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The institutionalist theory of the business enterprise: past, present, and future

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Abstract

This paper examines the historical developments of the institutionalist theory of the business enterprise since early 1900s. We will examine the major contributions in order to find the theoretical characteristics of the institutionalist theory of the business enterprise vis-à-vis evolving capitalism. The paper begins with a discussion of the present state of the institutional theory, looks back on the original ideas of Veblen and Commons, and goes on to later contributions, such as Gardiner Means, John Kenneth Galbraith, William Dugger, and Alfred Eichner. The paper concludes with a discussion as to what should be done for the further development of the institutionalist theory of the business enterprise.

Keywords: Theory of the business enterprise, institutional economics, evolution of capitalism

JEL Codes: B50, B52, D20

This paper examines the historical developments of the institutionalist theory of the business enterprise (hereafter ITBE) since early 1900s.[1] It is not meant to be a comprehensive review of the theory. Instead, we will examine the major contributions in order to find the theoretical characteristics of ITBE. The paper begins with a discussion of the present state of ITBE, looks back on the original ideas of Veblen and Commons, and goes on to later contributions. The paper concludes with a discussion as to what should be done for the further development of ITBE. The argument resulting from the discussion is that ITBE is in the process of continued evolution corresponding to the evolution of capitalism, and this open-ended process will be enriched if institutionalists work together with other compatible heterodox approaches.

1 The present state of the institutionalist theory of the business enterprise

Institutional economics has developed its own theory of the business enterprise. Thorstein Veblen, John Commons, and Gardiner Means, just to name a few, have provided the basis of the theory. Later institutionalists and institutional-heterodox economists, such as John K. Galbraith, William Dugger and Alfred Eichner, have expanded or elaborated the theory.

Some institutional economists, however, observe that there is no "well-defined" ITBE as a "systematic alternative" to the mainstream counterpart (see, for example, Hodgson 2012, 55, 59). Although this claim seems to be a widely-received view of the current state of ITBE, it calls for a careful reflection. What does it mean by a "well-defined" theory? Hodgson (2012) does not provide an answer. Presumably, apart from its lack of theoretical coherence and of historical reality, the mainstream theory of the firm is 'well-defined' to the extent that i) it proceeds from a set of axiomatic assumptions on individual behavior, resources, and technology to the theory of production and costs, profit maximization and cost minimization, the

[1] In this paper 'institutional economics' refers to 'original' institutional-evolutionary economics. The label 'old' institutional economics is eschewed for two reasons. First, as demonstrated in the present paper, institutionalist theories are constantly evolving and hence cannot be old. If a theory concerns real institutions, it is evolutionary since all institutions never stay unchanging. But note also that an evolutionary theory (e.g., evolutionary game theory) is not necessarily institutional. Such 'evolutionary realism' is the institutionalist philosophical-methodological position. Secondly, 'old' institutional economics might imply that it is outdated or outmoded, whereas 'new' institutional economics might give an impression that it is up-to-date and novel (although that's not necessarily the case). Such an invidious distinction between the 'old' and the 'new' is faulty. Both traditions co-exist and are different philosophically and theoretically (see, for example, Rutherford 1994; Knoedler 1995; Dequech 2002; Chavance 2009).

supply curve, and market structure and competition; that ii) it is 'well-formulated' (in the sense of mathematical simplification) so that students understand it easily; and that, consequently, iii) the theory is taught in microeconomics courses universally since the publication of Marshall's *Principle of Economics* in 1890 (see Lee 2009, 3, Table 1.1). That is to say, the content and boundary of the mainstream theory is well-specified and its underlying logic is straightforward and simple. The institutionalist theory has none of these characteristics. Thus can we say that the mainstream theory is well-defined, whereas the institutionalist theory is not? This is not a simple question to be answered since two theories are incompatible with respect to the objectives and methods.

If the purpose of a theory is the understanding of the real-world business enterprise—*its internal strategic decision-making process and its historical evolution vis-à-vis the institutional arrangement of the society in question*, it is not the mainstream theory but the institutional theory that is suitable for the purpose. In this respect, it is obvious that the mainstream theory cannot be a "systematic alternative" to the institutionalist theory, since "the reduction of the theory of the firm to an automatic signalling system, in which market prices determine resource allocation and decision making and entrepreneurship are absent, means that in the [mainstream] theory of the firm there are now no firms" (Kay 1994, 238).[2] Furthermore, nor is the mainstream theory "well-developed" in that it has failed to explain the historical evolution of the business enterprise and capitalism. Such a failure is inevitable since "to do so [i.e., taking into account actual history] in any systematic manner would require abandoning the entire structure of the theory" (Dowd 1974, 69). More specifically, in the mainstream theory, the 'representative' firm is nothing but a typical production function which transforms scarce inputs into outputs for the purpose of maximizing its profits. This notion of the firm is not at all well-defined in light of real world business enterprises. A firm cannot be a magical black box. Without the explanation of the internal decision-making process, of the inter-industrial connections (or 'circular' production), and of the evolving industrial or economic structures, it is doubtful that the mainstream theory is well-developed (Shapiro 1976; Eichner 1987; Jo 2017).

Whether the institutionalist theory is well-defined or not is an ambiguous judgment. It is a flawed argument if the reference point of the judgment is the mainstream theory, rather than reality. What such a judgment does in effect is, be it intended or otherwise, to underrate the institutionalist theory. There is no complete, all-inclusive, universal, or fixed theory. Theories are evolving and emergent; some are

[2]It is also worthwhile to note that Ronald Coase (1937, 388) made the same argument: "if production is regulated by price movements, production could be carried on without any organization at all." However, Coase's argument has never been incorporated into the mainstream account, although it does not violate fundamental mainstream premises such as efficient markets and optimizing firms.

more up-to-date and others are less developed or obsolete in light of observed reality. A more appropriate, constructive question to be posed for the heuristic purpose is what the theory explains and how coherent and relevant the theory is with respect to changing historical reality. A relevant theory of the business enterprise is, to paraphrase Dugger (1992*c*, viii), concerned with how the business enterprise makes decisions and how it affects the social provisioning process, "not with how we find the slopes of lines and the equilibrium." For over one hundred years ITBE has explored the former questions, while rejecting the latter, as discussed in detail below.

2 The developments of the institutionalist theory of the business enterprise

2.1 Veblen's master institution

ITBE has gone through an evolutionary process. It originated with Thorstein Veblen's *The Theory of Business Enterprise*, which was published in 1904, the year the first merger wave in the United States concluded. It was, historically, also the beginning of modern industrial capitalism or 'credit economy,' in Veblen's own terms, characterized by large business enterprises (in size and in power), increasing industrial concentration, the captains of industry and finance, and rising Wall Street and absentee ownership.

Theoretically, Veblen's *Theory* was the first major work that jettisoned the then-prevailing Marshall's theory of the firm.[3] Veblen's business enterprise as a going concern undertakes an array of strategic activities so as it to survive and expand at the expense of competing enterprises and of the welfare of the common people. Unique in Veblen's approach is the wide-ranging social consequences of the ordinary conduct of the business enterprise, *viz.*, its ruthless acquisitive drive assisted by the captains of finance. The pecuniary interests of the captains and absentee owners vested in the corporate enterprise overshadow that of the common people, the society is organized predominantly by the business principles (i.e., emulation,

[3] It was not until mid-1920s that other economists started challenging the Marshall's theory—e.g., the 'empty boxes' debate started with Sraffa (1926). In response to the defense of the Marshall's theory, Sraffa (1930, 30) remarked that "Mr. Robertson's remedy is to discard mathematics, and he suggests that my remedy is to discard the facts; perhaps I ought to have explained that, in the circumstances, I think it is Marshall's theory that should be discarded." Even notable non-conventional economists of 1930s, such as Robinson (1933) and Keynes (1936), did not discard but based their theory on the Marshall's profit maximizing representative firm and the neoclassical price mechanism in general (for the institutionalists' response to the Marshallian price mechanism, see Jo 2016, 332-337). Veblen's theory was far ahead of his time.

efficiency, and vendibility), and thereby social welfare and culture are subject to the activities of the business enterprise. Veblen's theory is thus the inquiry into the motives, objectives, and conduct of the 'predatory' business enterprise embedded in the advanced industrial society of the late 19th and early 20th century (Veblen 1904, 1921, 1923/1964). This is connected to his whole institutional-evolutionary framework that the provisioning process under capitalism is organized by the business enterprise—the 'master institution' of the credit economy, rather than being organized by the market price system (Veblen 1923/1964, 89; Ayres 1961, 28). While Veblen set the foundations and directions of ITBE grounded in his evolutionary approach, his theory stopped short of providing theoretical details.

2.2 Commons's going concern

Insofar as ITBE is concerned, its origin is also found in John R. Commons's work which sheds light on the legal-organizational structure of the modern industrial business enterprise. Of importance is an articulated concept of the going concern corresponding to the evolutionary process and to the legal conception of the business enterprise. Commons's business going concern is situated in the context of the conflict of interests between classes (or industrial groups) under 'banker capitalism' in which harmony, stability, or peaceful collaboration between them is rendered possible by the legal arrangements (working rules) (Commons 1963, 97). This regulated harmony, as opposed to natural harmony (or equilibrium) in neoclassical economics, is necessary for capitalism to be viable. Commons therefore advocates the protection of the interests of workers, farmers, and small enterprises which would otherwise be hampered by the 'evils' of banker capitalism, such as business cycles and structural unemployment (Gruchy 1972, 35-36). The business concern, "as a collective action in restraint, liberation, and expansion of individual action [and transactions]" (Commons 1934/1961*a*, 73), is composed of the 'going plant' which refers to the physical-technological process (e.g., production and consumption) and the 'going business' the business-managerial process (e.g., "buying and selling, borrowing and lending, commanding and obeying") (Commons 1924/1974, 8). The joint activities of the going plant and the going business within the going concern need to be structured and stabilized by working rules of its own making. Being consistent with the two-part organizational structure, the going business enterprise is "the visible, tangible, going concern of persons, with its invisible, intangible behavior of the immediate and remote future stabilized by working rules" (Commons 1924/1974, 145). Essentially, "the going concern is a succession of incorporeal and intangible properties repeatedly created, continuing and lapsing" (Commons 1934/1961*a*, 423). Thus in the transmutable and uncertain world, the expectation of profits is "based upon business connections, patronage, goodwill, built upon the past and expected to continue or enlarge in the future as long as the working rules continue. If the

expectation fails, the immortality fails. While the expectation continues, the corporation is "a going concern"" (Commons 1924/1974, 145, original emphasis). In this sense, Commons's business enterprise is an acting organization that is created and managed to reduce uncertainty in making profits and continuing its business.

What makes the Veblenian-Commonsian business enterprise distinctive from other theories? As opposed to the individualist-asocial, hedonistic, and static conception of the neoclassical firm, the Veblenian-Commonsian business enterprise is a social organization that emerged out of the technological process and the industrial combinations that played a central role in the making of modern industrial capitalism. The welfare of the common people depends chiefly on a level of production that the business cycle disrupts (see Veblen 1904, ch. 7). The Veblenian-Commonsian business enterprise is also at odds not only with the optimizing firm in new institutional theory, but also with the individualist-entrepreneurial conception of the firm in Keynes's theory.[4] What it means theoretically is that the partial equilibrium analysis and optimizing enterprise behavior given scarce resources and the efficient market structure have no place in the Veblenian-Commonsian theory of the business enterprise. The passive, hedonistic, isolated firm is replaced by the agency—the capacity or power to achieve a planned goal—of the acting business enterprise embedded in the institutional arrangements and social fabric of the time. The agency is empowered by prevailing institutions that are largely created by the business enterprise. What Veblen and Commons taught essentially is that a theory that bears no resemblance to the observed historical reality adds only to the"trained incapacity" of economists.[5] By the same token, ITBE pioneered by Veblen and Commons should never remain fixed because capitalism and its 'master institution' have always been in motion. Were the Veblen-Commons's theory treated as a law-like theory, it could have been outmoded and hence discarded. It is alive and well not because of timeless and spaceless propositions, but because of the built-in evolutionary realism which led later institutionalists to modify the theory continually (Jo and Henry 2015).

[4]Arguably, in Keynes's *General Theory* (1936) the business enterprise is relegated to an individual entrepreneur whose expectation of sales and 'animal spirit' lead to output, employment, and investment decisions. That is to say, the decision-making process depends primarily on entrepreneurial personality, preference, and psychology (e.g., marginal efficiency of capital and liquidity preference), rather than on the institutional arrangements inside and outside of the business enterprise.

[5]On the Veblen's term "trained incapacity," see Wais (2005). It is too well-known to note that Veblen was a most trenchant critic of 'neoclassical' economics. Commons too was critical of both classical-Marxian and neoclassical economics, although he was not as trenchant as Veblen. In his autobiography, Commons notes that "when it came to working out my theory of Institutional Economics, I based it, not on the assumptions of natural equality of the Declaration of Independence, or of Adam Smith, or of a century of logical economists and their "pure" economics, but on leaders, bosses, and conquerors of the Malthusian more or less stupid and passionate masses" (Commons 1963, 89, original emphasis).

2.3 Means's large corporations and administered prices

Although it was implied and anticipated, the separation of ownership from control and management, as it relates to the internal governance of the business corporation and the external administration of the market, was not fully fleshed out by both Veblen and Commons (for a body of literature dealing with this issue in the first three decades of the 20th century, see Hill 1967). It was Berle and Means (1932/1967), *The Modern Corporation and Private Property*, that first brought the changing ownership-control structure within the business enterprise to the center stage of analysis from the institutional perspective. Gardiner Means, who was responsible for the economic analysis contained in this seminal book, later remarked that little was he aware of the works of Veblen and Commons; nor was he greatly influenced by them (Means 1975). Means, however, considered himself an institutionalist with particular respect to his work on the modern corporation, administered prices, and the structure of American economy; not to mention, only institutionalists recognized his contribution formally by giving him the Veblen-Commons Award in 1974 (Eichner 1980; Lee 1990; Lee and Samuels 1992). For our purpose here, let us examine the Means's contribution to the development of ITBE.

For Means, like Veblen and Commons, the modern business corporation is a social organization that evolved from the small owner-worker firm of the pre-industrial 'trading economy' in which enterprise's activities were organized by market prices, to the large corporation operating in the 'engineering' or 'administered' economy in which the large enterprises carry on activities by way of administering price, quantity, and competition (Means 1933/1992a, 10-15).[6] As the size and complexity of the economy increases, so does the business enterprise. In stark contrast to the Marshallian representative firm, Means observed that the archetypical enterprise in the 20th century America was the large corporation with the separation of absentee owners from controllers and managers. In Means's theory the success of the large corporation hinges on the administrative power of the controllers. Controllers have power to direct the key decisions and activities as to production, employment (of directors and managers), pricing, investment, financing, and the distribution of profits. Armed with such power, controllers are able to administer the entire enterprise in favor of their own interests which do not have to be 'maximum' profits for owners. Thus the operation of the enterprise rests predominantly with the controllers. This means that the size of the enterprise depends largely on the controller's strategic

[6] Means's 'engineering economy' is conceptually different from Veblen's 'credit economy' (1904, 150-151) or Commons's 'banker capitalism' (Commons 1934/1961*b*, 773). The difference lies in different analytical focuses: Means emphasizes the capability of the large corporation to administer all the major markets, whereas Veblen and Commons emphasize on the dominance of the capital market (the enterprise's money-making activities) over the goods market (goods-making activities). Common to all three is the business enterprise as the driver of capitalist dynamics (Jo 2017, 201).

decisions and actions, rather than the size being constrained by scarce resources and technology as in the neoclassical theory. Nor is there a limit to the size of the enterprise, provided that the enterprise is able to create and administer the market constantly and successfully. In effect, as Means argued, the large scale enterprises change the character of the market—that is to say, the market is subject to and managed by the large business enterprises, rather than the reverse (Berle and Means 1932/1967, Part IV; Means 1933/1992a, 1935/1992b, 1975; Hamilton 1970, 74-75; Eichner 1980; Lee 1990; Samuels and Medema 1990).

Central to the Means's theory of the business enterprise is the notion of internal and external 'control' or 'administration'—e.g., administered prices (product prices, wages, and interest rates), administered inflation, and administered markets. This notion, which is predicated on a set of 'working rules' inside and outside the business enterprise and a hierarchical system of power, is clearly in line with ITBE à la Veblen, Commons, and later institutional economists, in particular, John Kenneth Galbraith and William Dugger (Hill 1967, 289-290; Samuels and Medema 1990, 134-136).[7] Consequently, Means's theory runs counter to all the firm theories that base themselves on the assumptions of rational individuals, profit maximization, (transaction) cost minimization, scarce resources, and the self-administering markets, and that subject the business enterprise to the market price mechanism. On this theoretical implication, Berle and Means (1932/1967) remark that "[t]he recognition that industry has come to be dominated by these economic autocrats must bring with it a realization of the hollowness of the familiar statement that economic enterprise in America is a matter of individual initiative" (116). Means's theory of the business enterprise, in short, explains the changing organizational structure of the large corporation and its effect on the administrative, strategic enterprise activities that drive the dynamics of capitalism. It is a destructive critique of and an alternative to the Marshallian-mainstream firm theory. On this score Means's theory is on a par with Veblen's critiques noted above (as well as with Sraffa's critiques in footnote 3).[8]

[7] This is also one of the insights Veblen addressed. Ayres (1961, 28) notes that "The Whole point to the Veblenian criticism of the classical tradition is that economy is not regulated by the price system. It is regulated by the institutional structure of Western Society, of which the market is at most only a manifestation." As for administered prices, Veblen (1921, 42) recognizes that product prices are managed (e.g., via 'industrial sabotage') by the business enterprise so as to enlarge pecuniary gain as much as possible.

[8] All three heterodox thinkers—Veblen, Sraffa, and Means—provide conceptual, theoretical, or empirical grounds that the firm portrayed by the upward sloping supply curve is not only impossible but also implausible since it requires impossible and implausible assumptions such as an 'empty' production function, hypothetical concepts of production costs, non-increasing marginal returns, perfectly competitive markets, and the law of supply-demand (Jo 2017, 199-200).

2.4 Galbraith's giant corporations and technostructure

The foregoing discussion indicates that institutional economics clearly established its theoretical position on the business enterprise in the early part of the 1900s. As the size and power of the corporation continued growing (due partly to vertical and horizontal mergers), capitalism entered into the new stage, 'managerial capitalism' as of circa 1950s. A most salient institutionalist contribution to the analysis of the business enterprise in this particular stage is found in John Kenneth Galbraith's *The New Industrial State* (1967).

Galbraith's theory is not much different from aforementioned institutional theories in terms of underlying premises and theoretical implications.[9] Society and the behavior of human beings and human-made organizations are viewed through a constantly evolving process. Central to the process is technology, "the systematic application of scientific or other organized knowledge to practical tasks" (Galbraith 1967, 12), that defines the organizational structure and activities of the business enterprise. At the stage of managerial capitalism or "guided capitalism" in Galbraith's own words, there is a clear distinction between the large-scale business corporations (e.g., Fortune 500 firms) and the small-medium size enterprises. The market and its constituents are controlled mainly by the large corporations and partly by the state under the influence of the large corporations. The allocation of 'abundant' resources is arranged not by the market price mechanism (although Galbraith admits that the market price mechanism might work at the small local market), but by the 'planning' of the large corporations. The planning calls for professional managers and technicians, 'technostructure,' who have specialized knowledge and experience in key enterprise activities such as production, investment, financing, and sales. Means's controllers have mutated into Galbraith's technostructure. The technostructure is empowered to make enterprise technical decisions and, thereby, the corporation exercises its power over the market by way of controlling price and quantity as well as consumption demand—that is, the corporation manipulates consumers' needs and wants; so their wants become needs, and they work longer and harder to make more wage incomes needed to buy what the corporation wants to sell. Consequently, a gamut of uncertainties unfolding in the enterprise and market activities can be reduced by a range of deliberate plans initiated and implemented by the technocratic management. Planning at the expanded scale is thus a requirement for the enterprise to remain ongoing. The dominance of large corporations with the empowered technostructure means that virtually all economic activities are arranged

[9] Galbraith, for example, acknowledges the influence of Means's work: "THE NEW INDUSTRIAL STATE is built on the notion not of monopoly prices but broadly speaking of administered prices. It is administration which provides the certainty which the modern, very large technocratic organization requires. I have gone on from administration of prices to the management of the other economic parameters including that of consumer demand" (cited in Lee 1998, 68, fn2).

and administered by the business enterprise, not by the market price mechanism (Galbraith 1967; Gruchy 1972, 134–146; Dugger 1992*b*; Dunn 2012).

2.5 Dugger's conglomerates and corporate hegemony

The Galbraithian enterprise evolved into the conglomerate corporation operating in multiple industries, as the conglomerate became dominant in terms of employment and sales after the third major movement in the 1960. The transition from managerial capitalism to 'conglomerate' capitalism is not merely a 'deliberate' mutation of the corporation, but too a change in the way the market and the society are controlled by the business enterprise. William Dugger is the major figure who analyzed the business enterprise in the age of conglomerate capitalism from the institutionalist perspective. According to Dugger, this "new species of enterprise" is characterized by its plenary control power over seemingly unrelated markets (diversification), financial independence, decentralized and flexible corporate organization, and the creation and dominance of corporate culture in society—i.e., corporate hegemony (Dugger 1985/1992*a*; Dugger 1989; see also Adams and Brock 1986).

Theoretically, the increasing dominance of conglomerates requires a modification of ITBE delineated above. The accelerated growth of the business enterprise in size and power alters the structure and functions of the management. The head office must have greater control power over all the subsidiary companies operating in different geographical areas in order for the conglomerate to be viable over an extended period of time. Veblen's captains, Means's controllers, and Galbraith's technostructure-planners are replaced by conglomerate managers, leaving the mundane enterprise activities (e.g., production and sales) to the hands of managers at lower levels. The conglomerate managers are solely responsible for financial decisions and financial independence of the whole conglomerate corporation. Such financial objectives are achieved by new enterprise strategies—for example, reciprocal dealing, cross-subsidizing, mutual forbearance, and fungibility.

Reciprocal dealing—i.e., "a corporation's ability to twist the arms of its upstream suppliers, its downstream distributors, or its otherwise totally unrelated firms by promising to engage in reciprocal buying or threatening to discontinue such buying" (Dugger 1989, 19)—is a business strategy specific to conglomerates to the extent that the conglomerate uses it as a leverage to induce sales of diversified products in different markets. It is possible due mainly to the conglomerate's dominant position across markets and to the unequal market power between the conglomerate and single-industry enterprises. The existence of conglomerate power tends also to reinforce administered product prices and entry barriers as well as to induce further conglomerate mergers since single-industry enterprises seek protection from the

conglomerate parents. Becoming part of the conglomerate gives a special benefit to subsidiary companies. As a control tower, the conglomerate head office can move financial resources between subsidiaries—i.e., cross-subsidizing. This allows subsidiary companies to act more aggressively in a specific market since losses from one industry can be compensated by profits from other industries. The conglomerate as a whole is thus capable of generating an increasing cash flow which can also be utilized for any purposes—e.g., merging other companies and opening up a new business without resorting to financial enterprises. This fungibility or flexibility bolstered by financial independence is conducive to the limitless growth of the business enterprise. Even during a recession or crisis, the conglomerate is more likely to survive while other non-conglomerate or small-medium size enterprises are not. In some markets in which multiple conglomerates do their business, they tend to cooperate—e.g., joint ventures, market sharing, or collusion—instead of entering into cut-throat competition. Such a cooperative activity based upon mutual recognition and forbearance strengthens conglomerate's control of markets (Dugger 1989, 16-25; Dugger 1992*b*; Adams and Brock 1986, 183-193).

In short, Dugger's theory of the conglomerate corporation demonstrates that the structure and conduct of the business enterprise bears an inextricable relationship with the changing capitalism. With Dugger's contribution ITBE has become more germane to the account of the US capitalism in the 1970s and 190s.

2.6 Eichner's megacorps

In the 1970s ITBE marked a theoretical turning point. In parallel with Dugger's refinement of ITBE with conglomerate corporations, Alfred Eichner infused ITBE with the 'megacorp.'[10] Not only is Eichner's theory consistent with the institutionalist approach, but it also sheds detailed light on enterprise activities, such as pricing, investment, and financing, that are often overlooked by institutionalists. As well, Eichner's theory is also considered as the foundational work of Post Keynesian economics. That is to say, the theoretical turning point was also an intersection between institutional economics and then-emerging Post Keynesian economics, which has engendered a good many positive developments in both traditions (more on this below).

In Eichner's theory, the megacorp is the large business corporation of the advanced economy and the representative enterprise in the oligopolistic industry,[11] which pos-

[10] The term 'megacorp' first appeared in print in Eichner (1968) and became popular by his most well-known work *The Megacorp and Oligopoly* (1976).

[11] The oligopolistic megacorp was a tolerable form of the business enterprise under the institutional arrangements of US capitalism. Eichner (1968, 185) notes that "the principle of law [e.g., the

sesses the organizational, managerial, and technical properties of the large-scale business enterprise or conglomerates explicated by, in particular, Means, Galbraith, and Dugger. The megacorp's ownership is separated from management, its organization is both hierarchically and horizontally structured with various managerial departments (i.e., going business), its production takes places at multiple plants (i.e., going plant), its technology is fixed in the short-run (in the sense of fixed production coefficients derived from the input-output matrix), and its products compete with other enterprises' products in a single industry or multiple industries (the latter is the case of conglomerate corporations) (Eichner 1976). These properties make the megacorp's behavior distinctive from other enterprises, and lead to important theoretical implications that help advance ITBE as an alternative to the mainstream counterpart.

Firstly, the top management of the megacorp pursues the 'maximization' of the enterprise growth rate (in terms of sales or assets) which hinges largely on the generation of 'corporate levy' (or retained earnings), rather than maximizing short-run profits.[12] In other words, the survival and growth of the megacorp is the long-term goal of the management, with short-term strategies such as maintaining the market share in a specific market. Secondly, the long-run growth requires the selection and implementation of investment projects, which require the continuous generation of retained earnings. The actual amount of retained earnings is what the megacorp saves after paying taxes, debts, and dividends out of gross profits. Since corporate taxes and debts are obligations determined by the government and creditors, the megacorp decides dividend payments to owners in a strategic manner because it will affect the growth of the megacorp through investment and retained earnings. Thirdly, with regard to achieving the long-term goal, the megacorp, as a price leader, 'administers' product prices in order to generate the target amount of retained earnings. Therefore, in Eichner's 'oligopolistic pricing model' the megacorp price is set by considering the target investment growth rate vis-à-vis the growth of internally generated funds. Resulting market prices are made to be stable since they are administered by the megacorp or by collective means of control (e.g., price leadership, basing point price setting, market sharing, and collusion). Stable prices help reduce instabilities in the market as well as stabilize enterprise activities. Such a stability is also facilitated by interlocking corporate relationship, joint stock controls, and joint ownership of the mans of production (Eichner 1968, 1976, 1987; Munkirs 1985; Kregel 1990; Lee 2000; Jo 2015).

Sherman Antitrust Act] was established that while no one large corporation could supply virtually the entire output of an industry, several such large corporations could—provided they did not act too ruthlessly to eliminate their competitors."

[12]Although Eichner used the word 'maximization' in his own theory, he did not mean the constrained optimization. It should be understood as the enterprise's effort to achieve the 'planned' growth rate.

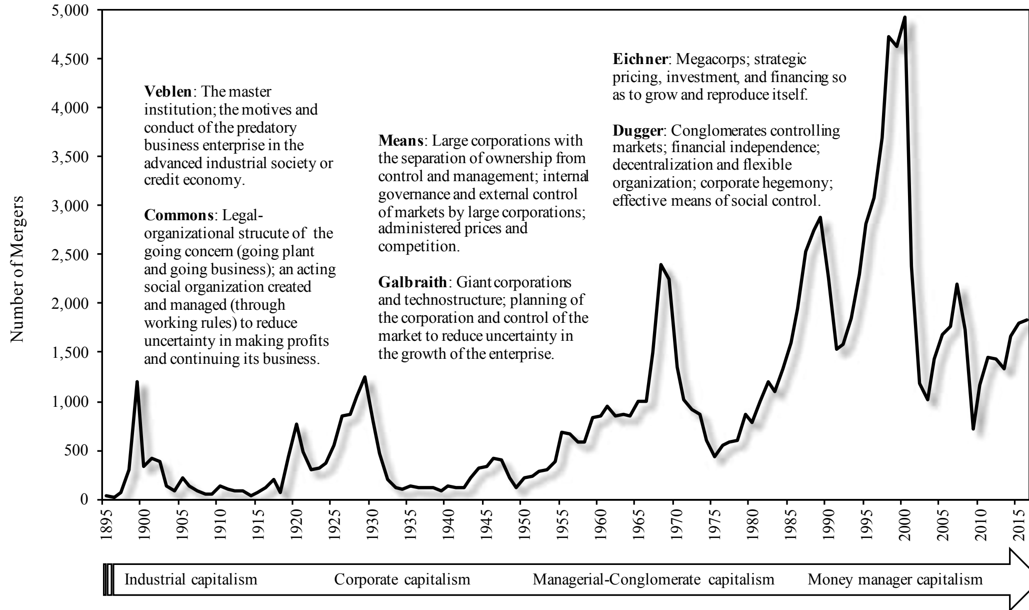
In a nutshell, what Eichner's theory of the megacorp offers is an institutionalist-Post Keynesian analysis of the enterprise's strategic activities (with a view to reproducing itself), rather than treating "the firm as merely the cat's paw of an impersonal market" (Eichner 1985, 28). The underlying condition for the megacorp to undertake a range of strategic activities is its power to control the market circumstances (competition and demand), as well as its own growth path by controlling the cash flow under uncertainty. The megacorp has such control power due to its dominant position in the market, industry, and society.

3 Conclusion: A look ahead

What makes ITBE distinctive is that it bears a close reciprocal, evolutionary, and cumulative relationship between the business enterprise and capitalism. As illustrated in Figure 1, ITBE has been updated and refined as both the business enterprise and capitalism have evolved since early 1900s. Initially, it was the theory of the predatory business enterprise, a going concern, with the separation of 'business' from 'industry' along with the increasing dominance of credit markets over goods markets. After the second merger wave in the 1920s, the business enterprise continued growing and "[t]hose who survived grew in strength, and they garnered the society's power, prestige, and authority" (Dowd 1974, 58). ITBE as of 1930s is thus the analysis of the fully-fledged 'master institution' armed with power to administer prices and market competition. Such a success of the business enterprise within a few decades was in large part related to the corporate form of the business enterprise with the separation of absentee ownership from control and management. In particular, the increasing discretionary power of the top management—Means's controllers and Galbraith's technostructure—and its impact on the decision-making process within the megacorp or conglomerate have been explored in depth and breath by ITBE. As the evolutionary process of capitalism is continuous and cumulative, so is ITBE.

All in all, ITBE provides thick descriptions of and rich insights into the nature, objectives, organizational structure, and the conducts of actually existing business enterprises. One might argue, however, that ITBE lacks the theoretical brevity and clarity that the standard mainstream theory has. Rather than developing the theory in a more concise and formal fashion, institutionalists have opted for making it more historically relevant with the potential for further modification and refinement. Thus insofar as its appearance and method are concerned it is vain to expect that ITBE becomes something similar to the mainstream counterpart. Yet, insofar as its contents and implications are concerned ITBE is more pertinent to the business enterprise under evolving capitalism than any other theories. Moreover,

Figure 1: The institutionalist theory of the business enterprise and the evolution of capitalism



Notes: The number of mergers is collected from Nelson (1959), U.S. Census Bureau Statistical Abstracts (1970–1994), and U.S. Federal Trade Commission and Department of Justice Hart-Scott-Rodino Annual Reports (1977–2016)

ITBE positions itself with clarity against the mainstream theory. Both optimizing firms and the market price mechanism are incompatible with ITBE. In place of optimizing firms it is the large business enterprise behaving strategically so as to achieve its goals—i.e., survival, growth, and reproduction. On this point some institutionalists argue that optimizing firms, including transaction cost minimizing firms, are complementary to strategic going concerns (see, for example, Groenewegen 2004). But note that optimization is predicated on the indispensable assumptions of scarce resources, 'lightening' calculation of costs and benefits, independence of decision-making from others, and the law-like market price mechanism, all of which are rejected by institutionalists since the business enterprise cannot be reduced to a rational-hedonistic individual. It is not the matter of modifying one or few of these core assumptions, but the matter of taking the entire framework or not. This means that an attempt to integrate ITBE with mainstream firm theories (including the new institutionalist theory) will do more harm than good for the the development of ITBE (Knoedler 1995; Jo 2016). However, it should not be inferred from the above argument that ITBE leaves nothing to be desired. There is much to be done to keep ITBE abreast of rapidly changing business enterprises and capitalism. Let us briefly discuss some less-developed or under-theorized issues in ITBE.

Firstly, ITBE has mainly dealt with the large industrial business enterprise. It still plays a central role in the provisioning of goods and services and incomes. However, when it comes to other forms of the business enterprises, such as financial enterprises, merchant enterprises, non-for-profit enterprises, and cooperations, as well as small-medium size enterprises, ITBE has little to offer. In particular, since the late 1980s financial enterprises have become dominant compared to other enterprises in the US economy in terms of value added (but not of employment), most non-financial enterprises have increasingly become financialized, and merchant enterprises that do not directly engage in production are ranked high in the Fortune 500 list (e.g., Walmart ranked first and Amazon twelfth in 2017 in terms of total revenue). Unlike the previous three major merger waves, the merger waves as of 1980s (see Figure 1) are mainly driven by speculative motives coupled with financial innovation, deregulation, and globalization (McCarthy 2013). As a result of financialization the dividend payout ratio (i.e., dividend payments/gross profits) which was relatively stable up to 1980s has been increasing—e.g., from 30% (1980) to 80% (late 1990s) in France and from 40% (1960-80) to 70% (1982-2003) in the US. Financialization also limits the discretionary power of the management in pursuing long-term growth, as the economy becomes more unstable (Dallery 2009). What it means to ITBE is that although all the enterprises can be perceived as going concerns, it is untenable to assume that financial and merchant enterprises, in particular, behave in the same way as industrial concerns. ITBE needs to incorporate different forms of the business enterprise as well as recent changes in the economic structure (Jo and Henry 2015).

Secondly, another theoretical weakness of ITBE is that it is limited to the US business enterprises. It is well known that business corporations in European and Asian countries have developed an ownership-governance structure—e.g., the stakeholder oriented system, the family-centered governance of Korean *chaebols*, and the strong intercorporate alliance within Japanese *keiretsu*—that is quite different from the shareholder oriented system in the US. Such a difference has not been taken into account by ITBE. Furthermore, ITBE is virtually mute on the business enterprise in the developing and less-developed countries, although it has the potential to offer novel insights into those business enterprises.

Thirdly, beside above mentioned weaknesses (and possibilities) of ITBE, insufficient work has been done by institutionalists to theorize essential enterprise activities, such as production, investment, financing, pricing, employment, sales, and competition and cooperation. When we search for the institutionalist analysis of production, for example, we come across descriptive narratives that stop short of providing a wide range of productive activities. As Stevenson (1988, 69) argues, while institutional economics does not have a theory of production that can easily be modeled mathematically, it has a "clear and fruitful theory of production" if theory is defined

as a set of "adductive conjectures [and suppositions] that by which hypotheses may be generated, thereby orienting investigators towards understanding" of production. Following this conception of theory, Stevenson maintains that the institutional theory of production explains production in relation to technical conditions, institutional arrangements, the market system, property rights, information, distribution, and personal and societal values. The existing institutionalist theory of production, however, does not provide a detailed explanation as to how production and supporting managerial activities are undertaken at the plant and enterprise levels, how production is connected to other enterprise activities, and how production is entwined with the technical-cost structure of the business enterprise and the economy as a whole. As for these issues, the institutional theory alone is not sufficient for empirical and heuristic purposes.

As noted earlier, ITBE marked a theoretical turn in the 1970s led by Alfred Eichner. His work exemplifies that the institutionalist framework can become more articulated when it is combined with compatible heterodox approaches. Likewise, Lavoie (2014, ch. 3) acknowledges that the Post Keynesian theory of the business enterprise is not only consistent with but also influenced largely by ITBE. Specifically, according to Lavoie, most Post Keynesians accept that the ultimate goal of the business enterprise is power (as in Galbraith), that the megacorp is the representative firm (as in Eichner), and that administered prices and market control are general phenomena (as in Means). Furthermore, in his heterodox microeconomic theory, Fred Lee (2017) bases his analysis of the business enterprise on the concept of the going concern in the course of developing theory of production and costs, of pricing and investment, and competition, with a view of the economy as the social provisioning process. Lee's theory is not a pure institutional theory, but it shows, as in the work of Eichner and Lavoie, how the institutionalist theory can be further advanced when its theoretical lacuna is filled with compatible heterodox theories and methods; and the converse is also true. I am in the opinion that such mutual engagement and enrichment between institutional economics and other heterodox approaches are likely to generate positive outcomes and possibilities for both (see Jo 2017, for an attempt to build a heterodox theory of the business enterprise from the institutionalist, Post Keynesian, and Marxian perspectives).

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