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Here’s the Brad DeLong commentary I mentioned in the last post. Thanks to Adam, in an earlier comment thread, for bringing it to my attention.

> There are, broadly speaking, three interpretations of what went on:
>
> The first is the interpretation of a whole bunch of finance economists starting from Adolf Berle and Gardiner Means… It is that a whole bunch of changes in corporate law and financial practice in the early twentieth century culminating in the New Deal shifted a great deal of practical power away from “owners” and to “managers.”… [M]ost of the time managers did what they wanted, chose their own successors, and set corporate policy with not that much attention to maximizing company stock prices either in the short run or the long run…

Now this does not mean that shareholders were "exploited." Managers did care about the level of dividends and the price of the stock–it was a big loss of face at the country club to report poor financial numbers. But managers cared about other things as well–being pillars of their community, indulging in natural benevolence toward their subordinates, and avoiding nasty headlines in the local press, among others.

Now if you're a finance economist, you see this system as "inefficient": companies are wasting a lot of money by employing too many people in jobs that are cushier than they have to be, and while this is good for the workers of the company it also raises costs and prices, and so the gains to workers are outweighed by the losses to shareholders (who collect lower dividends) and consumers (who pay higher prices). If you're John Kenneth Galbraith, you see this technostructure–this technocratic corporate elite of managerial capitalism–as broadly a good thing, because managers are interested in the fundamentals of production and human relations rather than in prettying up their numbers for Wall Street road shows.

In any event, this system comes to an end in the 1980s as Wall Street figures out how to successfully undertake hostile takeovers, and as the threat of being subject to a hostile takeover pushes even those managers who would have been very happy under the old system to pay more attention to the bottom line as a way of boosting current stock prices and making the benefits to outsiders' undertaking a hostile takeover much less…

I think Berle and Means, and Galbraith, seriously exaggerated the separation of ownership from control. I tend to agree with C. Wright Mills that the managerial New Class carried out a corporate transformation of the capitalist class, but remained clearly a junior member of the power elite. The billionaire plutocracy–people like David Rockefeller–still exercise control over the corporate economy, in all sorts of direct and indirect ways. There's an element of truth to the Berle-Means thesis, though. Owner control of the corporation is something that definitely ebbs and flows over time. Although it was never as weak as Berle and Means made out, it was probably at its low point in the early post-WWII period, when most new investment was internally financed from the revenue stream and finance capital wasn't a major force toward concentration. The reemergence of finance-capital dominance in the '80s, to a level of importance comparable to the turn of the 20th century, put senior management back under the whip again.

> The second interpretation is one that has been pushed by Larry Summers and Andrei Shleifer. It notes that organizations run on patterns of long-term trust and confidence, and that it is devastating to an organization's effectiveness for those at the top to break the established implicit long-run bargains that the organization runs on. Under this interpretation, the paternalistic-employer-and-civic-booster model of the American corporation that dominated the first post-WWII decades was an effective and efficient system of corporate organization. Come the hostile takeover, however, the corporate raiders can replace the old management that had made and kept the implicit long-run bargains with new managers who have no attachment to them, and are willing to do the bidding of

the shareholders and the takeover artists. This "breach of trust" moves us to a system of corporate organization that is less efficient and effective for society as a whole–workers who don't trust their bosses won't spend time learning things that are important if you work for this particular company but not in the larger job market, firms won't invest in the community in an attempt to make it a place where workers would like to stay, et cetera. But this new form does expropriate a lot of the value of the firm that was shared with workers-as-stakeholders, and transfer the value to the bosses and the shareholders.

> There is also a third interpretation: that the coming of the Volcker disinflation, the dominance of central bankers, and the elevation of price stability over full employment as a goal of governance was bound to weaken American workers' power enough to make the Kodak model clearly less profitable than the more "Hard Times" alternative.

In Fed-speak, "inflationary pressure" translates to "increased bargaining power of labor." Sometimes the equation of the two is quite explicit. For example, back in the 1990s Alan Greenspan persuaded the Fed to keep interest rates low despite record low unemployment, because the job insecurity in the tech economy was almost as good as high unemployment as a way to reduce the bargaining power of labor. In 1996, 46% of workers at large firms were fearful of layoffs, compared to only 25% in 1991. And, Greenspan added,

> The reluctance of workers to leave their jobs to seek other employment as the labor market tightened has provided further evidence of such concern, as has the tendency toward longer labor

> union contracts. For many decades, contracts rarely exceeded three years. Today, one can point to five- and six-year contracts–contracts that are commonly characterized by an emphasis on job security and that involve only modest wage increases. The low level of work stoppages of recent years also attests to concern about job security. ("Testimony of Chairman Alan Greenspan," U. S. Senate Committee on Banking, Housing, and Urban Affairs, January 21, 1997)

So the main spur to another round of Fed belt-tightening, apparently, is increasing wage demands by labor. As that Tom Tomorrow cartoon described the process, "Greenspanman" (in green cape with dollar signs) comes to the rescue when worker uppityness reaches unacceptable levels, by pulling the lever on his interest rate machine and throwing a couple of million people out on the street.