The Transition from Managerial to Money Manager Capitalism: The Role of Risk and Its Distribution

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Abstract

Late in his career, Hyman P. Minsky—a major contributor to Post-Keynesian Institutional economics—described the process of capitalist development by combining the ideas of Joseph A. Schumpeter and John Maynard Keynes to emphasize the role played by financial innovations in supporting entrepreneurial activity and technological change. This paper extends that literature by focusing on how conditions in the real and financial sectors influence the management and distribution of risk. Drawing primarily from John Kenneth Galbraith's *The New Industrial State*, it provides a case study of how the distribution of risk in the United States may be an important factor in the transition from one stage of capitalism to another.

Key Words: capitalism, risk, inequality, power

INTRODUCTION

Economic historian Barry Eichengreen (2019) notes that frequently cited theories of capitalism are either Marxian, centering on conflicts between profit-seeking owners of capital goods and the workers they employ in the production process, or neoliberal, emphasizing the importance of individual agency and unfettered markets in the exchange process. Despite their popularity, Eichengreen (2019, 20) finds both types of theories unsatisfactory: "Both conceptions are of ideal types. Both are ahistorical since they treat capitalism as a disembodied system detached from time and place." This is not the case, however, for Post-Keynesian Institutionalism (hereafter PKI).[1] For example, David A. Reisman (1990, 735) quotes Institutionalist and Post Keynesian John Kenneth Galbraith, who once remarked; "We have a certain number of people who call themselves scholars of capitalism, who insist that it had a virgin birth in 1776 with Adam Smith, and it has not changed since. But I would urge that we must see capitalism, as we have seen socialism, as being in a constant process of transformation." Similarly, Post-Keynesian Institutionalist Hyman P. Minsky (1991) observed that because of institutional diversity across places and time, "Capitalism comes in at least as many varieties as Heinz has of pickles."[2]

Minsky's comment reflects his work integrating the insights of Joseph A. Schumpeter (1934) and John Maynard Keynes ([1936] 1964) into a theory of capitalist development that assigns a key role to bankers and other financiers in Schumpeter's process of "creative destruction." Minsky (1993) argues that it is the dynamic interaction among financial and industrial innovations that drives economic progress. To illustrate how this relationship shapes the evolution of capitalism, he divides the economic history of the United States into several

[1] See Whalen (2013) for a comprehensive overview of PKI.

[2] See Hall and Soskice (2001) for a detailed account of the "varieties of capitalism."

periods. According to Charles J. Whalen (2001, 809), what differentiates these stages are changes in answers to these questions: What is being financed? What is the pivotal source of external financing? What is the balance of economic power between those in business and banking? For example, during the *merchant capitalism* era of the early nineteenth century, banks provided trade credit to merchants by discounting commercial bills. This differs from today's *money manager capitalism* (MMC) in which powerful institutional investors have developed creative ways to fund large-scale capital projects and mergers by nonfinancial corporations. Given that capitalism is always evolving, key questions are: when will a new stage begin; and what will be the dominant characteristics of that new variety of capitalism?

This paper addresses these questions by examining factors that may explain the passage of one capitalist era into another. As Whalen (2001, 815) points out: "Providing insight into the transition from one stage to another is an important aspect of any valuable theory of capitalist development. A deeper understanding of the economy is likely to be achieved by fleshing out his (Minsky's) theory in this manner." An example of this is James R. Crotty's (1990a) research on the institutional factors underlying Keynes's methodology. Crotty explains how the relationship between *rentiers* and industrialists changed from a "patient capital" regime in the nineteenth century to a more myopic, speculative economy beginning in the interwar period, or as Crotty notes, the Age of Abundance described by John R. Commons was transformed into the Age of Stabilization. That dynamic relationship is a key factor in this paper, which expands the analyses of Crotty and Minsky by adding another class—labor—to financiers and managers and focusing on how changes in relative power enables such groups to shift risk to others.[3] Drawing from the

[3] Vail (2008) provides precise definitions of the concepts of uncertainty, risk, and insecurity. Technically, executives pondering investment projects are more likely to encounter fundamental uncertainty, while

insights of sociologist Ulrich Beck (1992), Engelbert Stockhammer (2006-2007, 41) argues that "social conflicts in modern societies are not conflicts over the distribution of income, but over the distribution of risk."[4] The next section shows how the microeconomic foundations of Minsky's theory of investment, which are derived from Institutionalist and Post Keynesian theories of the firm, help explain intra-class transfers of risk.

The discussion of risk shifting is followed by a case study of that process by examining the transition of the US economy from *managerial capitalism* to the current MMC. The focus of the earlier period is Galbraith's (1971) *The New Industrial State (TNIS* hereafter), which chronicles the development of what James Ronald Stanfield (1996, 69) calls the "administered sector," comprised of the largest, most powerful US corporations.[5] Galbraith details how most of those companies sought growth and power, at the expense of profit maximization, to manage uncertainty and maintain autonomy. The managerial era ended, however, after a series of

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insecure workers often experience risk (uncertainties that can be transformed into probabilities). However, because this chapter does not consider factors like the availability of information and cognitive limitations that often differentiate these concepts, "uncertainty" and "risk" will be used synonymously.

[4] Stockhammer (2006-2007, 39) concludes that although his own work and most other studies of social conflicts in modern societies examine the shifting of uncertainty between capitalists and workers, other groups should also be considered. While this chapter also considers financiers, Stockhammer's article suggests that an even more complete picture of reality would emerge from using his approach to examine other fault lines of society as well.

[5] Galbraith used several terms over the years such as the "planning system" and the "industrial system" when referring to the administered sector. Stanfield argues convincingly that the former sometimes refers to macroeconomic stabilization by the state, and the latter often describes the economy as a whole.

economic developments threatened corporate dominance. As Barry Bluestone (1988, 377) concludes: "TNIS had the misfortune of being written precisely on the cusp of postwar economic history," after which American corporations lost much of their ability to control their own destiny. Consistent with Mark Blyth's (2002) theory of institutional change, which emphasizes the importance of ideas in response to events that disrupt the established order, neoliberal thinkers reacted to postwar developments by reshaping their theories (that promoted the primacy of shareholder interests) to appeal to nonacademic audiences and gain political support. The result was changes in corporate governance whereby both managers and shareholders shifted risk to workers and governments.[6]

The paper concludes by considering whether recent social, political, and economic developments—especially those related to the COVID-19 pandemic—will generate a reexamination of research on economic inequality and pressure for significant changes in US public policy. Although both the Federal Reserve and President Joseph R. Biden's administration have made noteworthy strides towards mitigating economic insecurity in the first several months of 2021, it is premature to predict whether this will be the beginning of a new capitalist regime.[7]

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[6] As Whalen (2008) notes, heterodox economists established the foundations for PKI as MMC emerged, in part to argue that these types of transitions are part of an evolutionary process of conflicts and their resolution. It also is crucial to recognize that ideas and actions from earlier periods also shape transitions. For example, Glen Atkinson (2010, 295) argues that court decisions validating the establishment of the exchange value of property during the nineteenth century were necessary for the development of MMC nearly a century later.

[7] This paper was completed in mid-June 2021.

A POST-KEYNESIAN INSTITUTIONALIST THEORY OF RISK SHIFTING

What differentiates the Minsky/Schumpeter/Keynes vision of capitalist development from mainstream theory is the important role played by finance. Schumpeter's process begins with a monetary theory of production—central to the work of both Institutionalists and Post Keynesians—in which capitalists borrow to acquire productive resources before commencing operations in pursuit of monopoly profits.[8] Although bankers are essential in Schumpeter's theory of money, Minsky adds that innovations in financial contracting are critical for providing funds to unleash "creative destruction."

According to Keynes and Minsky, entrepreneurs will purchase capital goods if they predict profitable differences between the supply and demand prices for these assets. Minsky (1993, 106) concludes: "This Keynesian theory in which investment is the outcome of the relative values of items in the two distinct price levels of a capitalist economy is the construct that Schumpeter needed to complete the vision of *The Theory of Economic Development,* a construct that he sought but never achieved." The supply price of capital has two components: (1) the price of the asset itself, which is what an additional unit of capital can be sold for and is determined by markup pricing; and (2) the explicit (interest rate) or implicit (cost of retained earnings) cost of financing the purchase. Capitalists then compare this value with the demand price, which is the estimated cash flow to be generated by the project, discounted by the

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[8] Other economists, such as Richard M. Goodwin (1991), also examine ideas shared by Keynes and Schumpeter. Goodwin even includes Marx, but does not elaborate on the importance of the monetary theory of production emphasized by these three scholars.

opportunity cost of capital.[9] If the demand price exceeds the supply price, investment is justified; however, this decision rule is conditional since it must account for a foundational element in Keynesian theory: uncertainty. Because of uncertainty, Minsky explains that when capital projects are financed externally, both lenders and borrowers insulate themselves from unforeseen outcomes by imputing margins of safety in their expected cash flow, and the size of these buffers varies throughout the business cycle.

James Crotty (1990b) argue that Minsky's theory of investment is similar to James Tobin's "q" theory in the way that it helps explain aggregate fluctuations, except that it lacks Tobin's (neoclassical) microeconomic foundations. However, he also point out that Tobin's model assumes there is no separation of ownership from control—i.e., managers and shareholders are the same people. Because that separation is an important factor in the arguments to be presented below, the Post Keynesian theory of the firm as summarized by Marc Lavoie (1992) is more appropriate for this paper.[10]

According to Lavoie (1992, 99), power is the "ultimate objective" sought by firms. The reason for this choice is the ubiquity of uncertainty, which renders the neoclassical goal of profit maximization untenable. The exercise of power enables firms to control their economic, social, and political environments. As Robert Dixon (1986, 588) wrote, "[D]ecision makers attempt to control the consequences of their own decisions in order to prevent their desires being thwarted

[9] The opportunity cost of capital is the expected return from the best alternative use of funds, adjusted for differences in risk.

[10] In more recent work, Lavoie (2014) stresses that the Post Keynesian theory of the firm draws upon Institutionalist scholarship. Moreover, what Lavoie calls the Institutionalist strand of Post Keynesian economics aligns with what others (such as Whalen 2020) call PKI.

by others. They do this by attempting to influence the decisions by others (or the outcomes of their decisions) in order to prevent the decisions of others from having unfavorable or uncontrollable consequences for them." According to Lavoie, capitalists must possess power, which they acquire through increasing their volume of economic activity.

Obviously, growing firms need cash to finance capital accumulation. Past earnings plowed back into a company's retained earnings are an internal source of finance, and companies requiring external finance will find both the supply and cost of funds more favorable if they have recently been profitable. Thus, the combination of internal and external funds available to firms is what Lavoie (1992) calls the "finance frontier," which increases arithmetically as a function of the firm's profit rate. Lavoie next describes the "expansion frontier," which relates the growth of the firm—measured by revenues—to its profit rates. Initially, growing firms generate increasing profits as they are better able to control their environments and can exploit economies of scale and new technology. At some point, however, the firm becomes too large to manage effectively, and profits begin to decline.

Combining the two frontiers leads to the following results: firms that seek to maximize profits do not grow as large as those that target growth; and relatedly, those that favor expansion often have lower profit rates. Stockhammer (1994) extends this model by adding utility functions for shareholders (who prefer profits) and managers (who prefer growth) to explain the recent slowdown in capital accumulation. Finally, Thomas Dallery (2009) contributes to this line of research by showing that in financialized economies both managers and shareholders seek to expand profits and, in pursuit of that end, attempt to shift risk to others, especially workers.

The next section provides an extended example of how firms in the administered sector of the US economy used their power to manage risk during the period of managerial capitalism.

These companies generated steady earnings and dividends that were able to satisfy the demands of managers, shareholders, and workers. As described in the following section, continuing their success became more challenging in the 1970s, which sparked a shareholder revolt and contributed to advent of the age of MMC, during which managers and shareholders shifted risk to workers. Whether this arrangement is sustainable will be considered in the concluding section.

THE ADMINISTERED SECTOR AND ITS MANAGEMENT OF UNCERTAINTY

Like many PKI economists, John Kenneth Galbraith understood the forces that shape and transform capitalist economies. He observed that from the end of World War II until the publication of the revised edition of *TNIS* in 1971, the US economy evolved into two distinct structures: the administered sector, which encompassed the approximately 2000 largest firms that produced about half of total private sector output, and the "market system" of about 12 million smaller businesses. Galbraith consistently instructed his readers that mainstream theory is relevant only in the sphere he called the market system, since conventional theory ignores how corporate giants exploited their size and power. Galbraith also decided to focus on these firms in *TNIS* to provide a more realistic explanation of the dominant economic conditions of the time.[11]

A key factor that differentiates the two sectors is the type of technology employed, which Galbraith (1971, 31) defined as "the systematic application of scientific or other organized knowledge to practical tasks." According to Galbraith, large organizations needed to acquire, process, and coordinate massive quantities of specialized information (from myriad sources) to design, produce, and distribute goods and services successfully. In contrast, most market system companies used nonproprietary technology that did not require advanced scientific training and organizational skills to be employed profitably.

[11] *TNIS* was originally published in 1967 (see Galbraith 1967).

To illustrate the evolving relationship between commercial technology and uncertainty, Galbraith (1971, 32-36) compared the strategies of the Ford Motor Company at its beginning in 1903 with those it developed for the introduction of the Mustang in 1964. Three important points emerge:

1. The use of cutting-edge technology and reliance on complex processes lengthen the time span between acquiring financing to begin projects and realizing cash inflows from operations. This often results in an increased the need for funds. Unlike the Mustang, which required several years of development and an investment of millions of dollars, the original Ford Model A needed only several months and approximately $28,000 (about $99,000 in 1964) before its launch.
2. Modern companies are likely to invest in specialized equipment and to develop narrowly-defined labor skills, both of which may have little value if the project fails. Galbraith (1971, 33) writes: "With increasing technology the commitment of time and money tends to be made ever more inflexibly to the performance of a particular task. The task must be precisely defined before it is divided and subdivided into its component parts. Knowledge and equipment are then brought to bear on these fractions and they are useful only for the task as it was initially defined. If that task is changed, new knowledge and new equipment will have to be brought to bear." By contrast, Ford utilized widely-available tools and techniques to manufacture early Ford models, and these could have been redeployed to produce unrelated products as necessary.
3. Because of the enormous task of managing advanced specialized resources, effective planning and coordination are critical. Galbraith noted that this required groups of

decision-makers that he called the technostructure, not entrepreneurs like Henry Ford who oversaw their entire operation.

Because poor decisions under conditions of uncertainty may threaten the existence of large organizations, the benefits from controlling potential outcomes is obvious. Despite this, Stephen P. Dunn (2001) argues that although uncertainty is a central theme in Post Keynesian economics, more research is needed on how businesses react to this condition: “While many post-Keynesians acknowledge the pivotal role of money as an institution for coping with uncertainty, they have written little on the fact that the firm is also an institution that deals with, and provides a flexible response to, uncertainty….This is a big task and one which will undoubtedly occupy post-Keynesian minds for some time to come.”

Galbraith (1971, 43) addressed this issue by noting that some executives merely ignore risk and proceed with their plans, especially if negative outcomes are tolerable. However, this is unlikely for most firms in the administered sector for which there could be dire consequences from failed programs. Unlike companies in mainstream theory that merely react to adverse market conditions, large corporations possess the power to take proactive steps to plan and control their environments. Galbraith (1971, 120) writes:

> When planning replaces the market this admirably simple [mainstream] explanation of economic behavior collapses. Technology and the companion commitments of capital and time have forced the firm to emancipate itself from the uncertainties of the market. And specialized technology has rendered the market increasingly unreliable. So the firm controls the prices at which it buys materials, components, and talent and takes steps to ensure the necessary supply at these prices. And it controls the prices at which it sells and takes steps to ensure

> that the public, other producers, or the state take the planned quantities at these prices. So far from being controlled by the market, the firm, to the best of its ability, has made the market subordinate to the goals of its planning.

As noted earlier, Galbraith claims that the profit-maximization goal of entrepreneurs in the market sector differs from the aims chosen by the technostructure, which is driven more by self-preservation and autonomy than pecuniary interests. To achieve those goals, corporate leaders in the administered sector must manage insecurity in several key areas:

1. *Prices and Quantities of Goods and Services to be Sold:* Uncertainty about future revenues can be controlled at both the microeconomic and macroeconomic levels. One of Galbraith's better-known ideas is the *revised sequence* in which companies actively influence and shape preferences rather than respond to the wants of "sovereign consumers." By doing so, marketing experts create a persistent, gnawing sense of insecurity in many people. Echoing Thorstein Veblen, Galbraith (1971, 265) explains why: "[T]hough the need for food and shelter, especially in benign climates, is rather readily satisfied, the pressures of emulation and competition in adornment and display have no clear terminal point." Also, some companies—especially those in the defense industry—receive federal government guarantees that their investments will be profitable. Moreover, the ability of policymakers to stabilize aggregate demand and the overall price level instills an essential sense of confidence in the minds of corporate planners.
2. *Costs and Quantities of Production:* According to Galbraith (1971, 234), the technostructure "seeks certainty in the supply and price of all the prime requisites of production. Labor is a prime requisite. And a large blue-collar workforce, especially if subject to the external authority of a union, introduces a major element of uncertainty and

danger." Regarding labor, he notes that the value of collective bargaining to workers is gradually reduced by the ability of firms in the administered sector to replace workers with machines, maintain wage and employment levels, and align worker values with corporate goals. As for other resources like raw materials, sources of supply can be secured through vertical integration and acquisitions, long-term contracts, and the exercise of power to obtain needed resources on favorable terms.

3. *Sources of Finance:* Galbraith (1971, 53) considers this particularly important to the technostructure: "Control of the supply of savings is strategic for industrial planning. Capital use is large. No form of market uncertainty is so serious as that involving the terms and conditions on which capital is obtained." For this reason, it was essential that retained earnings, which are cash flows from operations that are not distributed to shareholders, be maintained as the primary source of funds since they shield the technostructure from any external interference in its decision-making. Moreover, the ability to generate steady cash flows also placated shareholders, whom Galbraith (1971, 64) dismissed as being irrelevant: "The power of the stockholders, as noted, has seemed increasingly tenuous. A small proportion of the stock is represented at stockholders' meetings for a ceremony in which banality is varied chiefly by irrelevance."
4. *Protection from Destructive Competition:* The secondary importance of stockholders suggests that few corporations sought to maximize share values. Instead, the goals of the technostructure centered on technological virtuosity and organizational growth. Accomplishing those goals raised barriers to potential entrants in the form of economies of scale and first-mover advantages, among other distinctive competencies, and provided

companies in the administered sector an absence of rivalry that helped secure returns from investment.

From the end of World War II until about the time Galbraith published the first edition of *TNIS* in 1967, most large companies in the United States successfully attenuated uncertainty and achieved the levels of autonomy and rates of growth that they sought. As described in the next section, however, a confluence of threatening factors emerged in the late 1960s that gave rise to changes in ideas about desirable corporate objectives and how enterprises should go about attaining them. Perhaps the most significant consequence of this revolution was the transition from an era of relatively shared prosperity to one during which the most powerful individuals and organizations insulated themselves from the vagaries of the market at the expense of those who were comparatively defenseless.

FROM MANAGERIAL CAPITALISM TO MONEY MANAGER CAPITALISM

During the age of managerial capitalism, administered sector companies sustained their autonomy by appeasing groups that could threaten their independence. At the end of 1971, in his presidential address to the Association for Evolutionary Economics, Daniel R. Fusfeld (1972, 2) observed: "The corporate state in this country involves an economic and political compromise between those who hold power and those who do not. As long as the economic system provides an acceptable degree of security, growing material wealth, and opportunity for further increase for the next generation, the average American does not ask who is running things or what goals are being pursued. The system and those in power remain unchallenged as long as the material payoff is sustained." In retrospect, however, we now know that several significant economic and political problems were at that time emerging and increasingly vexed many economists, politicians, and executives.

Summarizing many of the developments that disturbed business leaders during that period, Blyth (2002, 152) writes: "The policies and practices of the late 1960s and early 1970s created a new sense of uncertainty among American business. Inflationary pressures, regulatory initiatives, hostile tax legislation, and general policy paralysis combined to convince business that it was under siege within the institutions of economic governance that business itself had designed." Moreover, unease among corporate leaders was exacerbated by several factors related to globalization, including collapse of the Bretton Woods monetary framework in 1971, increased foreign competition, and the 1973 Middle East oil embargo. Taken together, these factors created an economic environment that posed a challenge to corporate growth and profitability and that threatened the interests of both shareholders and the technostructure; institutional change was imminent.

According to Blyth, ideas play a key role in the process of institutional adjustment to significant shocks. Not only do they help people understand the circumstances they face, but ideas also suggest how to adapt to change as well as provide ways to gain acceptance of proposed courses of action. Although Blyth presents a detailed case study of how conservative interest groups in the United States rallied support for neoliberal policies addressing inflation and high taxes, problems that many people considered critical issues in the 1970s, his approach can also be used to understand how reactions to uncertainty may change the relationships among industry, finance, and labor.

Where do these ideas come from? Galbraith's reflection on *TNIS* in the 1980s, in light of the changed global order since its original publication, provides insight into this process. In 1987, to commemorate the twentieth anniversary of the book's first edition, the American

Economic Association (AEA) sponsored a panel discussion to assess the volume's relevance.[12] Galbraith (1988) began the session by noting the persistent separation of administered and market sectors, with large corporations continuing to seek autonomy by using their power to prevent outside interference and avoid risk. He then prefaced his account of where *TNIS* fell short by noting the impermanence of ideas – especially economic theory: "A willing recognition, if not of error, at least of obsolescence is, in fact, implicit in the view of economics that I avow in *TNIS*. I see economics as a subject in constant accommodation to social, political and institutional change and not, certainly, as a search for, and expression of, unchanging truth" (Galbraith 1988, 373). However, Galbraith did not discuss whether "new" ideas should be original or adapted versions of existing thought. As noted below, the transition to MMC was driven by revitalizing old ideas with new theoretical insights.

Joshua Gans (2017) notes that a critical development Galbraith ignored was the conversion of complacent shareholders into a force for corporate change. Last year marked the fiftieth anniversary of the publication of Milton Friedman's (1970) pathbreaking piece in *The New York Times Magazine* that declared maximizing shareholder wealth is the only appropriate goal for corporations since he considered business efforts to improve the welfare of other stakeholders to be "socialism." Justin Fox (2009) notes that although Friedman made this point earlier in his *Capitalism and Freedom* (Friedman 1969), Ralph Nader's efforts to expand the

[12] Galbraith's biographer Richard Parker (2005, 451) notes that this was part of the AEA's one-hundredth annual meeting, and that *TNIS* was the only book published during the preceding century to which an entire session was dedicated. Besides Galbraith, the panelists were Barry Bluestone, Robert M. Solow, and F.M. Scherer.

board of directors of General Motors to include social activists motivated him to address a wider audience.

Friedman argued that managers, as agents representing the interests of shareholders, should focus only on the wellbeing of the owners; however, he did not specify how to achieve this objective.[13] Michael C. Jensen and William H. Meckling (1976) resolved that problem by focusing on the use of equity values as an incentive device. By granting executives stock options and awarding shares, corporate boards ensured that firms would maximize shareholder wealth, since both investors and managers would benefit from higher returns on equity. Moreover, failure to maximize such wealth would be punished by the market—often inviting hostile takeovers that threatened managerial job security.

Later, Jensen (1986) expanded that line of research by recommending the delegation of executive monitoring to capital markets. He argued that free cash flows, which are defined as the amount of funds remaining from net profits after all positive net present-value projects are financed internally, are often used by self-serving executives to expand the size of the enterprise and increase their power, rather than to reinvest efficiently. Although Jensen supported using excess cash to pay dividends, the fact that they could be legally reduced or eliminated provided executives the opportunity to misuse free cash. Instead, he recommended that companies borrow in capital markets and use the proceeds to repurchase their shares. This clever scheme allocates free cash flows to shareholders in a legally binding manner since defaulting on debt obligations can lead to bankruptcy. In short, the use of external financing for most new investments in combination with the threat of bankruptcy would motivate creditors to monitor firm performance

[13] Attention to the separation of ownership from business control originated with the work of Berle and Means (1932).

and take remedial action when necessary. The historical record suggests that corporate directors embraced Jensen's approach; the net value of new equity issues by US firms has been overwhelmingly negative due to share buybacks, and the aggregate increase in corporate leverage has been significant.

Viewed from the perspective of the PKI theory of the firm, these ideas and the innovations they inspired in corporate finance and governance transformed the relationship among managers, financiers, and labor. As Dallery (2009) concludes, Stockhammer's (1994) claim that managers and shareholders possessed separate and distinct utility functions disappears in this type of financialized economy: both groups seek to maximize profits, which in the long run, requires corporate growth.[14] To help accomplish these objectives, many large firms have dismantled their conglomerate structures and have concentrated on exploiting narrowly-defined competencies. The result is that many companies have embarked on programs to boost share values by shifting risk from management/stockholders to labor.

Such programs have created fissured workplaces, which industrial relations scholar David Weil (2014) defines as those found in companies that focus on core competencies and that outsource peripheral tasks—that had previously been performed by employees—to outside contractors who provide minimal pay and benefits (since such contractors often operate in highly competitive markets). Interestingly, the result is emergence of hybrid operations that combine

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[14] Strictly speaking, of course, profit maximization remains untenable from the PKI perspective; in practice, it has (as discussed in this chapter) come to mean working to raise share values and to shift risk away from the corporation as much as possible. As Lavoie recognized (discussed above), power remains the ultimate objective of firms; and, as a consequence of MMC, that power has for decades been used to advance the common interests of money managers, stockholders, and top corporate executives.

administered- and market-sector firms. Another consequence, highlighted by Institutionalists Tae-Hee Jo and John F. Henry (2015), is a shift in business behavior from promoting social provisioning to targeting pecuniary goals, as evinced by the slowdown in capital accumulation beginning in the 1970s.[15]

Further consequences of the turn toward shareholder value and risk shifting have been identified by Post-Keynesian Institutionalists including Christopher J. Niggle and Avram I. Baranes. Niggle (1986) shows that many companies moved from producing and selling goods and services to borrowing funds to finance business acquisitions, speculate in financial markets, and provide credit to customers and other borrowers. Thus, rather than consider long-term investments in irreversible assets that could generate cash flows for decades of uncertain possibilities, nonfinancial companies were drawn to shorter-term, liquid assets, especially after a combination of financial innovations and deregulatory initiatives enabled companies to exploit them.

Similarly, Baranes (2017) shows that large firms in the US pharmaceutical industry have increasingly relied on intangible assets rather than productive capital to generate profits. In fact, echoing William Lazonick's (2014) criticism of share repurchases, he concludes that such firms "*extract* value rather than *create* it" (Baranes 2017, 357, emphasis in original). Although critics may argue that generating such rents are necessary to finance the development of new drugs, this may not be the case. For example, David Blumenthal (2021) reminds us of the endemic public underfunding of US biomedical research, despite the many innovations like COVID-19 vaccines that required significant government investment. Besides congressional inaction on requests for

[15] Minsky actually warned of this slowdown, a consequence of capital development taking a back seat to short-term financial returns, in the early 1990s (see Whalen 2001, 820, n. 19).

budgetary expansion, Blumenthal mentions the cash hoard amassed by American drug companies as a primary reason for the reliance on privately funded research. Meanwhile, Standard and Poor's provides evidence supporting the points made by Baranes and Lazonick: the value of share buybacks by US pharmaceutical firms has ranged from almost $16 billion to $70 billion per year from 2010 through 2020 (Gibney and Woleben 2021).

As the term "money manager capitalism" implies, many executives reacted to pressure from institutional investors by ruthlessly cutting expenses to maximize stock values. This was especially the case for portfolio and mutual fund managers who only faced stiff competition from their industry rivals and from pension funds that promised to pay fixed annuities to retirees (and, in the process, ran the risk of becoming underfunded if their portfolio returns were inadequate). As David A. Zalewski and Charles J. Whalen (2010) show, inequality increased in the United States and in other financialized countries after shareholders benefitted from lower labor costs resulting from their pressure on managers to downsize, outsource, or terminate segments of business operations.[16]

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[16] Jeffrey T. Brookman, Saeyoung Chang, and Craig G. Rennie (2007) found that between 1993 and 1999, corporate chief executives (CEOs) and shareholders of firms that laid-off employees for cost-saving reasons (rather than as an adjustment to lower sales volumes) were significantly rewarded, and CEO benefits were enduring. Stock-based pay packages for CEOS from layoff firms were 19.6 percent higher during the downsizing year than those for counterparts in non-layoff companies, 42.6 percent higher in the following year, 44.9 percent higher after two years, and 77.4 percent higher afterwards. Furthermore, they estimate that an average of $71 million per year (1992 constant dollars) in additional shareholder wealth resulted from the layoffs in their sample. Similarly, Greenwald, Lettau, and Ludvigson (2021) find that 44 percent of the $34 trillion in real equity growth generated by US corporations between 1989 and

Moreover, Whalen (2008) argues that the single-minded focus on shareholder value contributed to the emergence of an "anxious society" in which economic insecurity has become widespread and growing .[17] Anthropologist Katherine S. Newman (1994, 344) summarizes this development:

> Security is not easy to come by these days; it is a concern that looms very large in the lives of those who were raised in the prosperous, stable 1950s and the roaring,

2017 resulted from increased profit shares at the expense of labor compensation. Put differently, shareholders captured a larger portion of a slowly growing "pie" (relative to the earlier postwar years) at the expense of other groups.

[17] Despite all of these consequences from the neoliberal emphasis on maximizing shareholder wealth, some University of Chicago economists continue to support Friedman's arguments. For example, Rajan Raghuram (2020) argues:

> Yet there is a deeper argument for Friedman's view, based on the recognition that managers will not necessarily squeeze everyone else to favor shareholders. Because shareholders get whatever is left over after debt holders are paid their interest and workers their wages, management can maximize shareholders' "residual claim" only if it expands the size of the corporate pie relative to these prior fixed claims on it. To the extent that management must satisfy everyone else before looking to shareholder interests, it already does maximize value for all those who contribute to the firm.

Although Raghuram admits that too many executives unjustifiably benefited from the use of stock options as an incentive to accomplish the Friedman ideal, he concludes that this has been a failure of corporate governance rather than the result of an inappropriate goal. However, why he does not link the size of "residual claims" to lower real wages and benefits provided to many workers instead of considering them to be "fixed claims" is puzzling.

> expansive 1960s. Contractions, leveraged buyouts, bankruptcies, layoffs, and general despair over the state of American competitiveness—these are the watchwords of today's business pages. Nothing in the boomers' upbringing, schooling, or early experience in the labor market prepared them for what we all must confront now: the fact that the US economy cannot provide the type of job opportunities or personal security that the country took for granted in earlier generations.

Although many upper-level managers also felt less secure about their jobs, Zalewski (2004) notes that many of them were assuaged with pensions, health insurance, and severance packages that were both generous and guaranteed.

Clearly, the growing and autonomous technostructure that so occupied Galbraith's attention in the 1960s reached its zenith by the mid-1970s and is now considered a historical artifact. Perhaps more important, however, was the end of the goal, if not the reality, of widely-shared prosperity and a widely (but certainly never universally) perceived sense of economic security. As Minsky and Whalen (1996) conclude, because tolerance for uncertainty is limited, collective action addressing the distribution of risk and uncertainty should be—in Minsky's words (1996, 357)—one of the "institutional prerequisites for successful capitalism." Whether recent events like the pandemic may have be the impetus for the development of a new stage of capitalism will be considered in the concluding section.

POSTSCRIPT: WHITHER A NEW TRANSITION?

Charles K. Wilber and Kenneth P. Jameson (1990, 188) provide an excellent summary of the driving force behind Minsky's PKI theory of capitalist development, which centers on the changing relationships between financiers and industrialists: "Social reality is seen as more than a specified set of relations; it is the process of change inherent in a set of social institutions which we call an economic system. The process of social change is not purely mechanical; it is the product of human action, which is shaped and limited by the society in which it has roots." This paper extends that view by explaining that people formulate ideas to understand and react to significant socioeconomic shocks and then use those ideas to build support for institutional change. As this is being written in mid-2021, the question is whether recent events may generate a similar process resulting in the transition from MMC to a new stage of capitalism.

Because of the persistence of widespread economic inequality and insecurity since the early 1980s, the initial sense of displacement has been transformed into despair and resignation for some, and to a spur to action for others.[18] To some extent, both reactions are partly reflected in the growing embrace of right-wing populism and nationalism, such as former President Donald Trump's promise to "Make America Great Again," which alluded to times preceding the Reagan Revolution.[19] According to CNN's Gregory Krieg (2016), Trump revealed in an interview that he considered two periods of US history to be "great"—the first two decades of the twentieth century, and from the late 1940s through the 1950s—because of the country's

[18] For a look at how economic conditions have led to despair and resignation, see Case and Deaton (2020).

[19] Trump claimed that because of President Ronald Reagan's support for a trade agreement with Mexico, which led to the passage of the North American Free Trade Act during the Clinton administration, he does not consider the 1980s to have been all that great.

military and economic strength.[20] Of course, Trump ignored the fact that many—especially woman and people of color—failed to prosper during those earlier times, but even more troubling than Trump's distorted view of history is that throughout the era of MMC many workers voted for candidates who supported policies that ran counter to their economic interests.[21]

However, the pandemic that developed in early 2020 may be the type of shock that sparks more progressive institutional and political change. The groups in the United States most adversely affected are those that also did not prosper during Trump's preferred periods, such as low-wage workers in nursing homes, meatpacking plants, and grocery stores. While many white-collar employees maintained their earnings, worked remotely, and benefitted from soaring stock market returns, countless essential workers continued to interact with the public despite

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[20] A prescient Galbraith (1971, 243) predicted the rise of populist politicians like Trump in his observation that social conflict would not be between capital and labor, but between the highly-educated members of the technostructure and blue-collar workers left behind:

> Politics also reflects the new division. In the United States suspicion or resentment is no longer directed to the capitalists or the merely rich. It is the intellectuals—the effete snobs—who are eyed with misgiving and alarm. This should surprise no one. Nor should it be a matter for surprise when semiliterate millionaires turn up leading or financing the ignorant in struggle against the intellectually privileged and content. This reflects the relevant class distinction in our time.

[21] For an examination of voters supporting candidates whose policies run counter to their economic interests in the age of MMC, see Frank (2004).

inadequate protective gear and millions of others lost their jobs as much of the US economy shut down for about a year.

The pandemic is unusual since uncertainty plagued many people—capitalists and workers alike—in what Beck (1992) earlier described as the democratization of risk. Would this shared experience instill a greater awareness of the unequal exposure to economic risk? Emily Badger (2020) received mixed responses to her survey of several historians about this question. On the one hand, some noted that the coronavirus crisis increased the separation between members of economic classes, since people from affluent and middle-income households were often working from home and no longer mingled with those from lower-income households in restaurants, on buses and trains, and in other public settings. On the other hand, Cornell University's Louis Hyman argued (in response to Badger's survey) that the privileged had more exposure to "gig" workers delivering food and packages to their homes, increasing their understanding of the precarity of such service jobs. The unanswered question is whether these conditions will lead to increased empathy for struggling workers and to support for policy changes that lessen their economic uncertainty.

As in earlier eras, new ideas may be critical for transforming this new "wokeness" to collective action. Heather Boushey (2020) argues that changes in economic frameworks and methods, including the development of measures to better gauge the effectiveness of public policies, are vital to achieving government interventions that promote economic wellbeing. She recounts how Keynesian policy innovations helped lift the US economy out of the depths of the Great Depression, and how the work of economists like Simon Kuznets (who developed national income accounts) provided measurable standards to assess economic progress.[22] Boushey also claims that aggregate output measures have failed to convey the economic status of most Americans since at least the early 1980s, when MMC ushered-in a new era of economic inequality.[23] Similar to the theoretical and empirical innovations of the 1930s and 1940s, innovative contemporary research by Boushey, Thomas Piketty, Emanuel Saez, Gabriel Zucman, and others have not only established how inequality negatively impacts economic growth and stability, but also devised new measures such as distributional national income accounts, which offer a more detailed view of how US workers and households are faring today.

Some neoclassical economists have criticized these efforts. In an op-ed piece in *The Wall Street* Journal, Alexander William Salter (2021) laments the fact that an increasing number of economists have moved from developing theoretical models to "collecting and analyzing data." He argues that although empirical work may be important, its value is questionable if analysts do not use mainstream price theory to form hypotheses and test them econometrically. Salter (2021, A17) writes:

> The heights of the economics profession are increasingly inhabited by people who disdain price theory. Reliance on the economic way of thinking in solving

[22] Glen Atkinson (2008) recounts that the earliest efforts to measure economic wellbeing and progress were made by Institutional and heterodox economists like Scott Nearing who, in the early decades of the 20th century, sought to better understand economic inequality. Atkinson also notes that Department of Commerce economists Milton Gilbert and George Jaszi first developed measures of gross domestic product in the 1940s.

[23] Although Boushey does not cite them, Minksy and Whalen (1996, 159-61) make similar points about postwar changes in the adequacy of measures of economic well-being.

> problems is viewed as obsolete and unscientific. The data jockeys think they're cutting edge, but they're merely repeating old mistakes. In the late 19th and early 20th centuries, economists of the German Historical and Old Institutionalist schools thought they could make do with history and statistics alone, unconstrained by theory. In the end, they got so bogged down in details that they came up with very little that lasted.

Salter also claims that the economists noted above are "particularly susceptible to the technocratic pretensions of the center-left," and that they "don't realize they have been politically compromised." Meanwhile, what "compromises" Salter's own judgement is that mainstream theory has failed to explain phenomena like the disconnect between public budget deficits and inflation, and the fact that minimum wage increases are not always "job-killers." Conventional economics also has nothing to say about the incessant evolution of capitalism and the far-reaching economic, social, and human consequences of that constant change.[24]

Despite critics like Salter, the new research on growth and inequality has helped to draw attention to distributional issues among top US policymakers. For example, Federal Reserve Chair Jerome Powell cited the benefits of stronger labor markets in narrowing income and wealth inequality at a speech before the Economic Club of New York in early 2021. Powell (2021) observed that although pre-COVID working conditions had improved, approximately 10 million jobs had been lost during the pandemic to that date. He also noted that employment declines have not been evenly distributed, with only a 4 percent drop among those in the highest income

[24] For a contrary view on what Salter describes as the Old Institutionalist school, see Whalen (2022); the PKI presented throughout this volume is also evidence that runs counter to Salter's conclusion on Institutionalism.

quartile compared with a 17 percent decline among those in the lowest quartile.[25] To restore vitality in the labor market, Powell promised that the central bank would continue its accommodative policies by downplaying its previous concerns about potential inflation after economic conditions improve. Specifically, Fed leaders plan to wait until after prices rise before implementing restrictive measures, rather than engineering "preemptive strikes" on inflation as in the past.[26]

Within the administration of President Joe Biden, there is also a commitment to policies that emphasize equality, employment, and the wellbeing of workers. Indeed, the Biden administration might have the strongest commitment to such ends since the emergence of MMC. For example, Biden's team includes: labor economists Boushey, Cecelia Rouse, and Jared Bernstein at the Council of Economic Advisers (CEA); former Fed Chair Janet Yellen as Treasury Secretary; and former Boston Mayor Martin J. Walsh as Labor Secretary. Speaking about Boushey, Rouse, and Bernstein, Kevin A. Hassett (the first to chair the CEA under President Trump) remarked: "They have put together a very strong team of experienced policymakers and smart economists. At this difficult time, it is great to know that a strong CEA

[25] In addition, Powell (2021) highlighted the fact that people of color and workers in service industries such as leisure and hospitality, which employ more women than men, have disproportionately experienced economic losses (and, of course, restoration of those service jobs is likely to be slow and many are not expected to return).

[26] In more recent testimony before a congressional committee, Powell stated, "There is a growing realization, really across the political spectrum, that we need to achieve more inclusive prosperity." He also stressed that the Fed considers maximum employment a "broad and inclusive goal" (quoted in Smialek 2021).

will be helping to guide policy."[27] Meanwhile, Yellen is notable for her rejection of conventional economists' belief in a strict inverse (Philips Curve) relationship between inflation and unemployment, and Walsh, who was raised in a working-class family, has blue-collar employment experience and served as head of the Boston Metropolitan Building and Construction Trades Council.[28] Responding to the Administration's planned labor reforms, Heidi Shierholz of the Economic Policy Institute remarked: "It's a world of difference from where we were under Trump…. Walsh will prioritize workers over corporate executives and shareholders, which was the absolute opposite under Trump."[29] Similarly, incoming US Trade Representative Katherine Tai (quoted in Hayshi 2021) proclaimed in a speech to the National Foreign Trade Council: "The president-elect's vision is to implement a worker-centered trade policy. What it means in practice is that US trade policy must benefit regular Americans, communities, and workers. And that starts with recognizing that people are not just consumers. They are also workers and wage earners."[30]

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[27] Quoted in Rappeport and Tankersley 2020.

[28] From the vantage point of PKI, it is also worth noting that Yellen was also willing to reread and draw on Minsky when addressing the global financial crisis of 2007-2009 (see Yellen 2009).

[29] Quoted in Johnston (2021).

[30] As of June 2021, the Biden administration proposed changes to the tax code to generate revenue from corporations and *rentiers* to fund programs addressing inequality. These include raising taxes on corporate profits, eliminating the carried-interest loophole, and increasing personal taxes on capital gains and high incomes. In contrast, most tax and other regulatory changes in the era of MMC have primarily benefitted large corporations and affluent households.

As of mid-2021, it remains to be seen whether central bank and federal government programs will successfully restore the economy and help put the nation on a path to more broadly shared prosperity. The Biden administration did not receive a mandate from voters, and the Democratic party, which is not fully unified on economic policy, faces significant opposition from Republicans (which creates an especially significant challenge in the Senate). Will the Federal Reserve continue to address inequality and labor market conditions after the pandemic ceases to be a drag on the economy? How current events play out will determine whether the COVID-19 pandemic will be a watershed event in the evolution of capitalism in the United States or just a temporary shock that will not disturb the recent trajectory of inequality and economic insecurity.

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