
Stock Market Capitalism: An Historical Perspective for the Two Decades Pre- and Post-1980

Stakeholder Capitalism is surpassed by the Anglo-American style of Corporate Governance driven by the maxim of Shareholder Value

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ABSTRACT

This study analyzes the historical transformation of the “Modern Corporation” expounded by Berle and Means in the early 20th century for the two decades pre-and post-1980. The 80s made an indelible mark on the behavior of Households together with Corporate Managers and Institutional Money Managers toward the risk of holding stocks due to changing economic, political and regulatory settings, hence affecting “Corporate Governance”. The Modern Corporation in the pre-1980 period was envisaged to be a social institution managed by so-called benevolent, elite, managers in a corporate system of consensual decision making called “Stakeholder Capitalism”. In the ensuing decades of the post-1980 period after the Reagan administration’s drastic changes in economic, political and regulatory settings, the Modern Corporation transformed into a lean but over-valued “Contemporary Corporation” of “Stock Market

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Capitalism”, emboldened with the maxim of “Shareholder Value”. Interestingly, this over-valuation of stocks has resulted in the growth in Households wealth in equity holdings outperforming the growth in National Income, becoming an automatic stabilizer of Household Sector consumption patterns. In the following pages, developments in the Modern Corporation and its premises will be discussed thoroughly and some policy conclusions affected by this outstanding growth in Household Sector wealth will be drawn.

ACKNOWLEDGEMENT

A FAREWELL MESSAGE TO PROF. ÖMER A. AKSU

In the early 1980s when I was a Ph.D. student at New York University’s (NYU) Economics Department and also worked as a Research Associate at the Institute for Economic Analysis (IEA) directed by Prof. Wassily Leontief (1973 Nobel Laureate) as a continuation of the Harvard Economic Research Project, I met Prof. Ömer A. Aksu,--then a young Assistant Professor working toward an Associate Professor title at Istanbul University--, at NYU’s Bobst Library while he was searching for a 1968 revised version of the book titled “Modern Corporation and Private Property” by A. A. Berle and G. C. Means among the stacks of the famous 8th floor of the Library for his research studies and work sponsored by the United Nations. Having been introduced to him and in time established a very good comradery with him until now, I feel at liberty of saying that Prof. Ömer A. Aksu struck me then, and still does, as an excellent scholar, forward thinker, articulate and statesman-like presenter forging the frontiers in economic theory and matters from a multi-disciplinary and historical perspective. To be noted pertinently, he has been a very good friend and colleague for the last 36 years.

In late 1970s, when pundits had been challenging the inherent problem of a likely conflict between self-interested Shareholders and Corporate Managers identified in the Modern Corporation a la Berle and Means as an entity of separating the ownership from control, finance scholars of the time working on this problem had put this separation problem into a solid theoretical framework by the “Agency theory in the field of Contract theory” a la M. Jensen and W. Meckling in 1976, and equivalently caused the birth of Corporate Governance literature to come forth. To be no-

ted, since then the Agency theory framework has widely been used in Corporate Governance literature by representative professionals in law, economics, finance, and the sociological sciences. As an Economist, Prof. Ömer A. Aksu, researching on the subject while at NYU and the United Nations, had seen what the future path of the US corporate world would hold, particularly on a comparative basis to German and Japanese corporate worlds. Prof. Ömer A. Aksu was an expert on the subject as he had spent his doctoral student years in Germany and was deeply interested in the achievements of German style Stakeholder Capitalism and Managerialism in which consensual decision-making is the key factor allowing Labor to be represented at the Board level.

After the 1980s Regan era in the US and extending into the early 21st century, Contemporary Corporations emerged in both the US and the world, have set forth different objectives and courses than the one contemplated by Berle and Means as a social institution, and consequently, Contemporary Corporations have more focused on Shareholder Value maximization and protection. As a result, Corporate Governance has become more prominent in the parlors of lawyers, sociologists and economists. Ex-post, Prof. Ömer A. Aksu was right in his assessment, had seen these developments in his earlier career and was fascinated by the Proxy Voting Process in corporate decision making and protecting the rights of minority shareholders.

In early March 2017, when Prof. Ömer A. Aksu asked me to write an article for a special issue of Istanbul University's Journal of Social Policy Conferences honoring his splendid career at the Department of Economics in Istanbul University, I told him I could accept it on condition that my topic choice would be a surprise. In May 2017 on my return from the USA, I have researched seven new and relevant books listed in the Bibliography on the subject that Prof. Ömer A. Aksu had studied and published in the early 1980s in New York; I have read all seven and blended this reading with my scholarly and financial market experience to write this article. The title I came up with is relevant to Prof. Ömer A. Aksu's liking and is a catchy one. I hope, I will relay the historical perspective to readers' liking based on my personal narration and analyzed view of macro-economic developments as well as excerpted findings of the respected Authors listed in the Bibliography Section.

As an academically-trained macro and financial model-builder (both in deterministic and stochastic domains) in both real and financial sector economics, sharpened by the rigor of mathematical models, and also as an experienced financial market researcher and money manager over nearly 30 years in world-respected US financial institutions, I will try to do my best to convey to you my observations on facts-based research (“What you see is What you get” approach) regarding the Modern Corporation a la Berle and Means, its developments, its impact on macro-economic indicators from the systemic risk point of view, and its policy implications,-- even though Prof. Ömer A. Aksu sometimes satirically states the case “What you see is not always What you get and What you hear might be a lot of hearsay”. So, in conclusion, pundit opinions are a dime a dozen and the noise in them is sizable, causing a researcher to extract the wrong signal; therefore, to form an erudite view is an outstanding scholarly attitude inferred from observations through inductive reasoning. In the following, I share some of these facts-based views of mine and views of Prof. Ömer A. Aksu on the Modern Corporation which were conveyed to me in our discussions over the last 36 years. To sum up, I am very honored to contribute to this special publication and to offer a celebratory wish in this farewell article to Prof. Ömer A. Aksu.

All the best, Wholeheartedly.

Dr. Ümran Demirörs, October 19, 2017, Istanbul

Stakeholder Capitalism is surpassed by the Anglo-American style of Corporate Governance driven by the maxim of Shareholder Value

The advent of the Modern Corporation dated back to the early 20th century in the United States (US) after the start of the industrial revolution and the establishment of Joint-Stock Companies in the late 19th century in the United Kingdom (UK) and when so-called Robber Barons owned and managed corporate structures in the US. As a culmination of the late 19th century Robber Baron type, the early 20th century US corporations have turned into the Modern Corporation with dispersed Shareholders and a powerful Managerial elite class (Kaysen, 1957, p. 311). Kaysen described these managers in control of power as “benevolent elite” and the cornerstone of Stakeholder Capitalism. Earlier in the 20th century, the operations of the Modern Corporation had been mainly in the industrials including the Iron and Steel industries, Transportation (Railroads) and Utilities, then, later in the century, extended towards Automobiles, Aviation, Consumer Goods Production, and Distribution and Logistics; and towards the end of the century, to High-Tech, Bio-Tech and Finance industries. With the birth of the Modern Corporation in the history of the US, Stock Market Capitalism marked a very historic moment resulting in a paradigm shift in the thoughts of Economic theory, Corporate Law, Industrial-Labor Relations, Creditor Relations and State Relations.

By the mid-20th century, the Modern Corporation mostly operated in an Oligopolistic and/or Monopolistic Competitive market setting and defied the 19th century economic theory paradigm of perfectly competitive firms which were either profit maximizers and/or cost minimizers subject to production and technology constraints and could not set the prices alone in the markets and they were price takers. An additional defiance also occurred in Corporate Law where the private property statutes were redefined separating Ownership from Control of power; i.e. Shareholders over Managers. In Labor Relations, the presence of Unions and a consensual management style had its turn initially but later the Unions lost their power and credibility which resulted in more “Shareholder Activism”. In Creditor Relations, Merchant Banking was the funding vehicle in the initial years and post-1980 was followed by the dominance of Investment

Banking, the Mutual Fund Industry and Private Pension Funds (due to the introduction of legislation for the Employment Recovery Income Security Act –ERISA). These later institutional type investors had taken over the position of holding the majority of equity shares of the Modern Corporation. Federal and State governments were conducive to permeate the Modern Corporation's envisaged social form and by 1980 even the Republican Administration of the late R. Nixon advocated for the establishment of government regulatory and supervisory agencies to control market excesses and to deter/abate the detrimental economic externalities such as the Environmental Protection Agency (EPA) and Consumer Protection Agency.

In this article, we are first reviewing the performance of the Modern Corporation expounded by Berle and Means' book originally published in 1932 and revised in 1968. The Modern Corporation in 1968 revised version (Berle and Means, 2010, p.46) is considered as being a social institution that rivals the State in its far-reaching powers. According to an article written by Gerald Davis titled "Twilight of the Berle and Means Corporation" of Chapter 7 in Goran and Verstege Ryan 2015 edited book, Four Premises stand out from the analysis that opens the discussion of the Modern Corporation (Davis, 2015, 155-169). To be noted, Gerald Davis' approach reflects a legal researcher point of view on the subject. Davis' Four Premises will be the tenets of our discussion when we analyze the evolution of the Modern Corporation below. Initially, however, I will deal with the subject from a financial and macro economist point of view.

Macro Developments: Trends in Household Sector Wealth and Income

Before we delve into our analysis of the transformation of the earlier Modern Corporation to the Contemporary one in an historical context, we will lay out the surrounding economic and financial developments in each decade starting from 60s through end of 2016 by emphasizing the fascinating growth in the Market Value of Corporate Equities and shifting Ownership and Control.

The decade of 80s has set a turning point in terms of a significant policy shift by the late Regan Administration and Congress as they both had

liberalized the markets by deregulation and implemented fiscal conservatism through supply-side economic policy in which the marginal tax rates were considered so high that a reduction in the rates would have resulted in an increase in tax revenues through the Laffer curve argument. The result was a dismal performance of the budgetary and balance of payments accounts which had resulted in surging twin deficits: The Budget Deficit and Current Account Deficit. Therefore, our analysis will be comparing pre- and post-1980 developments in the performance of the Modern Corporation.

Tables 1 and 2, show that some stylized facts can easily be observed.

- a) In Table 1, while the annualized growth in Market Value (MV) of Equities held by US residents in two decades before 1980 lagged the growth in National Income, the reverse happens in 90s and 2010s except for 2000s. The 2000s were an aberration decade due to stock market and mortgage market meltdown.
- b) In Table 1, from 60s to end of 2016, the overall growth in the MV of Equities reached \$39 trillion and has outperformed the growth in National Income which reached \$16.4 trillion. The trend observed in the Equity Premium (defined as the difference between MV growth of equities to the 10-year US Treasury Bond Yield) has also shown a positive correlation with the growth in the MV of Equities. The higher the Equity Premium is, the higher the growth in MV of Equities, or vice versa. Equity Premium as can be observed is adversely affected by the Federal Reserve’s (FED) monetary policy and inflationary expectations.

TABLE 1. TRENDS IN MARKET VALUE (MV) OF ALL CORPORATE EQUITIES HELD BY US ENTITIES AND NATIONAL INCOME INCLUDING WAGE COMPENSATION FROM 60s to the END-2016									
	National income	National income	MV of Equities	MV of Equities	MV of Equities	Wage Bill	Inflation	10 year	Equity
	Grwth. Rate	Millon Dollars	Grwth. Rate	Millon Dollars	Over	Grwth. Rate	Grwth. Rate	Treasury Yield	Premium
DECADES	10Y Average	10Y Average	10Y Average	10Y Average	National income	10Y Average	10Y Average	10Y Average	10Y Average
1960-70(60s)	9.28%	\$ 678,988	8.73%	\$ 648,832	95.56%	10.60%	2.87%	4.84%	3.89%
1970-80(70s)	15.62%	\$ 1,542,220	4.38%	\$ 941,333	61.04%	15.61%	9.15%	7.50%	-3.12%
1980-90(80s)	10.93%	\$ 3,665,903	13.56%	\$ 2,233,664	60.93%	10.76%	5.36%	10.59%	2.97%
1990-00(90s)	7.70%	\$ 6,674,945	18.91%	\$ 8,743,907	131.00%	7.57%	2.33%	6.67%	12.24%
2000-10(2000s)	4.21%	\$ 11,116,768	2.76%	\$ 18,494,610	166.37%	3.54%	2.39%	4.46%	-1.70%
2010-16(2010s)	4.55%	\$ 14,506,875	11.16%	\$ 29,814,310	205.52%	4.54%	1.66%	2.38%	8.78%
2016:Q4		\$ 16,424,500		\$ 39,029,736	237.63%				

SOURCE: Z1. FINANCIAL ACCOUNTS OF THE UNITED STATES, Flow of Funds..., 4Q 2016, Board of Governors of Federal Reserve System

- c) Table 2 between 60s and end of 2016 shows that Modern Corporations have created significant wealth for the Household Sector directly and indirectly through institutionalized money managers such as Mutual Funds, Private Pension Funds, etc.
- d) In the 2 decades before 1980, the equity holdings in the US had been held by a dispersed Household Sector comprising 83.5% and 72.0% of the total MV of corporate equities in 60s and 70s, respectively, then after 1980 through 2016, the dispersed Household Sector had waned to 38.6 %, and let institutionalized money managers through Mutual Funds and so on, and additionally, the Rest of the World (Foreigners), take over the destiny of the equity market and corporate control thru their sheer concentrated size of holdings.
- e) As seen in Table 2, the share of Foreign Equity holding of the US residents as a ratio to the total MV of Equities was 1.1% in 70s then has a big leap forward after 1980 and reaching 19.7% through 2016.

TABLE 2. PERCENTAGE HOLDINGS OF MARKET VALUE (MV) OF ALL CORPORATE EQUITIES									
BY TYPE FROM 60s to THE 2016 YEAR-END									
	MV of Equities		HOUSEHOLD	MUTUAL	P. PENSION	ETF'S	RETIREMENT	INSURANCE	REST OF
	Domestic/Total	Foreign/Total	SECTOR	FUNDS	FUNDS		FUNDS	SECTOR	THE WORLD
DECADES	10Y Average	10Y Average	10Y Average	10Y Average	10Y Average	10Y Average	10Y Average	10Y Average	10Y Average
1960-70(60s)	99.2%	0.8%	83.5%	4.2%	5.3%	0.0%	0.4%	3.0%	2.4%
1970-80(70s)	98.9%	1.1%	72.0%	4.0%	11.6%	0.0%	2.5%	4.7%	4.0%
1980-90(80s)	97.7%	2.3%	58.7%	5.4%	18.1%	0.0%	5.1%	5.5%	6.2%
1990-00(90s)	91.6%	8.4%	53.0%	13.7%	14.0%	0.0%	8.1%	3.4%	6.4%
2000-10(2000s)	85.2%	14.8%	41.3%	23.8%	10.2%	1.3%	7.9%	2.3%	10.5%
2010-16(2010s)	80.3%	19.7%	38.6%	24.5%	6.8%	3.9%	6.7%	1.9%	15.1%

SOURCE: Z1. FINANCIAL ACCOUNTS OF THE UNITED STATES, Flow of Funds... , 4Q 2016, Board of Governors of Federal Reserve System

Based on the above stylized facts inferred in Tables 1 and 2, the following Corollaries can be drawn and these Corollaries will challenge the Four Premises of Berle and Means' Modern Corporation as what follows.

- Corollary 1 - The Market Value (MV) of Corporate Equities surpassed the National Income 2.4 times by year-end 2016, and this sheer size of wealth creation has recently made the FED and US Treasury redefine the concept of systemic risk in terms of wealth

creation/destruction in the economy and set policies to counter destruction in the Household Sector wealth by any means.

- Corollary 2 - The wealth-effect of the Modern Corporations has not trickled down as income to the middle-class workers after 1980. The compensation payments (Wage Bill in Table 1) have shown a very mediocre growth barely covering inflation after 1980.
- Corollary 3 - The distribution of Total Household Income is very skewed toward the upper 20% of the income bracket. According to US Census Bureau, the top 20% (people over the decade ending in 2015 making an average of \$186K annually) hold 51% of the Total Household Income. On the wealth front, according to 2010 Census data, the situation is more skewed to the top 40% of American households holding around 70% of the Total Household Wealth in Stocks and Mutual Fund Shares.
- Corollary 4 - In sum, Stakeholder Capitalism has been under siege after 1980 by the Anglo-American style Corporate Governance driven by the maxim of Shareholder Value. The change of the shareholder structure while becoming more concentrated and institutionalized has been the key factor for intensifying Shareholder Activism as embedded in the maxim of Shareholder Value.

Historical Transformation of the Modern Corporation

With this background established, now we can start discussing the transformation of the Modern Corporation and the Four Premises studied by (Davis, 2015, pp.155-169) in reference to the Modern Corporation a la (Berle and Means, 2010, pp. 3-116) for the period before 1980 when these premises are mostly held and the period after 1980 when there were changes in the US economic and political setting which resulted in transformation of the Modern Corporation of Stakeholder Capitalism into a Contemporary Corporation of Stock Market Capitalism emboldened with the maxim of Shareholder Value.

Premise 1. Concentration of Economic Power

Pre-1980 period:

The economic power in terms of controlling physical assets and employment had been in the hands of a few corporations. As the Book I, Chapter III of (Berle and Means, 2010, pp.18-46) stated, “by 1930 the 200 largest corporations in the US controlled 49.2 % of the corporate wealth, and if trends observed had continued, they would have controlled it all by 1959”. This projection by Berle and Means came to a fruition in 60s as a diversifying Merger movement added the Megacorporation to the group identified in the Modern Corporation.

As stated in (Davis, 2015, p. 158), “Conglomerates such as ITT, LTV, Gulf & Western, and Litton Industries grew vast through a string of acquisitions across dozens of industries, joining traditional blue chips like AT&T and General Motors. Namely, ITT grew from 132,000 employees in 1960 to 392,000 in 1970, adding Sheraton Hotels, Hartford Insurance, Continental Baking, and Avis Rent-a-Car, and a dozen of other businesses to its portfolio.”

While discussing the separation of Control from Ownership (property) with emphasis on the property, (Berle and Means, 2010, pp.28-46) had taken wealth into consideration, the economic equivalence of property, and assumed that gross assets controlled by the Modern Corporation was proportional to its wealth. Not only was Corporate wealth examined in their book, but also all business wealth and the national wealth had also been examined to seek the relative value of Large Corporations on January 1, 1930. Namely, while the proportion of Corporate wealth (other than Banking) controlled by the 200 largest corporations in the US was 49.2%, their proportion of Business wealth was only 38% and National wealth was only 22 % (Berle and Means, 2010, p.33).

From a macro-economic point of view, during the Pre-1980 period, as observed in Table 1 above, National Income and Wage Bill grew more than the growth in the stock equity value of the Modern Corporation. Stakeholder Capitalism was at work. Subsequently, Income distribution favored the working class. The policy makers of the 60s and 70s noticed this concentration of economic power of a few Megacorporation run and

controlled by a so-called benevolent, and elite managerial class, and took advantage of implementing their political and social agenda by targeting these entities. As a result, even in the Republican Administration of the late R. Nixon, the policy agenda was advocating for the establishment of government regulatory and supervisory agencies to control market excesses and to deter/abate the detrimental economic externalities such as EPA, Consumer Protection Agency and Equal Employment Opportunity Commission (EEOC), etc.

Post-1980 period:

This premise of concentration of power based on assets and employment has been challenged through the 80s and ensuing decades by Corporate Hostile Takeovers and Raiders where most of the contests involved a change in Control: a leveraged buyout (LBO), strategic acquisition or merger, or a contest for control of the Board. Their target has been to buy the large conglomerates at depressed prices as the market could not correctly price these horizontally merged Megacorporation with investments in different industries (the so-called Market for Corporate Control thesis (Larcker et al., 2016, pp. 311-342)).

This Post-1980 period espoused a new objective, that of maximizing Shareholder Value, by promoting a vertical conglomerate merger, by ‘spinning-off’ the acquired conglomerate of horizontally-merged businesses, and by shedding Labor in the name of efficiency gains in productivity. The horizontal conglomerate merger established pre-1980 has challenged this new objective. With a new funding vehicle created such as below the investment grade high-yield bonds, so called “junk bonds”, the Corporate Raider investment became a reality. Consequently, these financial developments during this period helped bring an end to Stakeholder Capitalism and caused an emergence of Stock Market Capitalism with a maxim of Shareholder Value. The wave of hostile takeovers resulted in lessening of the Modern Corporation with its concentration of power on both assets and employment.

On the employment side, as explained by (Davis, 2015, p.162), the 25 largest firms in the United States employed the equivalent of 6.1% of the private labor force peaking at 7.3% in 1980 and continuously dropping

to 4% by 2000, close to a 50% decline in the ratio.

The Regan Administration policy agenda had been behind all these happenings above by deregulating markets with: a) the Department of Justice (DOJ) removing limitations of within-industry mergers (allowing vertical mergers), and b) the Supreme Court decision in *Edgar v. MITE* striking down a set of State laws limiting hostile takeovers of domestic corporations under the Commerce Clause. Additionally, the introduction of 401k type Defined Contribution Plans in IRS rules caused a substitution of the Defined Benefit Plans of the pre-1980 period which invested mostly in the Modern Corporation's own stock. The new breed of institutional investors (Mutual Fund Managers and Pension Managers) were born in this new economic setting by shifting to the institutional managers the risk-taking behavior/attitude of Households who decreased their retail investment in Equity Shares as presented in Table 2 from 58.7% in 80s to 38.6% percent in the current decade, while letting the institutional managers such as Mutual Funds pick-up the slack over the last 36 years by increasing their Equity Share investments from 5.4% in 80s to 24.5% in the current decade.

All in all, institutionalized buy-side firms became a major force causing the Contemporary Corporation to implement a Shareholder Value vision as a top priority on their management agenda and, consequently, helped shareholder empowerment to gain control over the managerial class of Contemporary Corporation affecting the Corporate Governance and the Board.

To be noted, Corporate Governance (Larcker et al., 2016, pp. 7-9) is the collection of control mechanisms that an organization adopts to prevent or dissuade potentially self-interested managers from engaging in activities detrimental to the welfare of stakeholders and shareholders. At a minimum, the monitoring system consists of a Board of Directors to oversee management and an external auditor to express an opinion on the reliability of financial statements. In most cases, however, government systems putting Managers at the core are influenced by a much broader group of stakeholders, including ordinary and institutional shareholders, creditors, workers/labor unions, customers, suppliers, investment analysts, the media, and regulators.

So, the above analysis shows that the tenet of Davis' Premise 1 could not hold as the US economy, market and politics broke down the Concentration of Economic Power, resulting in changes in corporate goals, market goals and State policies which led to control shifting from Stakeholders to Institutional Shareholders.

Premise 2. Broad Dispersion of Stock ownership

Pre-1980 period:

As also referred to earlier in Table 2, in the decades before 80s, Household stock ownership had been mostly broadly dispersed in retail investment, but a steady reduction in the power and interest of the shareholder resulted in a gradual enhancement of managerial authority, that is, a separation of Ownership from Control-- management was in full control of the Modern Corporation.

As stated in (Herman, 1981, p.5), "This process reaches its extreme in the case of corporation subject to "management control," where effective decision-making power rests with inside officers with "negligible" ownership interests in their companies. For 1929-1930, Berle and Means found 44 percent of the 200 largest nonfinancial companies by number, with no single entity holding more than 5 percent of the voting stock, and 58 percent by wealth, to be subject to management control; another 21 percent by number and 22 percent by wealth were found to be controlled by a legal device. Thus, the aggregate of non-ownership control of large companies was 65 percent by number, 80 percent by total wealth."

According to (Weidenbaum and Jensen, 2010, pp. ix-xviii), "Berle and Means vaguely define the concept of "the control" of the corporation. They refer to a subgroup of the stockholders who have the actual power of selecting the Board of Directors through any of the following ways: 1) complete ownership of common stock, 2) majority control, 3) legal devices, 4) minority control, and 5) management control. The authors note in Book I, Chapters V and VI, that the interests of those in "control" differ from profit-maximizing desires of the other owners and, as these interests move further apart, 'the control' will ultimately lie in the hands of the management. Berle and Means provide an early and earthy state-

ment of the Agency problem: those who control the corporation, even if they own a large block of stock, “can serve their own pockets better by profiting at the expense of the company than by making profits for it.” This raises a serious question about the incentives for managers of the modern corporation to conduct business in accordance with the welfare of the owners.”

The Manager’s incentives of the Modern Corporation a la Berle and Means with the interest of dispersed shareholders above raises an issue of misalignment of the interests, so that it brings us to discuss this issue in Agency theory and Agency costs. In Principal/Agency theory where principals are ordinary/institutional shareholders and agents are the managers, there always exist misaligned interests and conflicts of the parties involved in Corporate Governance causing Agency costs. The asymmetric information held by parties is the reason for this misalignment. To minimize the Agency costs and align the interests of shareholders with the incentives to managers, there is a need for a mechanism and this is the Market for Corporate Control stated earlier, (Larcker et al., 2016, pp. 311-342), other than the optimal contractual agreement between the parties involved.

Post-1980 period:

With the advent of Stock Market Capitalism with a maxim of Shareholder Value, institutional money management has become a major intermediary force transferring Households’ savings into long-term investments; more specifically, Mutual Funds have become a vehicle for Households investing in stock equities of domestic and foreign corporations. As Table 2 exhibits, Mutual Funds managed 5.4% of total MV of Equity holdings in 80s and 24.5% in 2010s, almost a four-fold increase in 36 years. The Funds’ offerings are based on the major indexes by groupings, style and size of the companies, and make the Households choose one of these variety of options dependent on Households’ risk/return profile. Most of the Funds are Indexed or Indexed Plus funds which hold a block of equity shares of US and Foreign Corporations in the index. Therefore, the sheer size of these funds often makes them hold around 10% to 15% of an issue and have a control in the management, thereby influencing the majority

of important decisions made by the Board of Directors of the Contemporary Corporations.

In sum, it seems the corporate equity ownership in the US has become even more concentrated than at any point of time in the history since J. P. Morgan in the early 20th century, defying this envisaged Premise 2 of Broad Dispersion of Stock Ownership of the Modern Corporation a la Berle and Means. Consequently, this concentration of institutional equity holding, as referred to in the Corporate Governance systems in (Goranova and Versteegen, 2015, p.4) where the roles, responsibilities and balance of power among executives, board of directors, and shareholders, hinging on the power distribution is defined, has empowered the individual shareholders only indirectly through this institutionalization. Shareholder empowerment in (Goranova and Versteegen, 2015, p.4) is defined as a shift in the allocation of power from corporate officers and directors to shareholders, implemented either directly via shareholder participation in corporate decision making and advisory votes or indirectly via the shareholder's ability to hold corporate executives and Boards of Directors accountable.

Premise 3. Large Scale Physical Operations

Pre-1980 period:

As stated in (Davis, 2015, p.156), "the largest 200 corporations analyzed by Berle and Means,

included 106 industrials, 52 utilities, and 42 railroads, nearly all entailing large-scale physical operations. The factory system, the basis of industrial revolution, brought an increasingly large-number of workers directly under a single management." Consequently, the grand scale production scheme of the Modern Corporation required a significant amount of capital and issuance of shares to the public because only a few families had the money to fund them.

Post-1980 period:

As expounded in Premise 1 (Concentration of Economic Power), after the 1980 period, the observed declines in the asset and employment con-

centration had been due to the organizational changes of production in the Corporate World in the US economy. Namely, the introduction of the value-chain production model and replacement of labor by industrial robots, specifically in the auto industry, combined with the maxim of Shareholder Value were all behind these declines.

The value-chain production model differentiates high value-added stages of knowledge-based work and marketing from lower value-added processes such as assembly and supply chain management, the latter of which can be easily contracted out. The result of this production model is that the company might be large in revenues and market capitalization while it can be quite small in asset and employment, e.g., Nike in the footwear industry (Davis, 2015, p.163), and hi-tech firms.

In 1960, the five largest private employers in the US consisted of AT&T plus four vertically integrated manufacturers: G.M., Ford, GE, and US Steel. In 1980, US Steel had been replaced at the top five by Sears. By 2010, however, nine out of the 12 largest US employers were retailers, and none were manufacturers. Indeed, Wal-Mart alone employed as many Americans as did the 20 largest manufacturers combined, (Davis, 2015, p.164).

In sum, the tenet of large scale physical operations was overturned as the industrial and trade policies of the US together with globalization shifted its focus from the remnants of a domestic large factory type production model to a high value-added global value-chain production model of a lean Contemporary Corporation via the maxim of Shareholder Value. _

Premise 4. Absence of Bankruptcies and Liquidation

Pre-1980 period:

Bankruptcies and Liquidation do not appear in the index of Berle and Means' 1932 edition as referred to in (Davis, 2015, p.157), even though they wrote right after the Great Depression years when there were extensive bankruptcies and liquidations. Despite this fact, Berle and Means' text envisaged corporations to be like States, which were expected to be enduring features of societal landscape.

Post-1980 period:

The major US Stock Indexes such as DOW-30, S&P 500, and, etc., which measure market movements of the values of equity shares of major corporations across different industries, have in fact changed their composition from time to time. Some corporations have left the Index for a variety of reasons due to bankruptcy, merger and non-existence, while some other corporations have joined the Index due to stability, size and the growth of their businesses and the industries they are in, the so-called Survivorship bias of the referred Indexes in the Finance literature. Just only focusing on the DOW-30 Index Components of 30 firms, we observe in (Davis, 2015 p.164) that “Yet, by 2007, all but three-- Chevron, Exxon and GE-- were gone due to mergers, radical reorganizations, bankruptcies, such as Woolworth’s re-branding as Foot-Locker or Westinghouse’s transformation into CBS. Recent exits for the index include GM, AIG, and Citigroup, all of which had inadvertently become government-supported enterprises due to financial crisis.”

In sum, Berle and Means’ visage of the Modern Corporation being like a State with enduring features has not born out. The study of a history of the Modern Corporation has shown us that survivorship in any business is not long-enduring anymore, corporations with comparative and competitive advantages to each other are adapting to technological and technical changes faster and are also adapting to changing business environments and economic conditions, which prove that at last, Social Darwinism is at work.

Historical Transformation of the Modern Corporation blended with Macro Developments

Before transforming to the Contemporary Corporation, the Modern Corporation, all in all, experienced three trends so fundamentally changing the character of the economy--concentration of economic power, dispersion of stock ownership, and separation of Ownership and Control--which had continued over the 35 years prior to December 1967, until the publication of the 1968 revised version of the “Modern Corporation and Private Property”. A Corporate revolution had marched on (Berle and Means, 2010, p. xlii) and continued until 1980.

The period covering pre-1980 after the New Deal of early 1930s was representative of Stakeholder Capitalism, in which Wage compensation and real wages grew at a better pace than the National Income, and its distribution patterns favored the working class, (Table 1 above). The Keynesian economic policies together with the gold-exchange standard exchange rate regime in international trade had resulted in stable US prices with a smaller output gap (defined as actual output minus potential output) up until the end of the decade of 60s. In 70s, both a change in the exchange rate regime from the gold-exchange standard into a floating currency system, and skyrocketing oil prices which produced a downward shift in aggregate supply and productivity, had resulted in escalating inflation and interest rates. The MV of Corporate Equity had been adversely affected resulting in a significant loss in the share prices.

In the post-1980 period, Reaganomics and market liberalization have given away the gains realized by Households compensation in earlier decades and kept falling down every decade through 2016 in the name of productivity gains in the Corporate sector (see Table 1). The supply-side view of the Regan economic policy agenda has not resulted in the expected trickle-down effect in wage compensation, although, with the Contemporary Corporation's maxim of corporate Shareholder Value, stock prices surged in the following decades resulting in growth in the Household Sector wealth of holding corporate equities which outpaced their income growth, albeit only benefiting the upper 20% to 40% of the income bracket which held most of the Corporate Wealth. The earlier Modern Corporation transformed into a Contemporary Corporation-- less Concentration of Economic Power (contra Premise 1), concentration of Stock ownership (contra Premise 2), and control by Corporate Managers but, control checked by Institutional Equity Managers via Shareholder Activism (also contra Premise 2), and the US economy became a representative of Stock Market Capitalism.

In Stock Market Capitalism, priorities of the Contemporary Corporation have been so-called bottom line at their Balance Sheet and top line growth in Sales by achieving operational efficiencies with a Shareholder Value maxim and Shareholder Empowerment (Goranova and Versteegen, 2015, pp.1-37). The Contemporary Corporation has also become very powerful in terms of its relationship with the State. In Stock Market Ca-

pitalism, stock market prices occasionally overshoot, and eventually result in speculative bubble bursting. The late 90s and early 2000s internet bubble bursting and late 2000s sub-prime mortgage crisis both induced a stock market crash which is indicative of this speculative trend of Stock Market Capitalism. The extensiveness of such crises can result in a systemic risk to the economy, therefore, a policy response on the parts of FED and the US Treasury is needed.

POLICY CONCLUSIONS

This paper concludes, in view of the asymmetric macro-trends in the Household Sector wealth in equity shares, how ineffective the monetary authority, the FED, has become in implementing and exiting the stabilization policies of late 2000s in the US economy as a representative of Stock Market Capitalism, and in addition, shows how dismissive the government policies on national employment and income has been during the post-1980 period.

Specifically, the FED has been trapped by the stock market and real estate market into a position of delaying the exit from so called Quantitative Easing-- QE policy by ballooning the FED balance sheet over \$ 4 trillion, which has caused the FED to purchase long-term Treasuries, Agency issues, Mortgage-backed securities, and etc., in order to reduce long-term bond yields with an objective of propping up Corporate Investment, and to reduce the interest cost of Households borrowing with an objective of propping up Household Sector wealth. Household wealth creation/destruction has been of utmost importance to the monetary authority.

Destruction of Households wealth from collapsing equity and real estate prices would be the largest factor in causing a surge in a systemic risk in financial markets as the Household personal consumption expenditures comprising over 70% of National Income is mostly determined by Disposable Income and the so-called Pigou Wealth effect. To keep the financial sector stability in check, the Monetary authority must not only maintain a stable growth in Households wealth, but also pay attention to the Financial Conditions Index and variations of that index measuring financial stability. Currently, stock market prices are elevated to levels of irratio-

nal exuberance such that companies are borrowing money in this very low interest rate environment, purchasing their own Company's stock for propping up stock prices by the Contemporary Corporations' Managers under the pressures of the Shareholder Activism of Institutional Fund Managers. Therefore, the FED should monitor the significant divergence of fluke equity market prices from their fair-value ranges when stimulated by manipulative liquidity in the hands of Contemporary Corporate Managers.

To recapitulate, the FED should not only continue focusing on their statute charter of providing for the US economy a price stability together with small output gap, but also focusing on an implicit target of stable wealth creation. Namely, the FED should step on the brakes in a timely fashion by raising the interest rates when they see a bubble forming in the equity prices and, in a timely fashion, exiting from QE, slowly, but surely so that any speculative bubble will not burst, but will cause a harmless market correction. The mantra for the authorities to control the systemic risk in the financial sector and price and output stability in the economy should not be an asymmetric policy response to wealth dependency of the growth in the economy. The FED's mantra should be a swift policy action to limit the destruction of wealth, but no policy action to keep up the creation of wealth when and if the valuation reaches bubble levels.

The government authorities should also be concerned about the performance of Stock Market Capitalism in terms of a healthy and sustainable growth in Households' employment and payroll. As shown in Table 1 above, payroll-- Wage Bill Compensation-- growth has lagged the wealth growth, despite the negative household savings. How has this happened? If saving is defined as a change in household wealth over time, negative savings indicate a decumulation of Household wealth, seemingly resulting in a puzzle contradicting the actuality of significant growth in Households wealth over the period of post-1980 to now as shown in Table 1, above. There is no puzzle, in fact, that the Household Sector, including retirees, has been dissaving to maintain their permanent income and consumption affected by slowing growth in their wage compensation because this factual dissaving is more than compensated for by the increase in the valuation of assets (Tables 1 and 2), resulting in a higher growth

in the Household wealth. Overall, the valuation of assets has been ahead of their fair-value ranges over the post-1980 period, resulting from the asymmetric and reactive counter-cyclical interest rate policy of the FED, even though at times there had been some market corrections.

The lower growth in wage compensation and labor productivity is not comforting from income distribution aspects in comparison to wealth growth, however, the profit growth showed similar growth patterns to wage compensation. For this reason alone, the government national employment and income policy should be focusing on this low level of labor productivity and wages from the point of view of the labor supply and its characteristics-- work time versus leisure, occupational composition, demographics, education, non-immigrant labor, and, etc. In conclusion, labor productivity and its determinants should be delineated and studied carefully to boost up the standard of living in the US, and this should be one of the top priorities of the government whose objective is to alleviate skewed income distribution in the US economy.

The policies of redistribution of National Income were in fashion in 60s and 70s through the progressive taxation policy-- progressive, and income transfer policy. But, most of these policies have been challenged post-1980 and into the 2010s. Currently, some market-based transfer schemes should be considered, developed and implemented to challenge the low labor productivity and wage compensation.

To sum up, the development of market-based transfer schemes could be a very interesting research area providing strategic input to the policy-makers. Herewith, I recommend the establishment of a **Public Wealth Tax-Fund**, managed by Institutional Managers, investing mainly in the crumbling Infrastructure in the US. The funding would come by capping the long-term capital gains to 10% per annum cumulative over the holding period and giving a tax exemption to these gains, then above the capped long-term gains a 30% capital gains tax would be imposed, resulting in a significant amount of tax revenue. At least, 50% of this tax revenue can be used to capitalize the Fund, (*perhaps, in terms of the Fund's issuing shares of income generating perpetuities to the wealthy tax payers as a certain portion of their paid capital gains tax, when they realize their long-term capital gains and pay almost 30% taxes on them*), which invests

in the US infrastructure by employing high value-added workers and resources, which does not crowd-out the finances available, but, in fact, it does crowd-in by increasing the National aggregate productivity.

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