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The Non-Practicing Enterprise: *A Schema for Theorizing the Business Enterprise under Money Manager Capitalism*

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Abstract

The era of money manager capitalism has called into question the contemporary relevance of the going concern theory of the business enterprise, which frames much of heterodox microeconomic thinking. The increased economic instability associated with this period, affecting even the long-term survival prospects of large corporations, indicates a need, at least, to update the framework, which has been inherited especially from theory developed under the prior epoch of managerial capitalism. Toward that end, a schema is sketched that posits a fundamental transformation of the contemporary financialized business enterprise adding to, rather than replacing, the earlier structures of this organization. From this perspective, it is argued, the contemporary business enterprise is no less stable than its previous incarnations, *per se*, though the additional 'layer' of business control and valuation further separates the interests and stability of business enterprise from the interests and stability of society generally.

Keywords: going concern, money manager capitalism, managerial capitalism, financialization, conglomerate, merger waves, theory of the firm, heterodox microeconomics, conception of control, planned obsolescence, product proliferation, sabotage

JEL Codes: A13, B50, B51, B52, D21, D22, D23, D24, K22, L16, L20, O30, P12

Introduction

In a recent article in the *Journal of Economic Issues*, Jo and Henry (2015) question the contemporary relevance of the going concern theory of the business enterprise associated most closely with Veblen (but see J. R. Crotty 1993) and which continues to frame much of heterodox microeconomic thinking. The authors argue that, in consequence of the financialization of the economy—that is, the rise of money manager capitalism—it is no longer clear that the contemporary business enterprise still acts principally with the aims of survival and growth in mind. Hence, the conventional characterization of the business enterprise as a going concern becomes problematical.

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More generally, the issue reflects a divergence of perspectives within heterodox economics as it concerns the current capitalist epoch. Stories of financialization have typically focused on its inherent instability, stemming ultimately from the behavior of the large (especially financial) corporations. This creates an inconsistency when these analyses are turned to heterodox microeconomics, which typically focuses on methods of stabilizing the social, political, and economic environment in the interest of maintaining the business enterprise as a going concern. Taken in this context, Jo and Henry argue that the latter perspective should be maintained, but must be updated to reflect the institutional changes of the previous several decades—changes that have clearly brought greater instability to the community as well as the business enterprise.

Toward that end, but with an emphasis on the consistency of the going concern theory even in more recent times, the present paper elaborates a basic conceptual framework within which to analyze the contemporary business enterprise. This organization, in the age of money manager capitalism, is being fundamentally restructured; and, to be sure, this is creating much instability for many people and organizations. Yet, a consistent reading of the history can find the same groping toward a stable environment for, specifically, the business enterprise in the modern period as had characterized the century which preceded it.

The paper is structured as follows: Sections (2) and (3) provide a review of the history of American capitalism from the late 19th century to the age of managerial capitalism in the mid-20th century. The purpose of this history is to illustrate, in broad strokes, the dichotomous nature of the business enterprise as it stood before the more recent financialization period, with particular attention to how the business enterprise relates to the community's capacities and expectations for its ongoing social provisioning. These two sections elaborate an analytical framework for the traditional, Galbraithian business enterprise, which continues to frame much thinking in heterodox economics, and to which Jo and Henry have called for an update. Sections (4) and (5) then proceed to elaborate, from the developments of the last four decades, a conceptual supplement to the traditional heterodox understanding of the business enterprise. The concluding section returns to the questions noted above.

I. The Going Plant, Antecedent to Managerial Capitalism

The modern legal, technological, and organizational form of the business enterprise has its historical roots in the 19th Century, particularly in the railroads and the expansion of markets brought thereby. Not least among these inheritances was the structure for top-level policy making. In particular, the large industrial enterprises took from the railroads the general organization of their boards of directors between part-time, 'outside' directors representing large shareholders, and full-time, 'inside' directors, the executives of the business. The latter of these two groups typically established the agenda of the board, were responsible for implementing the resulting policies, and were thus the dominant party in top-level decision making (Chandler 1992; cf. Jensen and Murphy 1990).

As these large corporations expanded into distant markets and multiple product lines in the early 20th century, the authority of management devolved to the division managers, leaving the top executives to look after the long-term viability and growth of the enterprise. Hence, by the mid-20th Century, John Kenneth Galbraith (1967) was arguing that a large portion of industrialized capitalist economies were better characterized by long-term planning effected through group decision making (the 'technostructure') than profit maximizing owner-operators. Likewise, Alfred Chandler (2002) was describing the supersession of Adam Smith's invisible hand of the market by the visible hand of management. John Munkirs (1985; Munkirs and Knoedler 1987) took this argument further, showing that by the 1970s the U.S business community had coalesced to effect 'centralized private sector planning' with the major financial institutions acting as economy-wide resource allocators, arbiters of dispute, and centers for cooperation (see also Davis 2009; Vorst 1987).

The present section and the next will elaborate a heterodox theory of the business enterprise in light of these historical developments, but leaving the financialization period of the late 20th century to subsequent sections. The aim here is to conceptualize the business enterprise as a hierarchy of going concern structures which carry inherently conflicting methods of valuation (see Todorova 2009 ch. 2), which have in turn been mitigated historically, to varying degrees of success, through the development of various norms, laws, and business strategies.

At the core, any business enterprise will, by definition, include some connection to the community's productive knowledge embodied in workers' skills, the material means of production, an understanding of households' consumption expectations, and the like. Following the (original) institutional economics tradition, that portion of the business enterprise dealing with the use, maintenance, and further development of productive capabilities is termed the "going plant" (Commons 1968; Commons 1961; F. Lee 2013). It is "going'" in the sense that it is a self-perpetuating system organized with the expectation that the productive capabilities will continue, though not necessarily unchanged, into the foreseeable future. The going plant represents that component of the business enterprise touching most directly the community's potential capacity for its own material and aesthetic provisioning.

The going plant, however, is a business contemplation just the same; and the methods of business valuation and the institutions of property which identify the artifacts of productive knowledge understand the going plant as tangible assets. These are capitalized—that is, valued in the pecuniary terms of generating earnings—by reference to their expected earning capacity to the business enterprise, though they "owe their productivity and their value [for the community] to the immaterial industrial expedients which they embody or which their ownership enables their owner to engross" (Veblen 1908a, 539). Hence, the earning capacity of material or industrial capital as well as of skilled labor and the rest of a business enterprise's productive capabilities are not a reflection of their productivity, but of the control over the community afforded to business enterprise (Gagnon 2007).

Within the going plant, property relations affix a pecuniary discretion to the industrial processes by which the community provisions for itself. Ownership of the tools, raw materials, infrastructure, and so on, requisite to production of goods and services, assures that the business enterprise, under proper (and perhaps fortunate) management, can exact a price from those goods and services. Additional rights of control, as afforded, e.g., by intellectual property (patents, copyright, trade secrets) go to the same purpose. With these and other means the business enterprise is capable of manipulating the technologies and other norms defining the relationships of the going plant to the community.

For instance, the physical organization of production can be directed toward the greater misery and disempowerment of the worker in the name of greater output and therefore consumption (Fisk 2009; and a brief debate between Veblen 1904, 308–9; Hobson 1906, 351), thus creating an earning capacity for the business enterprise. However, while the consumer may benefit by the increased access to product, she may also lose discretion over the underlying knowledge and values, beyond at best her capacity to purchase the product and the business enterprise's policies of customer service and marketing (see Dean 2015). In short, the technological and occupational structures within that part of the business enterprise most immediately concerned with provisioning reflect, in part, historical relations of class and power, (Marglin 1996; Dunn 2001) and it cannot be assumed that the organization of the going plant is for those on either its productive or consumptive side.

In addition to the conflicts inherent to the going plant's technological and occupational relationships, there is a further potential that the going plant as a business contrivance will systematically underdevelop and underutilize it productive capacity as it stands. In order to establish a stable, profitable organization of the community's technical knowledge, businesses often must engage in what Veblen termed “industrial sabotage,” or “a conscientious withdrawal of efficiency” (1921, 1; see also J. R. Crotty 1993 on similar arguments from Marx). Historically, this behavior is exemplified in the age of industrial capitalism, spanning the late 19th century into the interwar period, and including the first great merger wave (1895-1904). During this era, business enterprises sought mainly to rationalize industries and remove productive redundancies which, under competitive conditions, 'spoiled the market' by overproduction (Jo and Henry 2015).[1] At its heart, this was a process of suitably organizing industry for the management of *existing* technological capacities, including slowing the implementation of *new* capacities (Medlen 2003), in a manner that would reasonably ensure profitable exchanges through time.

This period of the going-plant dominated business enterprise is conceptually complementary to Fligstein's (1990) direct and manufacturing conceptions of control. The direct control conception focused the attention of firms on controlling competitors through predatory trade practices, cartelization, monopoly, patents, and the like. The manufacturing conception developed afterward, and received state sanction (as not in violation of antitrust law), focusing the firm on reliable and cost-effective production in a particular product line with minimal competitive interference. Towards the latter end, the realization of economies of scale, price leadership, and vertical and horizontal mergers were essential strategies.

The manufacturing conception of control, which Fligstein argues peaked in the 1920s, saw personnel with manufacturing backgrounds dominating business enterprises due to their expertise in the production processes themselves. Yet, most significantly for the concept of the going plant, firms in this period did not derive advantages from the full utilization and advancement of the technologies they engrossed. Indeed, in the overriding interests of price stability, managers and entrepreneurs under this framework resisted both technological change as well as increasing output (Fligstein 1990, 116–7).[2]

[1] The formation of the Standard Oil Trust is illustrative. This formal consolidation of business enterprises engaged in the production, distribution, and refinement of petroleum occurred not for the purposes of exacting monopoly prices, but for rationalizing industry (Mayhew 2008).

[2] Fligstein, in fact, offers a novel argument for one of the reasons the Great Depression was so protracted: once

These developments – which can be seen in more recent times where new technologies create opportunities for new markets, and hence new going plant relationships (Dean 2013; Dean 2015) – are simple reflections of the requisites of the going plant. The community's joint stock of knowledge must be engrossed, controlled in the interests of profitable sales. It follows naturally then that the technologies in question will be put to use only to the extent that this control is maintained, with profitable sales reflecting that control. In this manner, the business interests inherent to the going plant stand in conflict with the community's interest in the efficient and full use of its technological capacity. As Veblen (1904, 178) explained, in earlier epochs, "times were good or bad according as the industrial processes yielded a sufficient or an insufficient output of the means of life;" whereas, under the modern capitalist epochs, "times are good or bad according as the process of business yields an adequate or inadequate rate of profits."

II. The Going Enterprise under Managerial Capitalism

The requisites of a business enterprise as a going concern include a stable, profitable going plant; yet competition and technological changes make obsolete the standing productive capacities of the business enterprise and therefore perpetually devalue tangible assets and threaten the survival of any individual going plant (Veblen 1904, 229–30; Medlen 2003; J. R. Crotty 1993). Moreover, changing consumption habits, especially toward the fuller use or delayed disposal of goods, threaten future sales (see London 1932). As such, management of relations necessary for profitable sales cannot narrowly focus on *engrossing existing* technological relationships and expectations. The going business emerges at the point at which the *management and manipulation* of those relationships and the expectations involved therein becomes its own self-perpetuating structure within the business enterprise.

Stated alternatively, the going business constitutes that part of the business enterprise that acts on, rather than through, existing going plants. As the going plant engrosses a part of the community's structure of technological capacities, the going business engrosses the going plant, or more accurately, some portion of the diffused structure of going plants. The developments of common business strategies and norms, what Fligstein (1990) terms the "sales and marketing conception of control," characterizing the ages of corporate and finance capitalism as well as managerial capitalism, illustrate.

This period involved a substantial amount of vertical integration and, especially beginning with the marketing revolution of the 1920s, product diversification. Both of these business methods involved an expansion of a single business enterprise's purview over the interlocking network of going plants that formed the capitalist economy under business control. The purpose of each was to acquire a stable control over that network in the interests of the business enterprise as a going concern. For instance, product diversification ensured that as technological change made obsolete the relationships within one going plant, other product lines, controlled by the firm or to be acquired, would offset the resulting loss of pecuniary value of that plant's tangible assets (Fligstein 1990).

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prices had stabilized, albeit at low levels of output and employment, firms were reluctant to increase production for fear of destabilizing prices through overproduction.

In this era, which peaked in the mid-20th century, marketing departments became crucial to the success of the business enterprise, and company presidents with manufacturing backgrounds were gradually replaced by those with marketing backgrounds. Engineering and marketing were integrated and the multidivisional (M-form) firm was devised to allow for the orchestration of these increasingly vast organizations on pecuniary terms (Fligstein 1990). Historically, this was the maturation of the technostructure designated and analyzed by Galbraith (1967). Analytically, however, the technostructure concept neglects the distinct organizational patterns of the business enterprise under managerial capitalism as they relate to the community's joint stock of knowledge—i.e. the going plant and going business.

As a distinct going concern structure within the business enterprise, the going business entails an additional layer of conflict between – or separation of – the interests of the business enterprise and the interests of the community. Of chief concern in this regard is that the going business is not concerned directly with the technological relationships within the going plant, but rather with the strategic control of those relationships, and the expectations involved therein, for the purposes of maintaining the business enterprise as a going concern. In this manner, the business enterprise comes to be focused on new advantages in engrossing and manipulating going plant relationships and expectations. "The marketing mentality—finding products to meet needs as well as helping to create those needs—permeate[s] the entire organization" (Fligstein 1990, 238).

Product differentiation, as, for example, through advertising and other marketing techniques, and planned obsolescence (see, e.g., Dean 2013; Dean 2015 on computer software) both constitute going business methods of creating differential advantages vis-à-vis other individuals and organizations in the market system. Advantages so earned in this regard are then capitalized as intangible assets (see Veblen 1904; Veblen 1908b; Veblen 1914 on "good-will"; and Veblen 1919, 69–70). Analytically, these assets "consist in preferential advantages in respect of purely pecuniary transactions having to do not with the material equipment but with the right to deal with it and its management" (Veblen 1914, 227). Walton Hamilton emphasized the nature of these assets as conferring access to markets by using the term "market equities."[3]

It is important to note that the actual improvement of goods produced and services rendered in this regard is coincidental. As Veblen (1904, 213) wrote, "industry waits on business," and the

[3] The distinction between tangible assets and intangible assets (market equities) should not be based on the nature of the underlying productive thing—machine vs. know-how, for instance. Rather, the distinction lies in the proximity of the property right to the underlying part of the community's productive knowledge and values. Market equities confer access to, and control over, the interconnected system of values and methods comprising *market* organization of industry. That industry is in turn constructed on tangible property rights conferring access to the community's knowledge of productive ways and means. This has the potential to cause confusion when dealing with actual property rights, i.e. the legal manifestation of those processes of *business* valuation and control. A patent, for instance, is typically considered intangible property; yet, the right allows the business enterprise explicitly to engross some portion of the community's productive knowledge and, for analytical purposes, should to that degree be treated as a tangible asset, the capitalization of going *plant* earning capacity. However, it should be recognized that modern transnational corporations engage in patenting not chiefly for the 'protection' of their technologies, but in order to maintain and grow their market share, especially vis-à-vis smaller enterprises. In this regard, the patent is an artifact of going *business* practice, a market equity. Further still, the evidence suggests that patents operate as well to bolster a company's share price (Serfati 2008, 52–3), at which point the patent approaches a third degree of recursive business valuation of the underlying knowledge (cf. Eichner 1976, 95; and Leyshon and Thrift 2007 on the evolution of asset classes).

proliferation of new products and perceived improvements in products became a feasible business method only when sales and marketing strategies had been developed to control the process (see Fligstein 1990, 154; Galbraith 1998, 205–6). Though, ironically, the managed implementation of new technologies and introduction of new products may give the impression of an acceleration of technological innovation in the interests of the community, the logic of business control under competitive conditions suggests that just the opposite is underway to a significant degree (cf. Eichner 1976 esp. 94-6 and 283-4 on investment to raise barriers to entry, differentiate a product, and improve the public image of a company).[4]

As described above, the business enterprise exemplified by the large corporations of managerial capitalism comprised more or less stable relationships within and between the going plant and going business sides of what has been termed the "going enterprise" (Lee 2012).[5] Analytically, the going plant relates the business enterprise to the community's joint stock of knowledge, whereas the going business represents the potential for supplementary methods of generating earnings, which are derivative in nature to the going plant.

By the mid-20th century, the business enterprise by and large had learned to avoid predatory competition, and its purview spanned entire industries rather than narrow product lines. As Fligstein (1990, 134) notes, the advent of the M-form organizational structure meant that the "large firm was no longer limited by size or product constraints. It could grow limitlessly through the addition of new divisions and extensive financial controls maintained by central offices. The critical function for the large firm became marketing." This is to say that the business enterprise was concerned chiefly with the management and manipulation of the expectations of the community vis-à-vis the realization of those expectations. To clarify the role of these processes in the structure of going concerns in question, a few additional words on this terminology are in order.

"Management" is used herein to suggest stabilization, specifically of expectations against their realization, as well as the inherent inequity between those being managed and those doing the managing. "Manipulation," on the other hand, connotes the potential to destabilize, to spread expectations further from the realized value, and potentially to create a self-reinforcing process to the growing detriment of those so affected. Traditional going plant and going business processes, dealing especially with consumer preferences, could be characterized as management or as manipulation depending on the details under consideration; and the distinction itself may ultimately prove vague and subjective. What is certain, however, is that little theoretical attention is paid to the self-reinforcing, systemic destabilization that results from the manipulation of consumer preferences, because consumption is by wont taken as the ultimate stage of economic activity. On closer consideration, of course, this is an obvious myth. Nonetheless, it is in keeping with tradition here that such processes of management or manipulation will be treated as *stabilizing* to the business enterprise as a going concern, even if veritably *destabilizing* to the

[4] See also Serfati (2008) and Dugger (1992) although these (and many other) authors associate diminished technological progress with the more recent period of financialization to be discussed below. In contrast, the present framework sees such technological retardation as inherent to the business enterprise at every stage of its modern development.

[5] A very similar (though not identical) story could be told, using the same analytical constructs, about the technology industry in the 1980s and 90s (see Dean 2013; Dean 2015; Medlen 2003, 977–8).

community on which the business enterprise depends for its existence.

The conclusion, then, is that business solutions, being based in property relations separating the community from the immaterial requisites for its own material and aesthetic provisioning, cannot on the whole be efficient or optimal. To the contrary, the methods of industrial sabotage, proliferation of property rights, planned obsolescence, and so on all indicate that the genuine maintenance and advance of society's technological capacity increasingly becomes an afterthought as business principles come to dominate social, political, and economic institutions.[6] This conflict, between the interests of business and the community, is inherent to the going plant; and it is, as an exacerbation, inherent to the going business. Further discussion of these issues must, however, be left as they stand in order to move on with the historical and theoretical analysis of the contemporary business enterprise.

III. 'Mutual Funds with Smokestacks'

Within this framework there remains nothing preventing the possibility of the business enterprise going "directly from money to more money without the onerous step of producing goods on the way" (Mayhew 2000, 59). Such can be, and is, effected regularly in many industries by business recourse solely to the creation, purchase, and sale of the market equities (or intangible assets) described previously. The maneuvering and machinations aimed at the manipulation of perceived values of these market equities will be termed herein non-practicing enterprise to reflect the remote connection of these activities to the maintenance, use, and development of productive knowledge. This, as Veblen described it, is truly "business enterprise on the higher plane" (1908b, 134).

The non-practicing enterprise (NPE), exemplified by financial firms, so-called patent trolls, and increasingly any large corporation, is not the other side of a dualism with 'real sector' business enterprises. Rather, the NPE marks an additional layer of business motive and means in the social provisioning process. The behaviors, occupations, and institutions associated with it are thus part and parcel to the class structure of modern capitalist societies, and changes in the latter will necessarily be reciprocal reflections of the former, as will be demonstrated below. Of chief interest, then, are the relationships between the NPEs, (practicing) going enterprises, and the community at large. These will be relationships of conflict, the mitigation or suppression of which proffers an explanation of market and corporate governance norms and their evolution.

The concept of the non-practicing enterprise was indicated by Veblen's (1901, 201–3) analysis of that "extreme case of undertaker," the speculator, who, like any business person, deals in pecuniary traffic, but who has no immediate interest in any particular industrial enterprise. The potential conflict lying therein was echoed in Keynes's (1936) well-known admonishment:

> [T]he position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done (p. 84).

[6] Cf. Eichner (1976) who correctly maintained that innovation fostered by business was negligible.

Economic discussions of speculation, however, often eschew the agency involved in these lines of business in favor of psychological biases, herd mentalities and the like (see Fligstein and Goldstein 2010). Veblen's analysis, in contrast, acknowledged the active control exercised through these lines of business. The "pecuniary magnate" he argued, "[i]n a manner analogous to the old-fashioned capitalist-employer's engrossing of the industrial community's technological efficiency...engross[es] the business community's capitalistic efficiency," or "the community's pecuniary initiative and proficiency," and is thus "superior to the market on which the capitalist-employer depends, and can make or mar its conjunctures of advantageous purchase and sale of goods" (1908b, 132–3; cf. Wray 2009, 812).

It follows, then, that the non-practicing enterprise stands in relation to the traditional business enterprise in much the same way as the going business within the traditional business enterprise stands in relation to the going plant: traditional firms become mere profit centers to be acquired and sold according to the pecuniary gain to be realized thereby, with no particular regard for proficiency or long-term viability of the underlying company or its operations. The non-practicing enterprise, then, engages in the manipulation and management of the values of market equities just as the going business of the industrial enterprise manages and manipulates the values of tangible assets. A brief history follows to elaborate the origins of the form of business organization

The process of financialization in the context of heterodox microeconomic theory can be understood as a gradual shift in market and corporate governance norms toward the established dominance of non-practicing enterprise, a change in the values determining the creation of the social surplus as well as the methods by which access to that surplus is allotted. This evolution of the business enterprise begins at least as far back as the 1950s.

As indicated in the previous section, by the early post-war period, the going business-dominated firm had become the organizational standard. This structure included the integration of production, including research and development, into sales and marketing-focused business strategies; and leadership with sales and marketing backgrounds contemplating entire industries as potential product lines to be incorporated into the business enterprise (Fligstein 1990).

Managerial capitalism's apex can be marked at the conglomeration movement of the 1960s and1970s. Spurred by foreign competition and restricted from horizontal and vertical mergers by the Celler-Kefauver Act of 1950, US corporations began to expand through acquisition of unrelated businesses. The 1960s "go-go years" of conglomeration were followed swiftly by a divestiture wave in the early 1970s, the proceeds of which were then used for further acquisitions (Chandler 1992; Coffee 1986; Fligstein 1990). Viewed from the perspective of the large corporations, this trend developed from the periphery, by smaller firms, which grew rapidly through acquisition. In terms of the values which guided the corporate elite, however, this era began with the belief among professional managers that management practices acquired in business school could easily be transferred across industries (Chandler 1992; Smith 1970; Lazonick and O'Sullivan 2000). Management consultants then developed,

> so-called 'portfolio planning' techniques that allowed top corporate managers to deal with the unrelated business units they faced by treating them as analogous to stocks in a portfolio.... Operational knowledge about particular industries was no

> longer required to manage business in those industries, in principle allowing organizational boundaries to expand without limit (Davis, Diekmann, and Tinsley 1994, 553; see also Dobbin and Jung 2010).

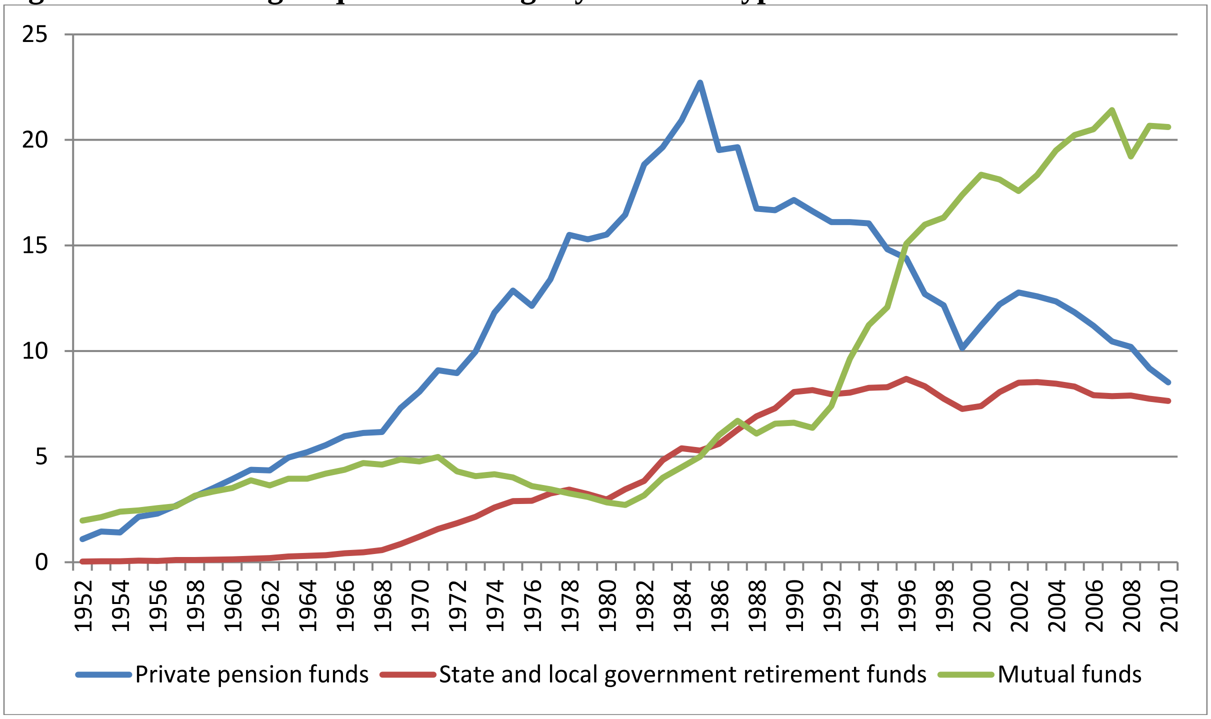
The conglomeration movement thus marks an important mutation in managerial capitalism: large diversified corporations had come to be contemplated by their top management as "mutual funds with smokestacks" (Davis, Diekmann, and Tinsley 1994). That is, just as "fund managers are allocators of external equity among a wide range of choices, so in a primary sense are conglomerate managers allocators of internal equity among a now wide range of choices" (Smith 1970, 908; see also Elsen 1970).

Internal to the business enterprise, this period saw the rise to dominance of personnel with financial backgrounds, having the knowledge necessary to identify potentially profitable acquisitions as well as to avoid being acquired (Fligstein 1990). The effect on top-level planning in the large conglomerate was that return-on-investment (ROI) data "were no longer the basis for discussion between corporate and operating management as to performance, profit and long-term plans. Instead ROI became a reality in itself—a target sent down from the corporate office for division managers to meet" (Chandler 1992, 277; see also Katzin 1970). The sales and marketing conception of control had been supplanted by the finance conception of control, placing greater emphasis on short-term profits on investment, and expanding the organizational field of management to include all large corporations, regardless of industry (Fligstein 1990, 191).

During roughly this same period, shareholding was becoming increasingly institutionalized (see Figure 1). This, in fact was due in part to the role Wall Street firms had played in the conglomeration wave, resulting in a shift away from promoting long-term corporate investment through bond issues, to a focus on trading fees and capital gains in the market for corporate equities (Lazonick and O'Sullivan 2000; Chandler 1992). The parallel rise of "mutual funds with smokestacks" and mutual funds without smokestacks was in fact symbiotic, as short-term focused fund managers were more likely than traditional stockholders to accept the high-dollar tender offers of the growing conglomerates (Smith 1970).

Furthermore, by the late 1960s, developments in finance had begun to undermine both the asset and liability sides of banks' business. In particular, commercial paper markets began to replace traditional credit from banks. This was compounded by the advent of junk bonds and increased securitization of assets. At the same time, mutual funds and money market funds became increasingly popular savings instruments as they were able to avoid banking regulations and offer high yields on savings, time, and checkable deposits in the inflationary environment of the time, undermining banks' deposit-side business (Edwards and Mishkin 1995; Lazonick and O'Sullivan 2000). As a result, commercial bank influence over non-financial corporations began to weaken in the late 1960s and into the 1970s and the content of the financial sector's assets moved from traditional loans and savings accounts toward an array of newly-invented financial instruments (Mizruchi 2010; Nersisyan and Wray 2010; Tomaskovic-Devey and Lin 2011).

Figure 1 – Percentage Equities Holdings by Investor Type



Source: US Census 2012 Statistical Abstract
Note, these data likely under-represent institutional holdings, especially of the largest US firms (see, e.g., Palmiter 2002, 1426-7; Lazonick and O'Sullivan 2000, 31).

The 1970s saw a crisis for the American corporation which brought the changes discussed above into relief. Foreign competition and a movement among investors toward fixed-income securities over corporate equities created a long period of depressed stock prices (Fligstein 2001; see also Modigliani and Cohn 1979). This weak position of the large corporations and the declining power of the commercial banks made apparent a fundamental problem with the financialized firm which had developed out of the conglomerate merger wave: if corporations were essentially mutual funds with smokestacks, then they were redundant to conventional mutual funds, or to financial 'markets' more generally. Since it would be abnormal for a fund to collect fees for investing in another fund which in turn collected fees against the initial investor's money (C. M. C. Lee, Shleifer, and Thaler 1990), a degree of superfluity of management must arise where top corporate management become fund managers without displacing managers of conventional funds. In a sense, then, just as the early capitalist *qua* manager was compelled to justify his position in production (Marglin 1996), the corporate manager *qua* fund manager, or *vice versa*, required his own justification (cf. Coffee 1986, 34–5).

The matter could be looked at, alternatively, in terms of the composition of the board of directors. The traditional separation of interests between inside and outside directors had, in the age of managerial capitalism, been an important component of inter- and intra-industry cooperation and planning, especially through interlocking directorates with the large commercial banks (Davis 2009; Munkirs 1985). The conglomeration movement and the development of the finance conception of control, however, had incidentally unified shareholders' methods of valuation with those of top management. In consequence, the traditionally separate roles of financial and non-financial firms and their managements had, in the common contemplation of the business elites, been merged, revealing a superfluity of management. From this reading of the history it follows that the closing decades of the century were concerned with rationalizing the corporate sector in this regard.

IV. Money Manager Capitalism and the Non-Practicing Enterprise

The crisis of the 1970s came to a head in the fourth merger wave in the 1980s. This era was characterized by leveraged buyouts (LBOs), often against the wishes of management (i.e. hostile takeovers). These typically involved a high degree of debt financing, whereafter the proceeds from liquidation or subsequent sale of the enterprise would be used to repay the debt with a sizable profit left over for the takeover artists. This was a process that had been developed in the 1960s (see Haack 1970), but utilizing new financial instruments (e.g. 'junk bonds') and tapping the massive capital of pension funds, mutual funds, insurance companies, and savings and loans. However, unlike the previous merger wave, the acquiring firms were no longer fellow non-financial corporations. Instead this era was driven initially by financial entrepreneurs like T. Boone Pickens and small investment houses, and later by larger investment firms. Nearly half of the major US firms received takeover bids in the 1980s (Coffee 1986; Holmstrom and Kaplan 2001; Lazonick and O'Sullivan 2000).

Neoclassical economists by and large lauded these events as efficiency enhancing—a view generally shared by regulators, courts, and antitrust authorities at the time (Davis 2009). The poor stock market performance of the previous decade was an indication of managerial excesses, the building of conglomerate empires with little respect for creating the highest possible returns to shareholders. The takeovers and divestitures orchestrated by the financial firms thus heralded a return to the traditional profit maximization goal of these corporations, a realignment of management and shareholder interests.[7]

The going concern model presented herein, however, suggests a different reading of these events. The growth of the non-practicing enterprise, made possible by the reorientation of managerial values toward a more purely financial conception of the firm, required a stable environment in which to operate. This could not be realized so long as the redundancy of money management, between the financial firms and the corporate executives, stood. It was necessary that one side or the other either bow out or capitulate to the demands of the other. The fourth merger wave decided this contest, though not unequivocally, for the financial firms.

Because the traditional, non-financial business enterprise acts, in essence, as a going plant to the non-practicing enterprise, similarities can be drawn here to the period, roughly a century earlier, in which stable going plant relationships were being established. As described above, this process required the conscious mitigation of productive redundancies and destructive

[7] It is worth noting, however, Fligstein's (2001) quantitative analysis, looking at 100 largest US firms from 1979-1987, and finding no support for the finance economics hypothesis that a company's market to book value had any correlation to its likelihood of financial reorganization. Likewise, and contrary to popular beliefs, financially oriented executives in the 1970s with diversified firms which engaged in mergers outperformed on average (2001, 149).

competition. The captain of industry played, as Veblen (1904, 48–9) observed during that era, the "heroic role...of a deliverer from an excess of business management. It is a casting out of business men by the chief of business men." The rise of money manager capitalism, beginning in the late 1970s-early 1980s, witnessed an analogous "casting out" of corporate executives *qua* money managers by the institutional investors.

Because this was a matter of "business on a higher plane," the value to the community of removing the managerial excess cannot be assumed. Indeed, the results have been a decline in real investment, stagnant income growth for most of the population, and a host of ills too numerous and well established to warrant elaboration here (see, e.g., Jo and Henry 2015, 33). Nor can it be assumed that the individuals who emerged as successful businesspeople were necessarily the better in pecuniary terms. As Eichner (1976) had argued, it was likely that the executives of the large conglomerate were better positioned to allocate capital in terms of a portfolio of enterprises.

What is relevant to the matter at hand is that the pecuniary value of business enterprises was able to grow rapidly afterward. Hence, by the 1990s the non-practicing enterprise had become dominant, corresponding with what Fligstein (2001) has termed the shareholder value conception of control, focusing firm's attentions predominately, if not strictly, on their share price.[8] Whereas earlier formulations of the business enterprise had been concerned principally with the management and manipulation of expectations concerning the community's capacity for material and aesthetic provisioning, the modern corporation organized as non-practicing enterprise is now concerned chiefly with the expectations of the institutional investors, manifesting in the interest rates on debt and the appreciation of equity prices. As one manager of a Fortune 100 conglomerate reflected, "...at the end of the day you say then what's [the firm's] incorporated product? The product is stock, that's our product. We sell stock."

This metamorphosis necessitated the institutionalized alignment of executive interests with financier expectations and a set of workable practices to stabilize that alignment. That is, in order to create a stable regime it was necessary that the criteria by which decisions are made in creating the social surplus should be tied to determinants of access to that surplus. Executive stock options have been a significant means of effecting this regime. This form of compensation to top management began in the 1950s, and became increasingly important in the bull markets of the 1960s. However, importantly, the slump of the 1970s saw boards supplementing lagging stock-based compensation with higher salaries, indicating that it was the *expectations* of higher stock prices that was being aligned with executive compensation, not the *performance* of the stock itself (Lazonick and O'Sullivan 2000, 24–5; Tomaskovic-Devey and Lin 2011). Between 1980 and 1994 CEO stock options grants increased in value seven fold and equity-based compensation had increased from 20% to nearly 50% of total compensation (Holmstrom and Kaplan 2001).[9]

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[8] Illustrative of this change in business thinking is the Business Roundtable, which had represented the old cabal of business interests under managerial capitalism (see Munkirs & Knoedler, 1987), including protests against the financial firms' previous LBOs (Kaufman and Englander 1993). By 1997, the organization had come to believe that "the paramount duty of management and the board is to the shareholder," (quoted in Holmstrom & Kaplan, 2001, p. 136).

[9] The state has sanctioned this transition as well. In 1992, the SEC began to require reporting of executive compensation and its ties to stock performance; and, in 1993, Congress capped tax deductibility of executive pay but

Stable working relations between corporate executives and the money managers cannot rely on "aligned interests" alone; practices must be developed to manage expectations vis-à-vis the realization of pecuniary value. Toward that end, executives have been found to engage in "earnings management" to keep shareholders' expectations in line with their own expectations of realizing earnings in the near future. This includes shifting earnings around to meet analysts' forecasts and recruiting "star directors" and celebrity CEOs for media attention (see Dobbin and Jung 2010; Brown 1998; Westphal and Graebner 2010). More generally, non-financial corporations acting as non-practicing enterprises are now engaged in what Davis (2009, 95; see also Useem 1996, 36) terms "impression management." Although, "[t]here is a certain Potemkin Village aspect to this...to the extent that corporations are attuned to the stock market, their leaders are prone to fine-tuning the appearance yielded by their networks" of law and accounting firms, directors, major companies, and, especially, financial firms, analysts, and media (Davis 2009, 95).

As in the case of product advertising and planned obsolescence, *management* of expectations shades into *manipulation* and any distinction to be drawn between the two must ultimately be indefinite and subjective. A few items that present as ostensibly manipulative deserve note, however. First, corporate restructuring, or "re-engineering," has been a key method of signaling to financiers that earnings capacity is increasing. As Brown (1998, 814) elucidates, "it is the job-shedding aspect of re-engineering that is most critical in terms of managing expectations about earnings prospects of the firm. In contrast to conventional growth strategies, re-engineering seeks to improve earnings by fattening profits margins on goods sold."

Second, business enterprises may engage in a number of other activities to manipulate earnings expectations that may exacerbate or mitigate the traditional going business and going plant conflicts described in sections 2 and 3 above. For instance, channel stuffing (inflating sales by forcing distributors to receive more product than they can sell) and unsustainable price discounts (see Roychowdhury 2006) both diminish the going plant's contrary interest to the community's interest in the full use of the material equipment and access to its product. Just the same, managerial focus on short-term earnings expectations can encourage withdrawal of research and development spending to decrease reported costs, thus exacerbating the going plant tendency to reduce technological progress (see, e.g., He and Tian 2013).

Third, the merger wave of the 1980s forced corporations, either as part of a buyout or in order to avoid the potential of a buyout, to restructure financially. This typically included a greater debt load and higher dividends payouts. Additionally, corporations began active share repurchase programs, which typically have a positive effect on the firm's stock prices. These policies have, furthermore, been given state sanction, as evidenced by SEC rule changes in the 1980s and 1990s that, among other things, exempt firms from accusations of price manipulation, and allow executives to realize resulting gains without delay (Lazonick 2012; Jo and Henry 2015). In the aggregate, then, between the first quarter of 1984 and the first quarter of 2015 net new equity issuance by non-financial businesses was negative in all but 15 quarters (see Figure 2).

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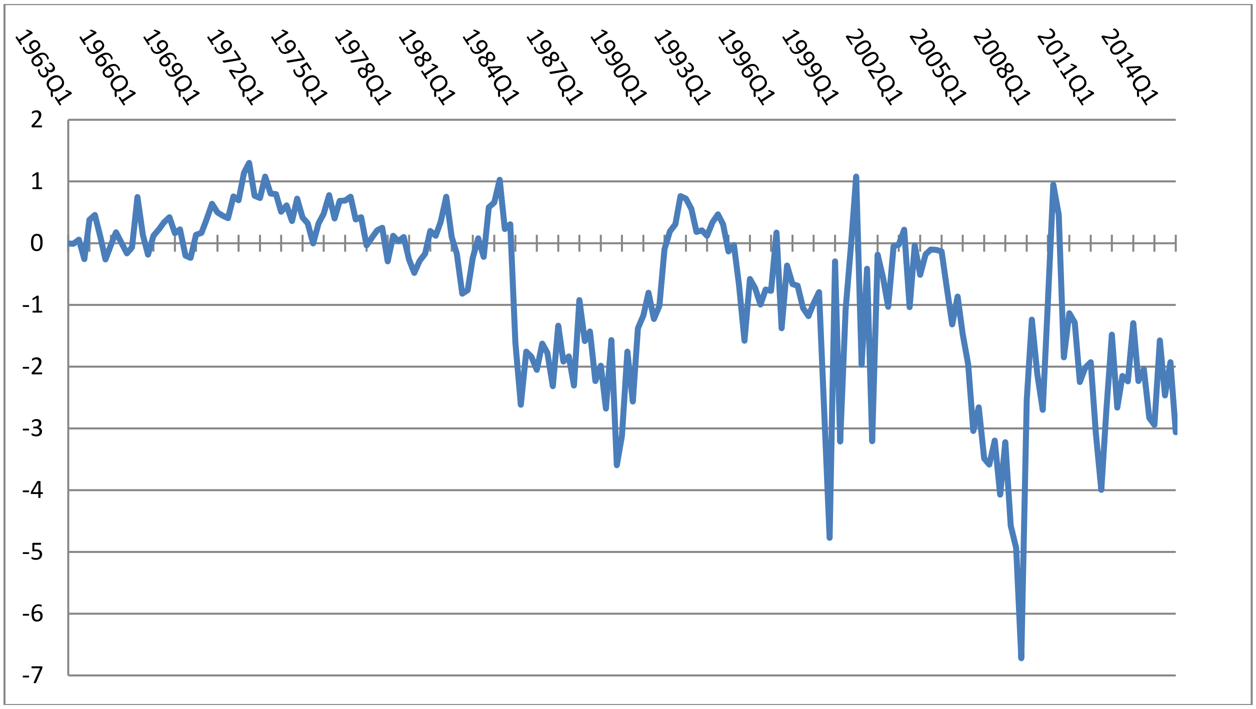
exempted performance-based compensation, further encouraging the latter type of compensation (Holmstrom & Kaplan, 2001).

Figure 2 – Net New Equity Issuance as Percent of GDP



Source: Board of Governors of the Federal Reserve System, Z.1 Statistical Release

All of this has incorporated the shareholder value conception of control into the financial structure of the contemporary business enterprise (where "shareholder" indicates specifically institutional investors and corporate executives; cf. Serfati (2008, 41)), making it more dependent on the financial sector while making its own long-term viability as a producing firm less certain. As Crotty (2003, 274) argues, because stocks are, on average, held for only one year, stockholders "have no reason to concern themselves with the performance of the companies they "own" beyond a one-year horizon." The effect is similar to the planned obsolescence that disciplines the technological relationships of the going plant against financially disadvantageous change. This interpretation, taken in conjunction with the product proliferation resulting from newly invented financial instruments, reinforces the notion that the going plant-going business relationship is still operational, but "on a higher level." That is, the business enterprise, which is valued and controlled especially *via* its stock, is a "going plant" of sorts to the non-practicing enterprise's going business. The business competence of the non-financial corporation, let alone the serviceability of its product or, indeed, its long-run survival potential, is of secondary importance. Yet, despite the subordinating effect on the traditional corporation, the financialization movement has not signaled an end to the going enterprise, but a mutation of its structure. This issue will be taken up in the final section.

Conclusion

Decidedly, the rise of money manager capitalism has seen power shift from the traditional large industrial enterprise to the financial sector, as well as a reorganization of both. As described above, the traditional Galbraithian corporation has become the equivalent of the going plant to a new species of business organization, termed here the non-practicing enterprise; and, in consequence, the survival of the former has become less secure, with the average lifespan of an S&P 500 company falling from 67 years in the 1920s to 15 in 2012 (Jo and Henry 2015, 28).

Still, the questions at hand concern whether the going concern concept remains relevant, and the potential adjustments or qualifications to the concept which money manager capitalism necessitates. As to the first, the analysis above has obviously presumed the continued relevance of the going concern concept (cf. Jo and Henry 2015). Producing organizations are still treated by the majority of those involved as having the potential to exist indefinitely, even if the ends to which many of these organizations are directed jeopardizes long-run survival.

More central to the arguments of this paper, however, is whether the interests and methods of business under a financialized regime constitute a form of going concern. The evidence presented above suggests that, in a broad sense at least, the techniques for manipulating and managing the expectations concerned with intangible assets (market equities) have undergone refinement for several decades. These techniques include earnings management by corporate executives, innovations in financial instruments, and so on, all serviceable in the orchestration of a financial or financialized going enterprise.

It must be cautioned that what is meant by "non-practicing enterprise" is not simply a theory of the business enterprise as applied to financial firms. While there remains a continued legal, functional, and cultural separation of financial and non-financial corporations, the concept at hand has been defined in terms of processes of control and valuation. This has been intentional, to avoid the tradition of conflating legal entity with socio-economic organization (and, likewise, legal asset with the common means of control and processes of valuation of which those assets are simply state sanctioned artifacts). The important organizational structure for analytical purposes is the network of firms itself. This approach, it is hoped, will facilitate a more robust analysis of business enterprise in an era of growing involvement of traditionally non-financial firms in financial activities (see Krippner 2005; Niggle 1988; Lapavitsas 2011; Froud *et al.* 2002 on the auto industry; on retail, Baud and Durand 2011).[10]

What is clear is that the power elite remains a cohesive class, capable of self-perpetuation (Jo and Henry 2015); and, furthermore, that concentration of both industry and finance continues to increase. As Davis writes, despite the movement towards arms-length dealings which has been erroneously associated with financialization, corporations remain highly interconnected: "An airborne flu virus that infected the Enron board in January 2001 could have made its way to 650 Fortune 1000 companies by May through monthly board meetings," (2009, 97; see also Fligstein and Goldstein 2010).

More generally, the nature of NPE processes—i.e. in managing and manipulating the perceived earning capacity of assets—suggests that a differentiation of business enterprises is still underway. In contrast to the going business manipulation of, e.g., consumer preferences, the processes of manipulation associated with non-practicing enterprise are typically treated

[10] For instance, by 2000 nearly 40% of the S&P 500 companies' earnings came from financial activities and a third of that were from non-financial corporations (Davis 2009, 104–5).

differently, especially in the due regard given to the inherent instability it causes. This, it would seem, owes to the appearance that such operations occur *intra*class, between business enterprises or capitalists more generally. The instability from the perspective of the business enterprise *qua* non-practicing enterprise exists because it remains unclear as to which business enterprises will belong to that 'higher plane of business', and which will be subject to manipulation and subordination. (And on that matter, it may be worth noting that the bulk of the major financial instability in recent decades has been in assets other than those central to the largest corporations—e.g. young tech companies in the 1990s, housing and commodities in the 2000s.)

To explain the previous point, consider the most recent global financial crisis of 2007-08. While many of the efforts of, especially, the money managers in the US and abroad to manipulate financial markets have gradually come to light, these institutions were not so in-control as to avoid exposure to the inflated assets which ultimately precipitated the crisis (Fligstein and Goldstein 2010). The resulting losses were, of course, reversed by federal policy, an indication that governments have embraced the central concern of the non-practicing enterprise—i.e. the appreciation of asset prices—and will take steps to ensure that those expectations are realized within some range of reasonability (cf. Nersisyan and Wray 2010). Whether this policy regime, variously termed the "predator state" (see Wray 2009) or "privatized Keynesianism" (Crouch 2009), will change substantially or become further integrated is a matter of speculation.

Compounding the overarching instability of financialization is the continued expansion into those components of the economy that can be made to act effectively as the non-practicing enterprise's going plant. Since the modern business enterprise as contemplated herein operates on the trading and valuation of expected earning capacities outright, then any process which can produce an income stream is a potential expedient to the business enterprise's pecuniary gain. Hence, for instance, consumer expenditures and retirement plans have become intangible assets from which to extract earnings, effectively redesigning traditional going plant and going business relationships in the interests of—perhaps even in the image of—the non-practicing enterprise (see Lapavitsas 2011).

In short, as Jo and Henry (2015, p. 42) observe, business enterprises have become "vehicles to promote the vested interests of the ruling class—in particular, absentee owners, money managers, and managerial elites." The authors continue, "while existing going concerns die, the capitalist class as a whole survives and grows (at least in value terms), insofar as new financial instruments, new concerns, new markets, and new demands are created." The argument herein is that this does not diminish the analytical value of the going concern theory of the business enterprise. Once it is understood that the modern business enterprise has always consisted of a hierarchy of going concern structures, the base of which is the community itself, it becomes evident that the paradox of stability for the business enterprise exacted at the expense of the stability of its lower going concern structures is inherent to this form of organization. The foundation of capitalism is constructed so, and financialization is only a new accretion to the structure.

As Minsky (1986) argued, stability breeds instability. The evolution of the business enterprise has presented similarly. To review the broader history, stable technological relationships capable of generating a surplus made for the possibility of the going plant and tangible assets; and a stable industrial system made for the possibility of the going business and market equities. In turn, a stable going enterprise under managerial capitalism was the basis on which the non-practicing, financialized enterprise was constructed. Each accretion of going concern structure gropes for stability by adjusting its environment to the exigencies arising from its own methods of control and valuation; and the result is invariable a degree of instability and hardship on the previous, subordinate structure, including the community at large.

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