., 28-9). Essentially, the

money-making and output-making aspects of the modern capitalist economy are (usually) at odds. “Serviceability...is not the decisive point. The decisive point is business expediency and business pressure” (Ibid., 39). As Dudley Dillard once put it, “[r]eal goods appear to the individual producer as an artificial form of wealth until they are converted into money which appears as real wealth to the individual producer” (Dillard 1954, 28-9). In particular, “sabotage” of production, thus increasing monetary gain, is standard business practice when sufficient control of an industry has been established, and this obviously runs counter to the objectives of the community which is interested in increasing that production. It is important to note that the corporate mode of control has certain monetary as well as industrial advantages. By eliminating smaller, rival concerns, there are reductions in business expenses as well as increases in standardization and (potential) industrial efficiency. “[P]robably the largest...service rendered by the great modern captains of industry is this curtailment of the business to be done,—this sweeping retirement of business men as a class from the service and the definitive cancelment of opportunities for private enterprise” (Veblen [1904] 1975, 48). Further, through integration, in particular vertical integration, the various component elements of a production process are collectivized (or “rationalized”), leading to greater industrial efficiency.

Third, corporate control may be of a permanent or temporary nature. If the “captain” gains sufficient control of a large portion of industry, it is more likely that this control would be of a “permanent” nature, and “it may be to his interest to make and maintain business conditions which shall facilitate the smooth and efficient working of what has come under his control.... But also in a large proportion of these transactions the business men’s endeavors are directed to a temporary control of the properties in order to close out at an advance or to gain some indirect advantage; that is to say, the transactions have a strategic purpose.... His interest in the particular

block of industrial equipment is, then, altogether transient....” (Ibid., 30-31). It is fairly clear that Veblen’s understanding of permanent versus temporary control was informed by the first great merger movement.

The last characteristic of concern here speaks to the modern economy as a “credit economy.” Contrasting then-modern capitalism with the “money economy” associated with the handicraft stage, Veblen highlights several features that are important for our purposes. With the development of the corporation, “the basis of capitalization has gradually shifted, until the basis is now no longer given by the cost of material equipment owned, but the earning-capacity of the corporation as a going concern” (Ibid., 137). “The effective [business] capitalization...is not fixed permanently and inflexibly by a past act of incorporation or stock issue. It is fixed for the time being only, by an ever recurring valuation of the company’s properties, tangible and intangible, on the basis of their earning-capacity. In this capitalization of earning-capacity the nucleus of the capitalization is not the cost of the plant, but the concern’s good-will....” (Ibid., 138). Good-will includes various sorts of factors—trade-marks, copyrights and patents, brand names, reputation—“that give a differential advantage to their owners, but they are of no aggregate advantage to the community....they make no part of the wealth of nations” (Ibid., 139-140).

In the credit economy, the capital market dominates the goods market. This opens the door to an ongoing “valuation and revaluation—i.e. a capitalization and recapitalization—on the basis of its [the corporation’s] presumptive earning-capacity, whereby it all assumes more or less of a character of intangibility” (Ibid., 154). In this process, the most important consideration is that of good-will, “since these are intangible goods from start to finish” (Ibid.)

In this ongoing valuation and revaluation, one finds a more or less constant reorganization of the corporation. Credit enters this process at two points: in the financing of the reorganization and in the inflation of stock prices. The former advantages the organizer and the providers of credit; the latter, the stockholders (Ibid., 120, ff.) Further, the “putative earning-capacity of a given block of capital...may differ appreciably from the actual earning-capacity of the capital as known to its manager; and it may readily be to the latter’s interest that such a discrepancy between actual and impute earning-capacity should arise” (Ibid., 155). When the putative value sufficiently exceeds the actual, managers “may find their advantage in selling out, or even in selling short...” (Ibid.). To effect this differential, managers “will be able to induce a discrepancy...by expedients well known and approved for the purpose. Partial information, as well as misinformation, sagaciously given out at a critical juncture, will go far toward producing a favorable temporary discrepancy of this kind...with advantage to themselves” (Ibid., 156-7). “The consequence is that a given block of capital...may, and in practice it commonly will, change owners much more frequently than a given industrial plant was wont to change owners under the old régime...” (Ibid., 156).

Basically, the whole point is to gain some strategic advantage, an advantage that results in monetary gain. To this end the business enterprise makes strategic decisions and takes actions such as the extensive use of “loan credit,” the capitalization of earning-capacity and of good-will, and the control of market. Hence, “the interest of the managers of a modern corporation need not coincide with the permanent interest of the corporation as a going concern; neither does it coincide with the interest which the community at large has in the efficient management of the concern as an industrial enterprise” (Ibid., 157). In a nutshell, in the beginning of the 20th

century, Veblen not only saw the new capitalist order coming, but also warned that this new order controlled by captains and absentee owners was inimical to the welfare of the community.

3. On the Going Concern

At the center of the transformation in the capitalist order, from Veblen's viewpoint, is the going concern, which is embedded in the social provisioning process. That is to say, the going concern concept is based on the view that economy is the instituted, continuing, and evolving process of social provisioning. Constituting agents or organizations of an economy—households, business enterprises, and the state—undertake an array of activities that are to be managed in order to enjoy a durable life over historical time. In particular, the private business enterprise, whether big or small, is established with a view to survival and reproduction, which is rendered possible by continuous flows of profits. To this end such activities as production, employment, costing, accounting, pricing, investment, and financing are organized and managed strategically. Strategic actions are a necessary, if not sufficient, condition for being a going concern. Transmutable future or radical uncertainty does not allow unchanging or non-innovative business enterprises to survive over an extended period of time. To be a going concern it is thus required to control itself and others by making and enforcing working rules. To be able to control others, a going concern needs power granted by law or acquired historically as a result of past activities. Otherwise, the life of a concern is endangered (Veblen [1904] 1975; Commons [1924] 1974, 145; Polanyi 1968, 145-8; Ramstad 2001; Lee and Jo 2010; Lee 2012, 166).

Central to the going concern concept are institutions, evolution, continuity/durability, control, and power. Being a going concern, however, does not mean that it lives forever. A

business corporation as a going concern is *de facto* liquidated, if the owner(s) decides to do so at will, if it is sold to another concern (un)willingly, or if the court or the state authority orders it so. The oldest company in history that is still on-going is *Nissiyama Onsen Keiunkan*, a Japanese hotel, founded in 705. *Stora Enso*, a Finnish manufacturer, was incorporated in 1288 and is still operating. These are quite atypical examples of going concerns. Most of the Fortune 500 companies are far less than 100 years old. The average age of multinational corporations listed in Fortune 500 was between 40 and 50 years at the end of the 20th century. The same measure for all S&P 500 companies in 2012 was 15 years, while it was 67 years in 1920s (de Geus 1997, 1; BBC News 2012).

Since most companies live less than 100 years, or even less than 1 year, should we conclude that they are not going concerns? And has the *raison d'être* of the business enterprise changed along with changes in capitalism? Our preliminary answer is negative. Whether an enterprise lives only 1 year or 100 years, its business is to be conceived of as a going concern insofar as 1) it involves a range of enduring structures (productive, managerial, legal, etc.); 2) its sequential actions take place through historical time—that is, the expectation that a business will last for a significant period of time or for an indefinite time is required for the management and potential owners; and, therefore, 3) its earning capacity is valued. In a world of radical uncertainty, it does not necessarily mean that the expected goal—survival and expansion—will be achieved. But to initiate an action, any acting person or a going concern needs to form an expectation. As well, to operate in the market or to be part of the social provisioning process related agents must view that the business enterprise is acting and will be a going concern in the future. A going concern is thus defined in the social context. And this definition is endorsed by laws and accounting practices which treat the business enterprise as a going concern. As for

structure, John R. Commons put it, “[i]f no structure—no going concern” (Commons [1924] 1974, 191). That is, a going concern is always structured and thereby managed in order to achieve a goal. The structure of production, for example, is enduring not only because production takes time, but also because of the enduring nature of fixed investment goods (or product lines) and labor. The structure of costs is enduring as well since costing and accounting practices *qua* working rules are inseparable from the production process. Therefore a set of structures, working rules, and productive/managerial activities constitute a going enterprise which is further divided into a going plant and a going business (Veblen [1904] 1975, 137; Sterling 1968; Lee and Jo 2010; Lee 2012, 166). Furthermore,

if the business is a “going business,” then it is either bought and sold as a unit or the stocks and bonds are bought and sold as shares in its expected income as a unit. It is only a *going concern* that has a valuable “goodwill” or good credit, and hence this is a peculiarly intangible asset (Commons [1924] 1974, 160; emphasis in original).

In summary, the going concern concept is germane to the theory of the modern business enterprise from the institutional-evolutionary perspective that views the economy *qua* the social provisioning process as instituted, ongoing activities through historical time. A viable economy requires going concerns, and *vice versa*. By the same token, increasing instability in the economy renders going concerns more vulnerable, and *vice versa*. Unstable capitalism is, therefore, in part, business enterprises’ creation (this point is elaborated later). This is precisely the case for the current era of capitalism. Our concern is that the business enterprise does not seem to behave

in a way that is consistent with the going concern concept. We also suspect that there is an increasing gap between the theory of a going concern developed in the early 20th century and the enterprise behavior in the present era of capitalism. This gap calls for updating the institutional theory of the going concern, rather than replacing it with another theory. In this respect, we argue that: 1) the distinction between what a going concern means and how it actually behaves should be established, and that 2) Veblen's theory itself, among others, offers a theoretical foundation for the business enterprise in the ever-changing historical process of capitalism. In what follows we will discuss the evolution of capitalism and of the going concern from the Veblen-cum-Minsky perspective.

4. The Evolution of Capitalism and the Business Enterprise: A Veblenian-Minskyan Analysis

4.1. From industrial capitalism to money manger capitalism

We have argued that a viable economy requires going concerns. This argument is now open to question, as was questioned and analyzed by salient heterodox economists in the past and present. Thorstein Veblen and Hyman Minsky, among others, are of particular interest for the sake of our discussion on the reciprocal relationship between capitalism and the business enterprise.

As is well known, Veblen developed his arguments within an “evolutionary” context. Clearly, his approach went far beyond capitalism. Beginning the story in the earliest periods of human society, he takes us through the dawn of civilization, through feudalism and then capitalism. As noted earlier, the last stage of capitalism investigated was that of the “credit

economy” when financial arrangements began dominating industrial pursuits. It was here that the economy began endangering the very social provisioning process that any economy is supposed to (or claims to) support.

Minsky also adopted an evolutionary perspective, though as his concern was with the development of capitalism only his approach is much more limited than that of Veblen. Of importance for this paper is his segmenting of the capitalist economy by its various stages of industrial and financial arrangements and control of these arrangements. “Capitalism is an evolving and dynamic system that has come in many forms and even now different forms coexist” (Minsky 1993, 362). “Commercial capitalism” gives way to “industrial capitalism” and “wild cat financing” gives way to “financial capitalism” which gives way to “paternalistic, managerial, and welfare state capitalism” which gives way—in the current period—to “money manager capitalism” (ibid.). As his stage theory indicates, management becomes separate from ownership, finance increasingly “rules the roost,” and industry takes a back seat to the ongoing search for monetary profit.

Obviously, as Minsky was able to perceive and examine changes in post-WWII capitalism (specifically in the United States), he was also able to carry the examination beyond Veblen’s credit economy. It is with his stage of “money manager capitalism” that we are here concerned, specifically in the relationship of this stage to the organization and functioning of the business enterprise as an ongoing concern. Specifically, our questions are: What is the nature of the business enterprise in the mature stage of money manager capitalism? How does the financialization of the business enterprise affect the stability of the capitalist social provisioning process? Does or will a capitalist economy as a whole continue to be a going concern, while business enterprises tend to become profit pirates?

Let us position the argument. Business enterprises do not operate in isolation. Rather, they always function within an environment that is partly of their own making, and partly forced upon them by ever-changing capitalism. That is, there is something of a reciprocal (or interdependent) relationship between the enterprise and the larger social order. The social order “conditions” the behavior of the enterprise; the enterprise by its actions conditions (in part) the social order. An analogy to recent work in evolutionary biology assists in this understanding.

The evolutionary process is one in which the world “is constantly in motion. Constraints become variables, causes become effect, and systems develop, destroying the conditions that gave rise to them.” Constant tensions for transformation of the world as a result of “the actions of opposing forces on them, and things are the way they are because of the temporary balance of opposing forces” (Levins and Lewontin 1985, 286-88). A dialectical relationship exists between the organism and the environment in which both are transformed as a consequence of this relationship, but neither “do not completely determine each other” (Ibid., 136). Existence is not random, but emerges and is transformed as a conjoining of chance and necessity. Chance in that at any specific juncture, several possibilities present themselves for subsequent evolutionary change; necessity in that there is a necessary relationship between organism and structure that constrains these possibilities. Hence, the organism is both subject and object. Organisms must interact with their environment as it is the environment that sustains them. In doing so, they change that very environment—though “not as they would like.” Indeed, this interaction in the life history of the organism may well spell its demise, as evolutionary history has demonstrated. As the process continues, “traits” are selected for evolutionary success. Thus, “[a]n organism is the result of complex interactions between its genes and environment, as well as its own

structure, where the organism takes part in the creation of its environment, its ecological niche, and its own construction” (Foster, Clark, and York 2008, 179).

Any examination of the social world requires modification of the above understanding drawn from natural history. Nature has no purpose, but humans are *purposeful* (Veblen 1898, 188). At the same time, the analogy holds in general. The business enterprise is something of a creature of its environment. It cannot exist until the socio-economic circumstances permit its existence. Then, in making adjustments to advantage itself (or at least seemingly so), it acts to change those circumstances. The changed circumstance then force further modification and so on. The Veblenian business enterprise bears no relation to the neoclassical firm which operates merely as a set of production functions in an environmental vacuum. Rather, there is an interdependent, reciprocal relationship between the enterprise and the environment.

In Veblen’s argument, technological developments that were the response of the business enterprise in the handicraft stage to the competitive necessity to reduce costs of production and to stay one step ahead of their rivals led to oligopolistic structures—which destroyed competition. So the corporate form of the business enterprise started growing in number and in size around the mid-1800s along with the emergence of the (modern) rentier class. This new form was promising for the entire capitalist class to the extent that it offered greater profit opportunities with limited liability as well as with limited competition in the market. So the new order began.¹ In the course of development during the age of industrial capitalism (*circa* mid-1800s and early 1900s), the vested interests of the ruling class were served through the growth of the business corporation which was characterized by the separation of ownership from

¹ The model for the “new order” of business organization was the railroad corporation, in particular, that of the Pennsylvania Railroad. Founded in 1846, the PRR was, in its early history, the largest railroad in the U.S. and the largest publicly traded corporation in the world. Over its lifespan, the PRR merged with or had a financial interest in 800 other rail companies. It might be noted that the “Pennsy” no longer exists. (See Alexander 1967 for details. For

management. The corporation was thus the vehicle to promote the interests of the ruling class of the time. Underlying the success of business corporations was the fiction that private corporations' profit-oriented behaviors were beneficial to the entire society (Ireland 2010; Henry 2009). The expansion of the corporation and of the stock market that supported this institution was accompanied by the segmentation of the capitalist class into its main components—financial capitalists and industrial capitalists. (It is clear that this segmentation is not tidy; there is clearly overlap between some financial and some industrial capitalists, as noted below.) The balance of power between capitalist class segments and between social classes was temporary. Tensions between classes and between class segments impinged on subsequent historical changes in the system.

Accelerated but unequal capitalist accumulation, on the one hand, and the pursuit of survival and growth or of financial gains on the other hand, led to changes in the structure of industry and finance. With the transformation of the economy, finance became much more important, and with the emergence of the “credit economy,” finance dominated industry. Those who control enterprises are constantly making “strategic decisions” in seeking advantage and these decisions reverberate in the larger social environment, causing that environment to be further altered. In particular, the first merger wave (1897-1904) was mainly driven by industrial capitalists (owner-entrepreneurs like Cornelius Vanderbilt, John D. Rockefeller, and J.P. Morgan) who were keen to gain control over existing competition by way of horizontal mergers and acquisitions. As a result of the first wave, major industries—e.g., metals, food products, petroleum, railroads, chemicals, transportation equipment, fabricated metal products, machinery and bituminous coal—became concentrated. J.P. Morgan, as a captain of industry, for example, established General Electric by consolidating Edison General Electric Company and Thomson-

Houston Electric Company in 1892. J.P. Morgan also organized the U.S. Steel Corporation by merging with Carnegie Steel in 1901. As a result of over a thousand mergers in the U.S., speculative activities in Wall Street grew markedly and resulted in the Panic of 1907, which put the first merger wave to an end. J.P. Morgan, as a captain of finance, also played a key role in stabilizing the financial market after the Panic of 1907 through an informal syndicate of Wall Street bankers (Blair 1972, 262; Ganley 2011, 51; McCarthy 2013, 13).

The first merger movement was both “industrial” and “financial” in terms of its cause and effect, with the latter being of increasing importance. The control of industry by means of horizontal mergers and acquisitions not only was conducive to greater profitability, survival, and expansion of business enterprises, but also facilitated the development of a prosperous Wall Street. Meanwhile there arose new forms of tension between industry and finance, between engineers and businessmen, between the business enterprise and the community, all of which was delineated at length in Veblen’s *Theory of Business Enterprise*.

As a consequence of the preceding structural changes in capitalism, later merger waves and regimes of capitalism were driven by and, hence, in favor of financial capitalists and professional managers. The financialization of the going concern was inescapable. It in turn followed that the lifespan of going concerns became shorter, the growth/profit rate of manufacturing corporations slowed down, while that of financial corporations escalated, the value of corporate “good-will” increased, the wealth of absentee owners and professional managers rose exponentially, the welfare of the underlying population was increasingly endangered, and the provisioning process became highly unstable (Van Lear 2001; Stockhammer 2004; Serfati 2008; Orhangazi 2009; Dallery 2009; Wray 2009; Lazonick 2012).

We are now in the stage of Minsky's money manager capitalism. (Indeed, we are arguably in the process of moving beyond this stage into "shareholder capitalism.") And money manager capitalism has been the consequence of modifications in business enterprise behavior in the post-WWII period, in turn, "forcing" enterprises to seek new and different strategies in order to maintain themselves as going concerns. In actuality, such strategies call into question the very nature of a going concern.

Minsky (1996, 363) enumerates the essential characteristics of money manager capitalism:

1. Almost all business is organized through corporations.
2. Dominant proportions of the liabilities of corporations are held either by financial institutions, such as banks and insurance companies, or by mutual and pension funds.
3. This involves the intrusion of the new layer of intermediation, by pension and mutual funds, into the financial structure.
4. Pension and mutual funds are bound only by contract as to what assets they can own and what activities they can engage in.
5. The stated aim of fund managers is to maximize the value of the investments of the holders of its liabilities.
6. The performance of a fund and of fund managers is measured by the total return on assets, which is given by the combination of dividends and interest received and the appreciation in per share value.

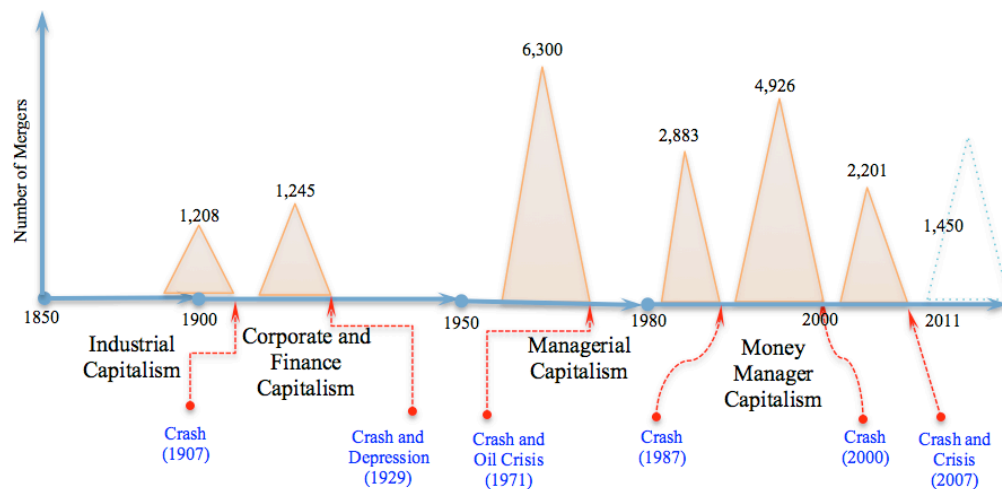
In our view, the following should be added to Minsky's list:

7. Mergers and acquisitions (M&A) appear more frequently under the regime of money

manager capitalism (see Figure 1).

8. M&A are mainly driven by speculative motives coupled with financial innovation, deregulation, and globalization (McCarthy 2013).
9. To gain greater financial gains out of M&A, the value of going concerns is manipulated. That is, the value of “intangible assets” (including corporate goodwill)—the difference between the stock market value and the real asset value of a corporation—increases.²
10. With the shortened lifespan and heightened instability of going concerns and the economy as a whole, business enterprises downsize, outsource, and re-engineer (or rationalize) themselves at a much more heightened level of activity (Whalen 2002, 403).

Figure 1: The Evolution of Capitalism and Merger Waves since 1850



Note: Authors' illustration based on Minsky (1993), McCarthy (2013), and the U.S. Federal Trade Commission reports (various years).

² It is estimated that in the U.S., intangible assets now constitute 43% of the S&P 500 book value; in France, 77% (Serfati 2008, 47-8).

Return for a moment to Veblen's period. *The Theory of Business Enterprise* was written toward the end of the great merger movement of the last part of the 19th century and first part of the 20th. Did these mergers make economic sense with regard to the social provisioning process? Yes, at least in part—as Veblen recognized. By “rationalizing” industrial concerns, the U.S. Steel Corporation, for example, reduced business expenses, allowed more efficient production, and established an organizational foundation from which the provisioning process could be made secure. One could also refer to the German case, where rationalization was viewed as a positive good in that monopoly was seen as the logical outcome of competition (and wasteful competition at that), leading the government to actually promote “rational” monopoly (see, Clapham 1963, 303-314). However, at the same time, this “strategic decision” to organize the corporation also allowed greater control over output and pricing, and this jeopardized that provisioning process. The business enterprise has always been in pursuit of profit. In the handicraft stage there was something of a symbiotic relationship between profit and the provisioning process. The pursuit of profit generally meant producing more use values, the essence of this process. Under oligopolistic arrangements, “sabotage” of production is the more likely outcome of the profit-generating process.

In the current period, “rational” mergers and acquisitions are not the dominant variety of this form of industrial organization. Rather, many—probably most—of these “strategic decisions” are designed to generate short-term profits and cater to purely financial interest. That is to say, under money manager capitalism the conventional meaning of a going enterprise is to be reconsidered due to the dominance of “finance” over “industry” (à la Veblen), “business” over “plant” (à la Commons), or financial capitalists over industrial capitalists. The separation of ownership from management, which characterized previous stages of capitalism, becomes less

important since both owners and managers are concerned about financial gains above anything else. To this end, the value of intangible assets, “putative earning capacity,” “good-will”, or “fictitious capital” (à la Marx and Hilferding), instead of productive earning capacity, becomes more important and, at the same time, needs to be manipulated. This is evidenced by stock options ranging from 49% (2010) to 87% (2000) of total management compensation of the top 100 US companies (Lazonick 2012, 15), and increasing stock buybacks which has been greater than dividend payouts since 1997 (Lazonick 2012, 18). In the first quarter of 2011, for example, Exxon Mobil spent \$5,653 million to repurchase its own stocks and S&P 500 companies spent \$89.84 billion for stock buybacks, an amount equal to 45.99% of their total earnings (PR Newswire 2011). It should also be noted that stock price manipulation has been assisted by rulings of the Securities and Exchange Commission. With the adoption of Rule 10b-18 in 1982, the SEC permitted repurchases of a company’s stock if those repurchases did not exceed 25% of the stock’s average daily trading volume in the previous month and if such trading did not occur at the beginning or end of the trading day (Lazonick 2012, 17). Thus, business enterprises can spend hundreds of millions in buybacks on a daily basis, seemingly “forever”—as long as they limit their manipulation of prices based on the 25% maximum rule.

Indeed, stock price manipulation assisted by the extensive use of “loan credits” was a common practice in the 19th century as was explicated by Veblen ([1904] 1975). The same end is now achieved by a new strategy; the going concern makes extensive use of both internal and external funds to finance stock buybacks. This new strategy not only reflects the “new order” of capitalism, but also has profound effects on the entire social provisioning process (this will be discussed in Section 4.3).

4.2. *Putting financialization into the social network*³

It may be useful to think of the social provisioning process as a network of embedded agency. Each element or unit (“nodes”) of this network, for example, represents a business enterprise that is interconnected with all other (or many) units. The linkages are based on financial relationships, connecting financial institutions and producing units. Some of these connections are strong, some are weak, but they are nonetheless interrelated. Moreover, some of these nodes are large, some are small: essentially, there is range of modal sizes running the gamut of possibilities. The main issue to be addressed is the “centrality” of these nodes. That is, how influential are these nodes—or enterprises—in determining the behavior and financial fortunes of the network as a whole. Clearly, enterprises such as Exxon-Mobil, J. P. Morgan—including all their interconnections with other enterprises—would be examples of central nodes. Such operations represent units with greater direct and indirect connections with other nodes through interlocking boards of directors, subsidiaries, etc. In such an analysis, then, the size of the node is only partly determined by the size of the enterprise represented: these must be weighted by estimates of their centrality in the system as a whole.⁴ This means greater influence, thus power over the entire network. A local grocery store has, at best, local connections and cannot influence the activities of the auto production enterprise, but the auto producer certainly can influence the activities of the grocery store, however remotely, through its level of production, thus employment, thus the generation of incomes. The relative success of this local social provisioning process depends upon how well these interconnections function in generating the food, clothing, shelter, etc. that constitutes the population’s livelihood. And note that this framework clearly articulates the provisioning process as a *social* process given that the relative

³ We are greatly indebted to Mitchell Green for his interesting comments on the social provisioning process from the network perspective.

⁴ On the social network analysis, see Wasserman and Faust (1994).

degree of success of the entire process depends not on any specific node, but the interrelationships of the system as a whole. That is, the success or failure of any particular business enterprise—whether a financial or production organization—is not dependent on its own activities, but rather, on the interrelated mechanisms among the (mainly) central nodes.⁵

This, however, raises some complicating features in this form of analysis. It is conceivable that a particular node may emerge as large as measured by its sales to and purchases from other nodes. Yet, those exchanges are of low value. The elimination of the enterprise(s) that constitute(s) this node, then, may not jeopardize the network as a whole, though the size of the node may cause one to think this would be the case.

On the other hand, enterprises constituting a small node may actually represent a very important central unit within the system as a whole. Given its financial relationships with other nodes, the collapse of this seemingly unimportant enterprise may well cause the network to break down. While this is speculative, it would appear that this issue is particularly problematic with regard to the financial system where we observe interconnected balance sheets in which the relative success of one institution is dependent on all other institutions. Thus, the collapse of Long-Term Capital Management in 1998, a financial enterprise relatively small by Wall Street standards but which had important relationships with larger units (including producing units), was feared to precipitate a collapse of the financial network as a whole. This necessitated a bailout by the Federal Reserve Bank of New York.

The last complication we address is the issue of ownership or control. In the final analysis, all business enterprises are controlled by people. We may speak casually of “the corporation” and “its” actions, but any action is dictated by those who exercise actual control.

⁵ It should also be noted that individual optimization or methodological individualism in general makes no sense from the network or the social provisioning process perspective.

And such control may both be difficult to specify, and may be impossible to “map” in the context of a network. As one illustration of this problem, we note the issue of the Samsung Group. This organization, consisting of 76 affiliated companies as of April 2013, would clearly constitute a large node in the network map. In the Korean environment, it is structured in the form of the “Chaebol,” large, multinational, family-controlled conglomerates, where the families have very strong and close relationships with government—including membership in the National Assembly. Yet, the power behind Samsung, that is, the decision-making entity, would be difficult to specify in a network that just examines the relationships among organizations: The Lee family, the family which controls Samsung, owns only 1.27% of the stock in the organization (Korea Fair Trade Commission, 2013). While this issue is not problematic from a production standpoint—we could identify all of Samsung’s relations with suppliers and purchases of its products—it may well be so from a financial standpoint. As it is obvious that stock ownership itself conceals the power or centrality of the Lee family with reference to its own organization, a question is then raised as to the financial relationships, power, control of this family beyond that organization.⁶

In line with the evolutionary (or dialectical) approach to the notion of the going concern, these nodes and their interconnections are not static, but ever-changing. Some grow, some shrink; some die, some are born. Clearly, changes in the technological makeup of the economy have a bearing on this (there was no node representing Microsoft 50 years ago, and Microsoft and its various connections has changed from a very small node to one that’s now quite large), as do mergers and acquisitions (nodes can converge to form larger nodes, representing greater

⁶ In a recent article, Hayden, Garner, and Hoffman (2013), a network analysis of the Koch Industries and TD Ameritrade Holding Corporation demonstrates the extensive connections of these two nodes, showing not only relationships with various economic units, but also political bodies. Essentially, through such an analysis the economic, social and political influence of individuals—in this case the Koch brothers in particular—can be underscored.

influence or power). Moreover, going enterprises within the network organize trade associations and cartels aiming immediately at avoiding “excessive competition” and ultimately at reproducing themselves (Veblen [1904] 1975, 32, fn. 1). The network or the provisioning process is thus not only established but also controlled by going concerns therein contained. One should also consider the influence of non-directly economic organizations such as the IMF, World Bank, Business Roundtable, and of course “the state” in “directing traffic” in a sense. That is, such organizations are very influential in determining in part the movements and outcomes of the ongoing dialectical process. In particular, the activities of such organizations in facilitating the weakening of labor organizations in the interests of wage reduction (or stagnation), the gutting of pension programs, etc. in order to promote monetary gain for the business enterprise should be examined and evaluated in the context of the network.⁷

Now, what one would want to know when mapping such a network is the degree to which large financial enterprises—Allianz, Bank of America, etc.—exercise control over production enterprises (as well as other financial enterprises), and the extent that relationships with the organizations above facilitate this control. That is, what are the respective sizes and centrality of the nodes of certain financial organizations and how strong are the linkages to both other financial nodes as well as those nodes representing production organizations and to the IMF, the state, etc.? Such a map would be developed on the basis of information based on interlocking directorships, stock ownership of specific types, subsidiaries and so on. If one had sufficient data (and sufficient time, technical acumen, etc.), it would be possible to “map” all the interrelationships and, thus, better understand the mechanisms and processes through which

⁷ Indeed, it is quite probable that organizations such as the Trilateral Commission, Business Roundtable, etc. are created to manipulate and control such a network at both the national and international level. See, for example, Carroll and Sapinski (2010) for a network analysis of these organizations and the major individuals who figure prominently in the development and operation of these structures.

social provisioning is delivered. We would then be better able to understand the social provisioning process, specify weaknesses or problems in the provisioning process and to pinpoint those nodes where such problems originate and, hypothetically at least, provide remedies to those problems.

The current authors have neither the expertise nor the time to develop such a map. We do understand the economy (and larger society) as an organic whole in which there is a reciprocal relationship between the specific units and the social environment (as discussed in Section 4.1) and is undergoing constant change. For the purposes here, we refer the reader to one such network analysis in which the authors estimate that currently the 40 largest financial conglomerates control, in a complex network of overlapping ownership, membership in boards of directors, etc., the 43,000 largest transnational corporations (Vitali, et al., 2011, 4).

What does this mean for the social provisioning process? From the standpoint of financial interests, and this increasingly is the *only* concern of the modern business enterprise, many, perhaps most, business enterprises are irrelevant—they do not generate large enough financial flows to matter from the vantage point of the large, financial enterprises; their capitalized value is small. The network can survive and function well even though many of the enterprises that are integral to the provisioning process are jettisoned. Whether a “going concern” indeed goes on depends on its ability to serve the requirements of the large financial enterprises. Hence, the financial network can thrive even though its very success jeopardizes the well-being of the general population—and this is precisely what we have been witnessing at the global level. Thus, from the vantage point of the provisioning process, or serviceability to humankind in terms of the production of goods and services, it would be far better to create a network that does not depend on the monetary objectives of a relatively small number of large, central nodes. Financial

misfortunes of one or a few of such nodes could cause the entire system to collapse. From the authors' perspective, it would be even better to develop a social provisioning process that does not depend on monetary incentives at all, but that takes us far beyond the scope of this argument.

4.3. Effects of financialization on the social provisioning process

Financialization has intensified itself through the financial control of going concerns. While different authorities differ as to the precise amount or degree of control of industrial (and financial) enterprises due to the nature of the data and problems in interpreting that data, there certainly is widespread acknowledgment that Marx's prediction of growing concentration and centralization has occurred and is intensifying in the present period, and that control is increasingly exercised by financial organizations.

Building on the work of Alfred Chandler and his own contributions (among others), William Lazonick has recently argued that the Chandlerian, innovating corporation "has ceased to exist." In the current period, the "New Economy business model" (NEBM) ... [has] relegated the "Old Economy" Chandlerian corporation to history" (Lazonick 2010, 344). Stock buybacks in the interests of driving up stock prices—a practice that began in the 1980's—has diverted internal funds from research and development to purely speculative activities of a "strategic" nature to promote "shareholder value" (and accompanying exorbitant executive salaries). One significant consequence of this development is that the ability of the older corporate form to promote "sustainable prosperity" (Ibid., 330) has weakened (if not disintegrated). Sustainable prosperity, of course, speaks to the social provisioning process and this requires that the "ongoing concern" of note must direct its operations, at least in large measure, toward physical production, not monetary reproduction and expansion.

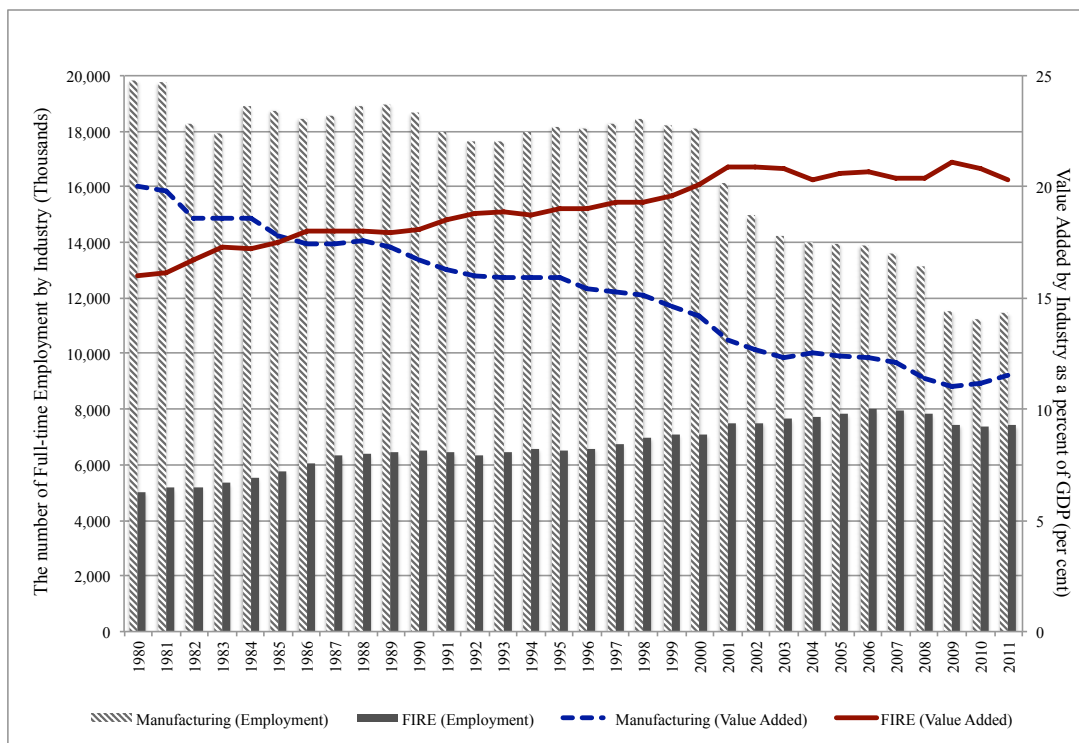
An aspect of the social provisioning process that tends to get delinked from the production of material output is its relationship to employment. Production requires people to produce. And employment generates income with which those producers sustain themselves. Beginning in the 1980's, capitalism has entered a period of "jobless growth" and this has several causes. To be sure, as technology changes there will always be some effect on employment in those sectors incorporating new technology. One can also point to globalization and the accompanying outsourcing that certainly has employment consequences (at least in terms of providing "internal" jobs). Such developments can be seen as "rational" in the sense that they can increase productive efficiency. But, often overlooked is the relation of unemployment to the manipulation of stock prices to "maximize shareholder value."

[O]nce changes in the structure of employment have become widespread for productive reasons, corporations have been known to terminate employees in order to increase short-term profits for the sake of inciting speculative increases in their companies' stock prices.... [U]nder a regime of financialized corporate resource allocation, the tendency has then been to allocate those extra profits to stock buybacks for the purpose of giving a company's stock price a manipulative boost. (Lazonick 2012, 10)

Indeed, financialization manifests itself in different forms. Notably, as Figure 2 shows, over the period from 1980 to 2011, full-time employment has declined by 8,357,000 in the manufacturing sector and increased by 2,384,000 in the FIRE (Financial, Insurance, Real Estate, Rental, and Leasing) sector. It should also be noticed that for the same period value added

generated by the manufacturing sector as a percent of GDP has declined from 20% to 11.5%, while the same measure has increased from 16% to 20.3% in the FIRE sector. Not only is the FIRE sector now the largest sector in the US economy in terms of value added, but also the manufacturing sector becomes more dependent upon the FIRE sector, as evidenced by increasing nonfinancial corporation interest payments as a percentage of total cash flow—on average 27.49% between 1948 and 1979, 53.89% since 1980 (NIPA Table 1.16, U.S. Bureau of Economics Analysis).

Figure 2. Full-Time Employment and Value Added by Manufacturing and FIRE Sectors



Note: Authors’ illustration based on the data collected from the US Bureau of Economic Analysis website.

The dark side of the jobless growth of the economy is the stagnant wage share and the disappearance of “secure” jobs. “Growth” then means growth in wealth of the top 1%, absentee

owners, whose major income is capital gains (see Lazonick 2012, 12-13). Also note that the top 1% income is extremely volatile as it is largely dependent on the stock market. Even more so is the welfare of the remaining population as it is dependent upon the markets created and controlled by the ruling class. That is, “the attainment of workers’ future lifestyles depends on the profitability of corporate America” (Soederberg 2010, 44) and “the returns to the savings of American households are directly dependent on the sustainability of high yields on corporate stock. What will happen to US consumption, and to the US (and world) economy, if the US stock market should turn down, and stay down?” (Lazonick and O’Sullivan 2000, 32).

Indicative of all the effects of financialization highlighted so far is that the business enterprises are vehicles to promote the vested interests of the ruling class. But not in a conventional sense. It is now more like a means to “take the money.” As a result, while existing going concerns die, the capitalist class as a whole survives and grows (in value terms), insofar as new concerns, new markets, and new demands are created. At the same time, the increasing instability in or weakened viability of the social provisioning process does not guarantee that the capitalist class lives forever. This is a “neoliberal paradox” (Crotty 2003, 272) in the sense that the pursuit of ever-increasing monetary gains by financializing productive units destroys the very foundation of the capitalist provisioning process. Such an internal contradiction of money manager capitalism is driven by the “double nature” of the business going concerns (Serfati 2008, 38).

Also indicative of financialization is that it is necessary to explain prevailing institutions—that is, the mode of the social provisioning—if one wishes to understand the nature and behavior of the business enterprise in the present era. The interest of owners and managers are not predetermined, but determined by surrounding institutions (Stockhammer 2004). For

example, the major owners of stock in the permanent enterprise would be the real dominating and determining force, while in the temporary enterprise managers might just have discretion.

Last, we observe that in the age of money manager capitalism, the interest of absentee owners is fictitiously equated to that of the nation. This is precisely the case Veblen was anticipating in *Absentee Ownership and Business Enterprise in Recent Times*:

[B]y a curious twist of patriotic emotion the loyal citizens are enabled to believe that these extra-territorial gains of the country's business men will somehow benefit the community at large... the illusions of national solidarity enable the loyal ones to believe that the gains which so come to these absentee owners at the cost of the taxpayers will benefit the taxpayers in some occult way which no loyal citizen should inquire into too closely. (Veblen [1923] 1964, 36)

The famous Charles Wilson quote, "what [is] good for the country [is] good for General Motors and vice versa," has now been writ large and accepted as the conventional view.

5. Concluding Remarks

Is Veblen's concept of the "ongoing concern" still viable? Provisionally, we conclude that it is. However, with ongoing changes in the capitalist social order, specifically in reference to Minsky's stage of money manager capitalism, we also argue that it is in need of modification. And this should not surprise. *Any* theoretical proposition stands in need of modification (or elimination) as that which it analyzes undergoes internal adaptation in response to changes in the

social order within which it exists and, in turn, affects that social order as it adapts. The business enterprise is no exception.

Our main concern, however, is not with the business enterprise itself, but with the social provisioning process. Is it conceivable that the recent “evolutionary” process of modern capitalism has so distanced the business enterprise from its supposed task of satisfying the requirements of the provisioning process that the latter is itself endangered? If so, what does this mean for the future of capitalism? Is a reform of the capitalist order possible? If not, will capitalism’s self-destructive characteristics—noted by Marx, by Veblen, by Keynes—spell an end to this phase of human existence? If so, then what?

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