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POST-KEYNESIAN MICRO THEORY ON BUSINESS ENTERPRISE AND THE VEBLENIAN'S APPROACH: ARE THERE COMMONALITIES?*

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ABSTRACT

The main objective of this paper is to explore the possible common grounds, divergences and complementarities between the Veblenian's approach on the Theory of Business Enterprise followed by Institutional economists, and the modern Post Keynesian Micro theory on Business enterprise. Due to the dispersion and lack of systematization of Institutional Economics regarding this body of theory, compared with the Post-Keynesian theory of the firm, the main efforts of this paper will be dedicated to a short survey of the Institutional approach. In the second section of the paper I review the basic ideas presented in Veblen's main contributions on this area regarding business enterprises (industrial process, main principles, role of credit, ownership structure, the legal framework, the price behavior and the cultural incidences). Then, I make a comparison with the main theoretical results that modern postkeynesian vision has developed regarding structure of production, costing, pricing, investment, and competition and market governance . I claim that even though there are commonalities and some minor divergences between the two approaches, complementarities among them are more relevant, although the main areas of research have been somewhat different. I end with some conclusions that underline possible areas of cooperation between these two schools of economic thought within the heterodox paradigm.

KEY WORDS: Theory of the Firm, Postkeynesian Economics, Institutional Economics.
JEL CLASIFICATION: B5, D2, M2

RESUMEN

El principal objetivo de este ensayo es explorar los puntos de convergencia, divergencias y complementariedades, entre el enfoque de Veblen sobre la teoría de la firma seguida por los Economistas Institucionalistas, y la teoría moderna Postkeynesiana de la firma. Debido a la dispersión y falta de sistematización de la teoría institucionalista Original de la firma comparada con la teoría Postkeynesiana, los mayores esfuerzos del ensayo se dedican a hacer una revisión de los principales aportes de la teoría del institucionalismo original a la teoría de la firma. En la segunda sección se hace un recorrido de los principales aportes de Thorstein Veblen a la teoría de la empresa de negocios cubriendo aspectos como el proceso industrial, el papel del crédito, la estructura de la propiedad, la estructura jurídica, las reglas de fijación de precios y el ambiente cultural que la afecta. Luego se establece una comparación con la moderna teoría postkeynesiana de la firma en relación a la estructura de la producción, costos, precios, inversión, competencia y gobernanza del mercado. Sostengo que aunque hay coincidencias y algunas menores divergencias entre los dos enfoques, las complementariedades son más relevantes, aunque las áreas de investigación han sido distintas. Al final se presentan conclusiones y posibles líneas de cooperación entre las dos escuelas de pensamiento del paradigma heterodoxo.

PALABRAS CLAVES: Teoría de la Firma, Economía Postkeynesiana, Economía Institucional.
CLASIFICACIÓN JEL: B5, D2, M2

INTRODUCTION

It is clear that just criticizing the main assumptions of Neoclassical Economics cannot develop Heterodox Economics. It has been recognized, from a heterodox perspective, that there is an urgent need of developing a coherent and consistent alternative theoretical framework in the basic fields of Micro and Macroeconomics in order to have a common ground from which we can develop analytical tools to be applied in other areas of economic theory.

However, we also know the huge diversity that exists within Heterodox Economics, going from Marxian approaches to Postkeynesian, Neoricardians, Feminists and Institutionalist economics. This extreme diversity posits some doubts regarding the issue of defining something as "heterodox " economics, due to the excessive plurality among these unorthodox, and sometimes conflicting views on Economics. To some young economists this 'plurality' within Heterodox Economics sometimes could be discouraging and problematic.

However, I claim, following Sheila Dow (2000), that during the last 20 years, Orthodox economics has been also affected by this phenomenon of fragmentation. An example of this is the appearance of new areas such as Game theory and Experimental Economics and other approaches that in a strict sense do not contribute much to the development of the General Equilibrium Theory. Moreover, the relevance of problems of incomplete and asymmetric information among economic agents, have weaken the notion of a unique equilibrium, and driven the analysis to the cumbersome area of multiple equilibrium (Dow, p. 159).

If we believe that one of the main characteristics of all strands of Heterodox Economics is to see society and the economy as an open system, based on the important criteria that a closed mathematical formalization is not necessary for the development of it, then we can assess this pluralism and diversity of Heterodox economics as a virtue and a possibility of development, and not as a defect. Of course, this idea does not mean it is not important for us to develop economic models as our experience in system dynamics models, agent-based modeling and other approaches show.

Hence, to discover commonalities, differences and complementarities among the different approaches within Heterodox Economics remains a valid task. Of course, pluralism cannot mean that anything goes on, but a careful analysis of the main theories and the critique of them are required. This is the only way that will enable us to define carefully common grounds, differences, and possibilities of cooperative work, regarding the development of theory among the different approaches.

This paper follows this perspective regarding the theory of Business enterprise. Neoclassical Micro Theory today is taught as "the" only Micro Theory all over the world. However, heterodox economists have developed other approaches. By the same token, it is also necessary to define the real common grounds between

Heterodox Economics, and its differences and possibilities of convergence among different schools of heterodox economic thought. This is the only way to construct a valid alternative to Neoclassical Economics, and to show progress in developing a serious alternative paradigm (Dow, 2000, p. 169).

The main objective of this paper is to explore the possible common grounds, divergences and complementarities between the Veblenian's approach on the Theory of Business Enterprise followed by Institutional economists, and the modern Post Keynesian Micro theory on Business enterprise. Due to the dispersion and lack of systematization of Institutional Economics regarding this body of theory, compared with the Post-Keynesian theory of the firm, the main efforts of this paper will be dedicated to a short survey of the Institutional approach. It must be recognized however that during the last ten years a good number of papers and books have been aimed to this cross over between IE and the PK theory of business enterprise.

In the second section I review the basic ideas presented in Veblen's main contributions on this area regarding business enterprises (industrial process, main principles, role of credit, ownership structure, the legal framework, the price behavior and the cultural incidences).

Later, I continue with an account of the last contributions by Institutional economists like Munkir, Knoedler, Dugger and others. New institutional economists' approach will not be included because I consider them close to the neoclassical paradigm[1]. Then, I make a comparison with the main theoretical results that modern postkeynesian vision has developed regarding structure of production, costing, pricing, investment, competition and market

1 To avoid any confusion, I consider Instituionalist Economists those who follow the Veblen-Commons-Ayres-Mitchell's tradition. The New Institutionalists Economists are gathered around the Coase- North- Williamson's strand.

governance (Eichner, Lee and others). I claim that even though there are commonalities and some minor divergences between the two approaches, complementarities among them are more relevant, although the main areas of research have been somewhat different. I end with some conclusions that underline possible areas of cooperation between these two schools of economic thought within the heterodox paradigm.

VEBLEN'S APPROACH ON THE THEORY OF BUSINESS ENTERPRISE

Thorstein Veblen's main contributions to the institutionalist theory of Business enterprise were outlined during the first three decades of the 20th century with *The Theory of Business Enterprise* (Veblen, 1904) and *Absentee ownership: the case of America* (Veblen,1967)[2]. These two works were written during a process of intense transformation of American capitalism where the modern corporation as we know it today, became the dominant organizational structure of business enterprise in America. For Veblen, the business enterprise was now "…the directing force which animates the modern industrial system…"(1904, p. 1) based on what he called the machine process. The machine industries were in a dominant position, setting the pace for the rest of the economy (1904, p. 2). This machine process led to a process of standardization, where the industrial unit was "a given industrial plant" (1904, p. 16).

This new technological and economic development required a new business organization and new "business methods" that generated a new culture embedded in the business enterprise. Using his famous dichotomy regarding "industrial" and "pecuniary" transactions, Veblen argued that "the adjustments of industry take place through the mediation of pecuniary transactions, and these

2 *Absentee and Ownership* was first published in 1923 by B.W.Huebusch, Inc.

transactions take place at the hands of business men and are carried on by them for business ends, not for industrial ends…in the narrower meaning of the phrase" (p. 27). Now, "the business man aims to gain control of a given block of industrial equipment …as a basis for further transactions out of which gain is expected" (p. 31). Based on the machine process, the new business enterprise implied the formation of larger industrial consolidations, leaving behind any illusion about competitive markets, so pondered by the orthodox economic analysis. Thus, Veblen was depicting the transformation of American capitalism that indeed was very concentrated since its own beginnings during the second half of the 19th century.

Veblen pointed out the main facts of this new process, based on economies of scale and business savings, not only in the production costs but also in the management and marketing costs (46). Unnecessary business transactions were eliminated, where less large firms were eliminated or absorbed. In Veblen's words, "…It is a casting out of business men by the chief of business men" (p. 49).

The aim of the businessman is not the naïve short run maximization of profits given some resources of capital and labor. His work is pointed to the "acquisition of gain through taking advantages of those conjunctures of business that arise out of the concatenation of processes in the industrial system" (p. 49). This implied a strategic vision for the business enterprise, more oriented to its survival and growth, through the use of power and control within the market system. The pricing behavior of these enterprises would not follow, according to Veblen, any equilibrium between supply and demand, nor an equalizing principle between marginal revenue and marginal costs. Business enterprises, recalling the experience of American railroads, will charge "what the traffic will bear" (p. 54).

The institution of ownership was in the center of Veblenian's analysis of the business enterprise; it was its "spiritual ground" (p. 66).

This ownership was translated in terms of money, where investments were made on the basis of being able to generate profits (p. 85). Value of plants and processes were assessed on the basis of profit-yielding capacity. Here, the use of credit becomes an important tool to enable the business enterprise to grow and expand through the control of markets. Thus, Veblen started the institutionalist tradition to concentrate the analysis on the problems of control, management and stock ownership, as the main and new characteristic of the corporation. Compared with previous periods, loans were still important for day-to-day operations of the corporation. In the same direction, issuance of bonds and other notes were also used. To Veblen, these loans had "a pecuniary (business) existence, not a material (industrial) one..." (p. 103). Depending on the business cycle, this debt structure would only redistribute the ownership of the business enterprise in favor of the claimants and holders of these titles (p. 105).

But a new structure of ownership was generated now by means of a new form of credit, based on the stock share, defined by Veblen as "a transfer of a given property from the hands of an owner who resigns discretion in its control to a board of directors who assume the management of it" (p. 114). This new corporate finance was based on the capitalized good will of the firm, responding to a present value of a future stream of profits, without a necessary representation on the real value of assets embedded in the industrial process. Now, the main concern of the captains of industry was not industrial business ('industrial' in the Veblenian sense) but pecuniary business, and 'capital' was not only related to the value of means of production any more but with the "capitalized putative earning-capacity" (p. 131). Hence, the "nucleolus of the capitalization is not the cost of the plant, but the concern's good-will..." (p. 138).

The good-will of the business enterprise is crucial for its financing. Veblen carefully depicts this good-will as composed by customary business relations, reputation for upright dealing, franchises and privileges, trade marks, brands, patents and copyrights and exclusive use of process. These are going to be "immaterial goods covered by the common stock" (p. 145). Thus, for Veblen, the corporation was now the typical characteristic form of business organization for the management of the industry, based on a method of capitalization that implied a separation between the management and the ownership of the industrial assets. The 'credit economy' as Veblen characterized this new period, made it possible (p. 146)[3].

This separation between ownership and management is going to be one of the main areas of interest among post-Veblenian economists. Veblen stated, "the interests of the managers of a modern corporation need not coincide with the permanent interest of the corporation as a going concern…" (p. 157)[4]. To Veblen, the interest of the community is to get the best and large possible output of goods and services. The interest of the corporation as a going concern is to maintain its efficiency and to give the best output and prices. However, the interests of the managers are oriented to "… enable them to buy the enterprise or to sell it out as expeditiously and advantageously as may be..." (p. 157). In other words, pecuniary interests of the managers are above the 'industrial' interests of society and the corporation itself as a going concern. In Veblen's words, "under this system of corporation finance the affairs of the corporation are in good part managed for tactical ends which are of interest to the manager rather than to the corporation as a going concern…" (p. 162).

3 Veblen defined the feudal system as a "goods" economy, the period of appearance of capitalism as a "money" economy, and the phase of the modern business enterprise as a "credit" economy. Thus, he would coincide with modern post Keynesians who give a decisive role to credit in a modern monetary economy (Veblen, 1904, 137).

4 As I will show later, this statement is exactly the opposite of Eichner's (1976).

Veblen's vision on modern business enterprise allowed him to propose a theory of business cycles on a pure "micro" perspective[5]. Veblen claimed that the growth of business enterprise rests on the modern industrial technology. But the discipline generated by the machine process "cuts away the spiritual foundations of business enterprise; it is incompatible with its continued growth…In their struggle against the cultural effects of the machine process…business principles cannot win in the long run…" (p. 375). Clearly, Veblen underestimated the huge possibilities that the evolving business enterprise was going to have during the 20th century through its expansion and consolidation, not only within the US economy but also around the entire globe.

By the time Veblen published *Absentee and Ownership* the transformations of American capitalism were already under way, confirming all the previous insights in its previous work on the business enterprise. For this reason, Veblen displayed a careful analysis of this new phenomenon, which separated ownership from management in the modern business enterprise. For Veblen, "the corporation is a business concern, not an industrial unit…it is an incorporation of absentee ownership, wholly and obviously…the corporation's control and direction of industry is a financial control…" (Veblen, 1967, p. 83).

5 In several footnotes (Veblen, 1904, p. 203) he suggests a margin of gains of output as the difference between the sales price of the firm and the expenses of production of output. Investments were made with a view of pecuniary gains(186). Technology, through the machine process, generated an industrial system that configured a "system of interstitial relations" based also on the extension of the credit system. Thus, Veblen sees business cycles as a result of excessive "business traffic" caused for pecuniary behavior of management and not as a phenomenon of the material process of production and consumption (185, footnote 1), criticizing the explanations given in a Marxian perspective by Tugan-Baranowsky.

The new structure of ownership in command of the modern business enterprise converted it into a pecuniary institution and not an industrial one: "its corporate activities are not in the nature of workmanship but on salesmanship" (p. 83). The modern business enterprise, Veblen asserts, is "pecuniary institution, not an industrial appliance…it is a means of making money, not of making goods…" (p. 85).

According to Veblen, the behavior of this business enterprise is focused on obtaining "…a large and secure net gain, to acquire title, to 'make money'…" (p. 212). In doing so, the business enterprise is going to cut employment and output in order to get "an enhanced rate of earnings for the time being…and advancing its price schedule" (p. 214). Here, Veblen is depicting the usual behavior of a monopolist, but prices are not a result of any equalization of marginal costs and revenues but are "advanced" according to a strategic behavior of the corporation lured by its pecuniary interests. Clearly, a notion of "managed" prices was suggested here.

Veblen's analysis underlines the financial structure behind the modern corporation. He carefully depicts all the financial innovations during his times, innovations that allow the financing of the business enterprise based on the difference between the value of the goodwill of the corporation and the real value of the means of production incorporated in it. Extending this vision to the overall society, that will enable us today to easily understand the past crisis of the dot-com companies; Veblen states that "the total wealth of the country counted as assets, funded capital values, is very appreciably larger than the same total when counted as itemized material wealth in hand…" Thus, one finds a paradox in the modern capitalist society: "the ordinary net earnings of business must exceed the ordinary net product of industry from which alone these net earnings are to be drawn…business management is businesslike and capable only in so far as it gets something for nothing…" (Footnote 11, p. 222).

This brilliant assertion reveals the permanent instability and fragility of the financial system over which the modern corporation rests still today[6]. The current sub-prime loan markets melt down is just another corroboration of the same situation.

Similarly to modern Postkeynesian analysis, Veblen had a structural vision of the industrial sector although ordered in a way different from the traditional input-output tables. For Veblen, the primary or key sector were those in control of the main inputs for the mechanical industries such as power, transportation, fuel and structural materials (steel for example). The secondary sector was the manufacturing industries and the third sector was the agricultural one (p. 233). He saw these three sectors overlapped, interlocked and blended (p. 234), but all of them were dominated by the mechanical industry (p. 235), based on the technology of physics and chemistry.

In sum, Veblen's vision on the modern business enterprise gave powerful insights on the behavior of modern corporations regarding output and pricing, financing, capital structure, absentee ownership, pecuniary management and structural links among them and within sectors. His theory of the business firm is basically a theory of the firm in a monetary economy. Also, he carefully showed the connections between the microanalysis of the corporation and the macro phenomena of business cycles and financial instability. These were important foundations for the theoretical efforts of modern institutional economists.

6 The validity of Veblen's analysis, appliedto financial markets and product inno vations during the 1980s can be seen in Raines, J. and Leathers, G (1992), where financial innovations attempted in vain to reduce financial instability through collusions and financial "reforms".

THE POST-VEBLENIAN'S VIEW OF BUSINESS ENTERPRISE

Immediately after Veblen, Institutional economists oriented their research to general issues regarding the evolution of the modern industrial society, the proposal of a "reasonable theory of value", the analysis of transactions in a capitalist society and the careful description of the business cycle (Ayres, Commons and Mitchell). However, not much attention was devoted to the specific study of the business enterprise in the way Veblen did. The main findings during the 30s came from independent researchers who challenged sometimes the traditional vision of orthodox economics on the business enterprise[7].

Berle and Means, in the *Modern Corporation and private property* (1968), published in 1932, made more evident the new basic trends of American capitalism already described by Veblen. For Berle and Means, those trends were the concentration of economic power, the greater dispersion of stock ownership and the problem of separation of ownership and control.

According to Berle, there was a "passive" private property that was instituted by the growing corporate business. (p. XIX). They asserted that the nature of capital had changed, not composed of tangible goods "…but of organizations built in the past and available to function in the future" (p. 45). The invisible hand of market competition was being replaced by the "ultimate control of a handful of individuals" (p. 46). The ownership has now changed. It is passive and it is formed by a piece of paper that represents some rights over expected profits, but without any physical control over the instruments of production (p. 64). In that sense, the

7 The analysis that follows starts with a brief summary of the main results that A. Berle, G. Means and A. Chandler brought to the analysis of the business enterprise, from which post-Veblenian Institutional Economists derived new approaches during the 70s and the 80s. Strictly speaking, Berle, Means and Chandler were not institutional economists as I define them in this paper.

door was opened to conflicts and agency problems. In Berle and Means's words, "we are dealing not only with distinct but often with opposing groups, ownership on the one side, control of the other – a control which tends to move further and further away from ownership and ultimately to lie in the hands of the management itself, a management capable of perpetuating its own position" (116). This clearly raised the important question, for the modern institutionalist economists, about the interests of those who run and control the business enterprise and the interests of the owners represented by the stockholders.

During the following decades, Means, in *The Corporate Revolution in America* (Means, 1962) presented more empirical evidence on the basic trends of the American capitalism, and challenged strongly the naïve analysis of Neoclassical economics. Another important matter was his analysis on the administrative character of the market, the indeterminacy of cost for business firms, the duality of the process of saving and the questioning of the maximization of profits as a motivating force of the modern corporation (p. 16). Here, Means proposed his well known theory of "administered prices" and "market prices" that have become an important part of the modern heterodox theory of the firm, with important implications for a heterodox macroeconomics. Today, Postkeynesian and Institutional economists need to reassess this theory, critically as Lee and Downward (1999) proposed.

Means insisted also on the duality of ownership and control, asserting that "the owners supply the capital, but management controls the enterprise and determines its efficiency" (p. 160). The pricing behavior of the corporation was determined by "an optimum balance between a higher or lower rate of return and a greater or less risk of new competition..." (p. 162).

In sum, as an independent researcher, Means' analysis contributed in great extent to the development of the post-Veblenian Institutional economics and the post-Keynesian Micro and Macroeconomics. (Lee and Samuels, 1992, p. xxxx). It is hard to know to what extent Veblen "impregnated" Mean's ideas. I could not find any bibliographical reference in Means regarding Veblen's works.

Another independent researcher, Alfred Chandler developed important insights on the modern corporation. Chandler considered that Schumpeter's individual entrepreneur is replaced now "by a collective entity, institutionalized among teams of managers operating within structures they themselves designed..". (McCraw, 1988, p. 9). In Chandler's view, the overall strategy of business firms was defined " as the determination of basic long-term goals and objectives" (Chandler 1988a, p. 174). The structure of the firm is viewed as "a design of organization through which the enterprise is administered, " where structures follow strategy" (p.174-176). Firm's operations required, according to Chandler, a managerial hierarchy that allows an administrative coordination. This hierarchy is going to remain as a source of permanence and power, and it will foster firm's growth, where long term stability is preferred over short run maximizing profit behavior. (Chandler 1988b, p. 396).

Based on the works of Berle, Means and Chandler, post-Veblenian Institutional Economists developed further ideas regarding the functioning of business enterprises during the 70s and the 80s, even though at the beginning of the 70s, one does not find many references on institutional works on the Micro Theory of Business enterprises.

R.D. Peterson (1979) discussed about Chamberlin's Monopolistic Competition underlying the theoretical influence of Thorstein Veblen on Chamberlin's work (p. 670). He also points out how many Institutional economists at the time Chamberlin's work was published, reacted favorably to it. Peterson claims that Chamberlin's work helped to undermine the neoclassical notion of equilibrium, showing the role of institutions and market structures behind price determination. However, Peterson ends up recognizing that Chamberlin was basically a neoclassical economist trying to improve orthodox theory with institutional elements (p. 680). Also, he sees the mixing of institutional elements with neoclassical theory as something positive. The issue, in my opinion, just reveals the weakness existing at that time among Institutionalist economists, of a complete and developed Micro institutional theory of the firm, inasmuch as Chamberlin's theory remains faithful to the basic assumptions of neoclassical theory[8].

A real development in institutional economics came with the works of John R. Munkirs, an economist, in his own words, "rooted in America's institutionalism"(Munkirs, 1985, p.ix). Building on Berle's ideas about corporations as "quasipolitical institutions", Munkirs up-dated institutionalist views on American capitalism, seeing corporations as an structured totality of technology, mass production, distribution and corporate concentration of power (p. 42).

The notion of Centralized Private Sector Planning (CPSP) is crucial in Munkirs' analysis. In his own words, the CPSP "may be viewed as a process whereby the production and distribution activities of the economy's key corporations and industries are organized and coordinated so as to bind these corporations and industries together into a functionally integrated production and distribution system" (p. 60).

There are three planning instruments or mechanisms that put these corporations together: 1) corporate stock; 2) the Board of Directors; 3) The corporate debt. The corporate stock reflects all the problems of ownership and control, depicted previously by Veblen, and Berle and Means. Munkirs explains in detail all the different

8 Here I am not suggesting that such a theory exists today. As I will show later, I am more inclined to believe in the need of constructing a heterodox theory of the firm conflating Postkeynesian and Institutionalist approaches.

systems of voting, including the cumulative voting and proxy voting systems. He discovers that using these voting systems, and due to the dispersion of ownership among stockholders, a 5%-10% of the common stocks would be enough to control a corporation. Hence, the Central Planning Core (CPC), formed by the main banks, insurance companies and the most important corporations, is able to control a strategic share of the stocks of different corporations, generating " a very explicit set of interdependent structural relationships" (p. 77). These interconnections are based on technological and pecuniary interdependences.

The Board of Directors, from a pragmatic perspective, becomes, according to Munkirs, "a self-electing and /or self-perpetuating dynasty…" (p. 80). A Board is formed by *insiders* (usually corporative officers who deal with the day-to-day issues of the firm) and *outsiders* (business executives form other corporations). The Board itself, operates as a functional planning tool, with intra and interlocking ties to other corporations, and also with *indirect directorship* interlocks[9].

The corporate debt becomes also a powerful planning instrument for the CPC through several mechanisms such as equity capital (stocks), debt capital (bonds), notes, bond certificates, bond indentures and trust agreements. Through the debt mechanisms, the CPC is able to act as a major creditor to the corporation, having access to the key strategic documents of the business enterprise[10].

Thus, using these three instruments, the CPC is able to allocate capital between and among several industries, undermining the

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9 In the indirect directorship interlocks, a set of board directors, coming from two different corporations, meet together in a third board of a corporation in which they are outsiders.

10 Usually, creditors as Trust banks, have a seat on the Board, and are able practically to veto any decision of the corporation that does not agree with their interests.

power of regulatory commissions. Also, the use of joint-ventures allows a major degree of consultation, planning and coordination (p. 145). The evolution of the technological industrial process helps to concentrate administrative control over the key industries, generating a centralized management process that practically replaces the traditional market system. The CPC is able to do so in such a way, that society as a whole, does not perceive it as a coercive force (p. 181).

This idea of power and control permeates institutional view of the industrial system. In another work, Munkirs and Sturgeon (1985) propose to replace the concept of oligopolistic competition by the more realistic concept of oligopolistic cooperation, supported by the structural interdependences among firms. For Knoedler (1990), for example, the antitrust legislation of the beginning of the century played a minor role in the expansions and mergers that occurred during that period, as in the cases of Dupont, General Electric and ATT. For these companies, the visible hand of management –motivated by innovation and non-price competition–, accompanied by large scale advantages, were decisive (403). As Munkirs and Koedler explain, "one basic tenet of institutional economics is the existence and exercise of power and coercion in the community's economic decision making" (Munkirs and Koedler, 1987, p.1679).

This approach brings on different notions of market power, for regulated and non-regulated industries, and it points out the idea of autarkical power for the CPSP (1683). The behavior of firms in the "planned" sector is different: while non-planned sector firms seek survival and profits, planned sector firm leaders decide on the industry's optimal size, the number of participants, and system-wide profits and liquidity as a whole. The needs of the individual firms are not important. Non-planned firms sell stocks and acquire debts to raise financial resources. Within the CPSP, stocks and debts are traded to reorganize industries, to allocate financial resources among firms, and to punish or reward the behavior of individual units. Non-planned firms are more national-based, CPSP firms operate from a global perspective, based on the needs of global markets mixed with political factors (p. 1686).

A power-oriented vision of the economy offers a particular vision of the structures of the industrial system. Munkirs and Knoedler find the following elements in this structure: 1) contractual satellite industries/firms (auto dealerships, gasoline stations, recreational vehicles, grocery stores, drugstores, etc)which do not have any control on output, quality or prices of the products they sell; 2) non-contractual satellite /industries/firms (sellers at the wholesale and retail level) subjected through technological imperatives; 3) CPSP industries which control 55-60% of the output, using administered prices. (1688-89). At the end, this whole structure, coordinated by the CPC, is analyzed under the Veblenian dilemma, being inefficient or "morally evil" as long as it plans "primarily according to their self interest" (1703). In other words, the planning process does not solve the contradiction between the industrial interests of society and the pecuniary interests of the CPC.

Munkir's views are very illustrative of the realities of the modern corporate system and undoubtedly, his work is an important piece in understanding the business world today. Despite this, I wonder to what extent Munkirs exaggerated the degree of coordination among the so-called CPC. This is a question difficult to answer without sufficient empirical evidence that, by the way, is very hard to recollect. One wonders to what extent this social elite group within the CPC is really able to coordinate so much, taking into account that each sector of this group can have their own agenda.

William Dugger studied in detail the dynamics within the corporate enterprise as an expression of corporate power. He starts paying attention to the study of corporate bureaucracy embedded in a pecuniary culture, despite its technocratic orientation (Dugger, 1980). The organization evolution of the business enterprise has been characterized by shifts towards decentralization and diversification. However, Dugger claims that "US enterprises are becoming more top-heavy, even though some decentralization and de-diversification are taking place" (Dugger, 1985b). The recent mergers and acquisitions during the 90s are just another sample of the same process.

Dugger (1985a) criticizes the traditional measures of concentration ratios for the manufacturing sector, observing that these ratios miss the aggregate concentration and conglomerate concentration. Reviewing these measures, he finds new sources of powers such as reciprocal dealings, cross-subsidizing and mutual forbearance.

In one of his most developed works, Dugger (1988) examines the corporate power in detail, enriching the institutionalist approach on this topic. He claims that the higher concentration ratios of the modern corporation imply not only new structures but also a cultural adjustment (80). After recognizing the organizational change from the U-form toward the M-form of the organizational structure of corporations, he asserts that a new technology has been developed.

This new technology is not related with the production of goods and services. It is referred to the organization and control of people. The technological revolution is basically in organization and information. That is how the business enterprise overcomes the limitations in size. Now, in Dugger's words, "since corporations can live forever, they can theoretically grow forever as well…" (p. 85).

Following the product-portfolio approach, the new conglomerate classifies its firms as cash cows, stars, dogs and cats (p. 87). The derived strategy would be to sell off the dogs (small market share of declining industries), invest in cows (subsidiaries with a large market share of stable or declining industries) and stars (largest market shares in growing industries). Cows will be milked to buy the rising stars. From this scenario, shareholders do not play a major role, they are expression of the Veblenian absentee ownership (p. 89).

Strategy of the business enterprise must follow the interests of the CEO and the controlling group of share holders. But here, human agency intervenes through the behavior of management at different levels. The business enterprise must develop a culture to control the managerial levels. Based on Veblen, Dugger identifies four invaluation processes to align the behavior of management with the objectives of the corporate control: contamination, subordination, emulation and mystification (pp. 92-99)[11]. Dugger also pinpoints the misery of the managerial class, saying that "..is a dependent class, a kept class. It possesses no power, no status, and no substantial wealth of its own. Even its culture is not of its own making" (p.102). This managerial class, following Dugger, still controls daily operations of the firm and make some important decisions, but it is restricted by the conglomerate institutional framework, defined by "a system of institutionalized greed" (p. 106).

Finally, the last contributions of institutionalist economists have been oriented to discuss the transaction cost theories of business enterprises developed by New Institutionalist Economists, especially those proposed by Oliver Williamson. It is not relevant for the purpose of this paper to tackle this debate here, but it will suffice to say that the theory of the firm developed by Veblen, Munkirs, Dugger and others, clearly follow a historically grounded perspective and not a rational choice approach no matter how "bounded" this rationality could be as in the case of the NIE economists[12].

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11 We do not have room here to explain carefully each process, but it is a good example of an institutional analysis of the corporate behavior and the strategies of control of people.

12 See Knoedler (1995) and Pitelis (1998).

POSTKEYNESIAN AND INSTITUTIONALIST THEORIES OF THE FIRM: COMMONALITIES OR COMPLEMENTARITIES

Postkeynesian Theory of the firm has a great advantage over Institutional Economics, which is that it has been able to develop a consistent and formal framework of the theory of the firm[13]. This effort has allowed them to construct the Micro foundations of Postkeynesian Macro analysis. In the case of Institutional Economics the task has been less systematic, somewhat disperse, in such a way that it cannot be said that we have an Institutional Micro and Macroeconomics. Institutional Economists have devoted their energies to both areas, some of them insisting in "micro" issues, and the majority of them working on "macro" topics. Despite this, regarding the theory of the firm, both bodies of knowledge have built their theories upon the powerful ideas of Berle, Means and Chandler, trying to be faithful to their own basic theoretical principles.

Regarding the nature of business enterprise, both approaches see it not only as a technological unit of production, but also as a social unit, embedded in a social structure, and subjected to cultural, legal and social constraints. The basic unit of analysis is the business enterprise, considered as an entity characterized by an organizational complexity, where human agency plays a role. In this sense, both Micro approaches part company with the Neoclassical isolated firm with a profit maximizing behavior. However, Lee (2001) has tried to develop a critical realist framework, looking not only at structures, but also searching for causal mechanisms and trends.

Although in Munkirs (1985) one finds "planning instruments" or mechanisms, it is obvious that institutionalist economists do not

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[13] See for example Woods (1975), Eichner (1976), Ch.3 in Lavoie (1992), Lee (1998) and Lee (2001).

use the critical realism's tools explicitly. In fact, there could be some divide here regarding methodological grounds. While Lee (2001) claims his "grounded theory method" is based on the critical realism's approach[14], Institutional economists adopt Dewey's pragmatic inquiry, which is basically a pragmatic epistemology[15].

Regarding prices, Postkeynesians have built an empirical theory of prices based on the doctrine of administered prices, normal cost prices, mark up prices and Lee's approach on grounded price theory (Lee, 1998). Institutionalist School has accepted the doctrine of administered prices and criticized the marginal cost pricing of Neoclassical Theory (Fisher, 1991). However, there is not a systematic Price theory in Institutionalist Economics, although they do not see always prices so disjointed with quantities as Postkeynesian Economists do. Once the technological and ceremonial characteristics of goods are defined, then prices play a role on quantities.

Postkeynesian Theory of Prices is basically an empirical one, without any reference whatsoever to any concept of value. Institutional Economics has developed an instrumental theory of value but not as a basis for a price theory but for a normative analysis of society. In fact, this instrumental theory of value is used in the analysis of the impact of business enterprises on society and in the definition of some policy designs to limit their negative effects on the ongoing industrial concerns of society as a whole.

Postkeynesian Theory of Business Enterprise has been able to develop a formal theoretical framework explaining the structure of production, costing and pricing (Eichner, 1976, and Lee, 2001)

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14 Some critical realist analysts do not consider "grounded theory method" as a method proper of critical realism asserting that is pure empiricism (Ardebili, M. Class notes' on critical realism. Fall, 2001. UMKC).

15 Critical realists have included institutionalist Economics as belonging to the Hermeneutic paradigm. I am at variance with this assertion.

which is absent in Institutional Economics, excepting for some references by Veblen's about pricing what the market can bear, or some insights in Munkir about the strategic behavior of corporations. However, in this area, I claim that Institutionalist Economists have paid more attention to the financial aspects that concern the life of the business enterprise as a going concern.

Both theories have very weak developments about investment decisions by business enterprises, and the impacts of these decisions on employment. But, regarding the analysis of market structures and governance within these structures, institutionalist economists are ahead of Postkeynesians.

One issue that in my opinion also could separate Postkeynesians and Institutionalists is the dynamics of ownership vs. control within the business enterprise. Some Post Keynesian Economists follow Eichner's vision , that "the goals of the executive group are coextensive with those of the megacorp" (Eichner, 1976 p. 23). In Munkir's and Dugger's views, one finds a different scenario, based on the idea of the central nucleus of control of the economy, where pecuniary interests are in command, and not only the long run survival of the corporation. Institutional analysis here, gives more role to human agency, pointing out the continuous struggle between management, the reduced group in control of the board and the common interests of the stockholders (Munkirs, 1985 and Dugger, 1988).

Business history is full of examples of sell outs by members of the Boards driven by the pecuniary interests of CEO's, inside members, or the strategic group that control the strategic decisions in the business enterprise. The case of the fall of RJR Nabisco into the hands of RJ Reynolds in the 80s[16], and the past struggle between the Hewlett Packard family and other shareholders, against the

[16] See Burrough, B. and Helyaar, J. (1990). Barbarians at the gate. New York: Harper & Row.

CEO of the company[17] are just two of hundred of cases seen in the last two decades only. In fact, the continuous increasing number of class action litigations regarding law suits from stockholders against corporation boards is staggering. During the period 1991-1995, an average of 189 lawsuits per year was filed against many corporations. An average of 223 cases has been presented during 1996-2001[18].

Wray (2007, p. 617) recently recognized that regarding the theory of business enterprise, "Veblen's version is in some important respects more complete, and still relevant for developing an understanding of modern business practice". Wray states that Veblen was more pessimistic about the possibilities of capitalism of overcoming depression through unproductive consumption due to the fact that technological advances increase capacity faster than pecuniary earnings. Also, he points out that Veblen ties his theory of the business enterprise to the theory of the cycle, and links this to his theory of growing concentration of ownership. Although "Keynes does address the distinction between ownership and control of the production process", he "… is not wholly critical of the increasing corporatization of the economy" (p. 621-622). Also, Veblen was more emphatic in the role of "capitalization" instead of just speculation regarding the financial crisis that we have endured during recent years.

To sum up, despite some divergences between Postkeynesians and Institutionalists regarding the theory of business enterprise, there are also some commonalities among them. However, I claim that the research issues developed by the two schools of thought are somewhat different. This fact does not impede that both approaches could be complementary each other. Hence, the

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17 Fried, I and Kanellos, " Hewlett family opposes Compaq deal". CNET News. com. Nov.6, 2001.

18 See Stanford Securities Class Action Clearinghouse -Nov. 21, 2001.

possibility of a common work pointing to build a solid heterodox theory of the Business Enterprise is open.

CONCLUSIONS

I have found more commonalities between the Postkeynesian Theory of the Business Enterprise and the Institutionalist approach despite some discrepancies that still remain. The way both theories see the corporation, its pricing policy and behavior, and the structure of markets and their governance, are practically the same. Institutionalist economists have analyzed the interlocking and intralockings among corporations deeper, and have developed more the research around the notion of corporate power.

Also, Institutionalists have proposed some criteria, based on their theory of instrumental value, to devise a regulation policy over the continuous and growing power concentration in the US economy. Moreover, they have generated important insights on the culture of corporations and the way power is reproduced within them.

However, Post Keynesians have been able to formalize the theory much better, expressing it in models that can be used as powerful tools in the development of the theory. Institutionalist economists can clearly incorporate these theoretical devices in their analysis.

If Orthodox economics have become more diverse during the last decade, I do not see any reason why one cannot accept a valid diversity in Heterodox Economics, where defining commonalities and discrepancies allow us to build better approaches. In the case of the theory of the firm, the task is easier as long as complementarities are greater compared with discrepancies.

Undoubtedly, many paradigmatic issues still remain to be clarified between the two schools of thought. One of them, is the need to define a philosophical and social ontology that will help to make clear their approaches from the epistemological and methodological standpoints. This exercise would also help to define limits with other currents of Heterodox Economics such as Radical Political Economics. As we can see, the research agenda looks very broad and fruitful.

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