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The Shareholder Era and the Changing Nature of the Corporation. A Comment on “Managed by the Markets: How Finance Re-Shaped America” by G. Davis (OUP, 2009)

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The Shareholder Era and the Changing Nature of the Corporation. A Comment on “Managed by the Markets: How Finance Re-Shaped America” by G. Davis (OUP, 2009)

Nihel Chabrak

Abstract

The book under review presents a valuable, timely and gripping analysis by Gerald F. Davis. The author purports that finance has shaped the transition from industrial to post-industrial society in the United States [U.S.] over the past three decades. He claims that the U.S. society that orbited around large corporations is increasingly shaped today by financial markets. Due to a Copernican revolution, finance became the new American religion with many adherents willing to accept it on faith. The author quotes Shakespeare who wrote: “all the world’s a stage, and all the men and women merely players.” He explains that the world today seems like a stock market, and all people are merely day traders, buying and selling various species of “capital” and hoping for the big score (p. vii). Davis’s book should be required reading for anyone, whether academic, practitioner, or policy maker, who needs to think critically about finance which, rather than a mechanistic set of transactions, is presented in the book as a social phenomenon that is invading our lives.

KEYWORDS: financial capitalism, sociology of finance, American history

JEL Classification Codes: Z1, N22

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Comment Paper on Gerald F. Davis, *Managed by the Markets: How Finance re-shaped America*, Oxford University Press, NY, USA, 2009.

Introduction

The book under review presents a valuable, timely and gripping analysis by Gerald F. Davis. The author purports that finance has shaped the transition from industrial to post-industrial society in the United States [U.S.] over the past three decades. He claims that the U.S. society that orbited around large corporations is increasingly shaped today by financial markets. Due to a Copernican revolution, finance became the new American religion with many adherents willing to accept it on faith. The author quotes Shakespeare who wrote: “all the world’s a stage, and all the men and women merely players.” He explains that the world today seems like a stock market, and all people are merely day traders, buying and selling various species of “capital” and hoping for the big score (p. vii).¹ Davis’s book should be required reading for anyone, whether academic, practitioner, or policy maker, who needs to think critically about finance which, rather than a mechanistic set of transactions, is presented in the book as a social phenomenon that is invading our lives.

The starting point for this analysis is the description of what happened in the fall of 2008. According to the author, the world had witnessed a large-scale economic and financial upheaval not seen since the Great Depression. The financial crisis was like a meteor that wiped out America’s largest banks and manufacturers which plaid the role of dinosaurs. If the crisis was born in the U.S., after the bursting of the housing bubble, the author explains how sharply it became global. Financial and economic institutions over the world found themselves holding toxic assets that were impossible to value. In 1929, the non-management or the “laissez-faire” resolution adopted by policy-makers rapidly turned into a “laissez-brûler” approach, which political, economic, social and ethical implications led ultimately to the Second World War (Kindleberger, 2004). On the contrary, in 2009, governments adopted bold bailout plans to rescue financial institutions and to afford a coordinated response to the global economic crisis. According to the author, “in a period of just over a month, a conservative presidential administration devoted to free markets and financial deregulation had engineered a level of direct government control over the nation’s financial institutions undreamed of by V.I. Lenin a century before” (p. v).

The author thinks that it is not easy to understand what happened and how to get out from this crisis. He states that observing the situation seems like “watching a game of cricket: the action didn’t make any sense, it never seemed to

¹ Unless stated otherwise, hereafter the page numbers in parentheses refer to the Davis’s book commented by this article.

end, and it was impossible to keep track of all the players” (p. viii). He asks who was responsible for such a mess. Rather, who was not to blame? “Bonus-obsessed Wall Street bankers, an overly cautious Federal Reserve, rapacious mortgage brokers, lax regulators, greedy speculators (some of which were pension funds or Norwegian villagers), homeowners who borrowed too much” (p. viii)? He adds that it was easy to answer this question in the corporate era, dominated by big conglomerates and large corporations, as everyone knows whom to hold accountable. Yet, today the situation is of a new nature and accountability becomes a tricky issue.

The book is an attempt to answer these questions and to explain how finance became religion, which came to shape the U.S. society. Without drawing on an effortless reconstruction of the book, I will try to develop, in this comment, what explains the advent of corporate scandals in the last decade and the recent financial crisis. In the first section, I discuss the author description of the rise and fall of the corporation as a social institution. In the second section, I portray the author’s argument on the dominance of a market-based system and the reorganization of the U.S. society with the advent of the shareholder era. In the last section, I explain how the author considers securitization to be at the origin of this shift and how at the same time it contributes to its perpetuation. Allowed by advances in information technology and financial theory, not only securitization had deeply changed the banking ecosystem, but also had challenged the idea of dispersed ownership described by Berle and Means (1932), which became less relevant.

1. The rise and fall of the corporation as a social institution

In Chapter 3, the author describes the rise and fall of the corporation as a social institution over the course of the twentieth century. During the early era of *finance capitalism*, between the end of XIX and the beginning of XX century, Wall Street financiers established corporations as legal devices for financing business activity. Sharply, they took the form of giants and cartels, interconnected through ownership and directorship ties but without a soul, and without caring relations with their employees and communities. Afterward, several corporations took on the functions performed by welfare states elsewhere in the world and created social policies providing stable incomes, health care coverage, and retirement security: “the intension of welfare capitalism was to inculcate a work ethic, to bind employees to their companies and to forestall unionization and prevent government intervention” (p. 69). Instead of the image of soulless oligopolies, this shift gave to corporations a human face, a personality and tangibility as an institution reliable and trusted by shareholders.

Starting from 1920s, big corporations and big bulk of nation's industrial assets come to be run by professional managers, without severe constraints from a dispersed shareholding. This gave the birth of *managerial capitalism*. Large corporations had two distinctive features – grand scale and public ownership. Corporations are managed by technocrats using new production and employment practices and large-scale vertical integration. Simultaneously, as soon as U.S. bankers had largely withdrawn from the business of large corporations and members of the general public flooded into the stock market during the 1920s, ownership became increasingly dispersed. According to the author, following Berle and Means (1932), corporate control became centripetal with the accession to power of organization man (Dahrendorf, 1957), while ownership was centrifugal with thousands of anonymous, powerless stockholders owning each no more than a tiny fraction of the company's shares.

Due to these features, large corporations were not regarded as the private property of stockholders and were not run primarily for their profit. Innovation, growth and employment were the major concern of managers at that time. According to Dodd (1932, p. 1151-1152), “there is a widespread and growing feeling that industry owes to its employees not merely the negative duties of refraining from overworking or injuring them, but the affirmative duty of providing them so far as possible with economic security. Concentration of control of industry in a relatively few hands has encouraged the belief in the practicability of methods of economic planning by which such security can be achieved in much greater degree than at present”. Hence, a part of the profit stays in the enterprise to be paid out in higher wages or passed on to the consumer in the form of lower prices. Even if this trend did not alter the theory that the sole function of corporate managers is to maximize profits for the stockholders (Dodd, 1932), as described by the author following Economist Carl Kaysen, the soul of corporations had been found by their managers without being responsible for a breach of shareholder trust. They came to see themselves as responsible not only to stockholders but also to employees, customers, the general public and to the firm as an institution. According to Dodd (1932), the corporation became an institution, which differs from the individuals who compose it. The corporation is then affected not only by the laws which regulate business but also by the attitude of public and business opinion as to the social obligations of business. Large corporations became a “profession of public service”, because of a public opinion shared in by business men themselves, which had brought about this attitude. He quotes one of the leading business executives, Mr. Owen. D. Young who states that “managers were no longer attorneys for stockholders; they were becoming trustees of an institution... One no longer feels the obligation to take from labor for the benefit of capital, nor to take from the public for the benefit of both, but rather to administer wisely and fairly in the interest of all.” (p. 1154-1155) For

Davis, the institutional status of corporations is of a quite reduced nature. It is obviously related to functions which came to be entrusted to corporations, while they are primarily performed by welfare states elsewhere. Since, corporations came to offer health care and retirement pensions to create lifetime attachments to their members they became the new guilds and came to dominance by the 1950s. As described in the book, “the prophecy at the end of Berle and Means’s book – that the corporation might one day supersede the state as the dominant form of social organization in the world – seems to have come true” (p. 59).

Corporations grew large and concentrated into oligopolies to not face takeovers. As they had the jobs and the assets, these self-financing large corporations held the keys of economic power. They deeply organized economic and social life during most of the twentieth century. They were “the decisive, the representative and the constitutive institution(s) of a new social order in the U.S.” (p. 11). Meanwhile, their ownership became increasingly dispersed. According to managerialist theorists, a new upper class of salaried managers, the new nobles, come to be in charge of ensuring the best possible allocation of resources inside the company. Following Dahrendorf (1957, p. 32), a post-capitalist system appears: a type of capitalism without capitalists. It allowed “management to become a self-perpetuating oligarchy accountable to no one but to themselves, and using the company’s vast resources for whatever purpose they saw fit”. In fact, according to the author (who follows Wright Mills in this regard), a class of “corporate rich” comprising power elite of owners and executives of few corporations, had emerged.

In the industrial era, more sales, more employees and more industrial territories were key strategies to ensure corporate growth. Instead of serving shareholders interest, managers used their position to line their own pockets and to build corporate empires through strategies of expansion and acquisitions. To divert the Celler-Kefauver (anti-merger Act of 1950), which seriously limited the pathways to corporate growth by prohibiting anticompetitive mergers, firms that wanted to grow turned to targets outside their industry. The multi-divisional structure allowed large corporations to become diversified conglomerates in the 1960s and 1970s. Yet, the system began to fall apart with the monetary crisis of 1972, which signaled the end of the Glorious Thirty. According to Lazonick & O’Sullivan (2000), the escalating organizational complexity, rooted in the 1960s wave of mergers and acquisitions, and the growing competition imposed by Japanese companies, have exposed the American conglomerates to obvious financial problems. They came to be seen as worthless; shareholders would be better off if conglomerates were split into free-standing entities.

By the early 1970s, a wind of change swept the hegemony of conglomerates. The author states that due to a Copernican revolution, dominance of the large corporation passed away. Highly criticized by financial economists

from the School of Chicago, the managerialist resource allocation model became intolerable. According to that school, managerialism that paid more wages and charged customers less than they could, failed to maximize profits and to allocate resources efficiently. The insider model was replaced by an outsider model whereby available free cash flows are distributed to shareholders in order to be efficiently allocated on the market (Aglietta & Reberioux, 2004). In the light of this theory, antitrust laws should be reformed to allow welfare-enhancing takeovers and to make an active market for corporate control come true. Since the 1980s and the bust-up takeovers wave, corporations came to look like a mere assets' collection guided by a share price-oriented system of corporate governance. The shift to post-industrialism marked the advent of the *shareholder era*. "The social institution owned by dispersed widows and orphans was reduced to a mere contractual nexus, driven by signals on financial markets, and the widows and orphans increasingly relied on a handful of mutual fund companies to manage their shareholdings" (p. 63). However, contrary to the author's claims, this shift has not downsized the concentration of power held through corporations and corporate groups that are nowadays spread across national boundaries. Instead, this has implied a major drift of their institutional nature and role in economy and society. Corporations came to be considered as legal-economic devices to entrust powers and rights of their shareholders, which were seen again as the corporate owners, paving the way to the shareholder era and its ownership ideology.

2. The shareholder era and the advent of ownership ideology

In chapter 2, the author explains how governance came to be entrusted to financial markets within the "functionalist theory of corporate governance". The author explains how trading on financial markets is quite different from economic exchange. Transactions on securities generate social relations other than conventional ones. Investors are different from other buyers. What is traded is of a different nature. Capital assets are promises and claims on the future. Therefore, things traded are quite obscure for their ultimate beneficiaries. Shareholders have no real influence on how the company is run or by whom. They are only "residual claimants" entitled to whatever is left after payment of all expenses. Hence, people with sense will not hand their savings over to companies unless they have control in return. To buttress markets ideology and to legitimate governance by markets, financial economists introduced new theories to answer problems due to the separation of ownership and control that comes with dispersed and distant shareholdings, which become problematic under a market-based system.

The alleged predictive ability of financial markets was authoritative to the implementation of a functionalist theory of corporate governance. Knowing things that individuals could not, financial markets are able to incorporate into companies' share prices, all publicly available information about their future prospects. "Prices on financial markets provide an unbeatable augur of future events (p. 40)." They help to assess the consequences of companies' policies and whether things were going in the right direction. As the price is "right" and "smart", financial markets provide privileged access to truth. The efficient market doctrine allowed a rapid growth of financial markets where financial flows reached an unprecedented volume exchanged daily. Moreover, the rightness of market's judgment, contributed to legitimate governance by markets. "Share price is an ongoing report card for management on this account, and management should be held accountable for it (p. 44)." If institutions and safeguards are created to make managers attentive to share prices, dispersed shareholders will have the control without having to rely on managers or a major outside stockholder such as a bank. Accordingly, scholars provided a compelling rationale for the re-orientation of companies toward shareholder value.

As corporate governance model, shareholder value was accompanied by a battery of internal and external devices in a form of "markets" purported to discipline corporate management and to orient them toward share price. Following the new rules settled by Wall Street, corporate management is facing reputational markets that induce them to uphold honesty and to show devotion to shareholders interest. Their compensation is increasingly tied to share price through devices such as stock options. They should submit corporate accounts to certification, list shares on a high standards stock market, and incorporate in states where laws are favorable to shareholders. Otherwise, managers are punished on "markets" for corporate directors and their companies become targets for takeovers – that are "markets" for corporate control - and are unlikely to survive.

Since premiums are given to companies that harbor the most profits for the least assets, "retain and reinvest" management gave way to "downsize and distribute" doctrine. Starting from the 1980s, instead of reinvesting profits to finance corporate growth, managers changed their strategy in favor of maximizing shareholder value, which became an act of faith and their guiding creed (Lazonick & O'Sullivan, 2000). The hallmarks of "corporate feudalism" (prospect of long-term employment, health care coverage and adequate retirement pensions) are nowadays stuff for nostalgia. They were renounced in the name of the creation of shareholder value which allows the maximization of social welfare and the well-being of American society. As we will explain later, it is better for all the society if it acts as if the market does maximize the social welfare. Hence, the market is the rule-setter and no one can argue against that because this is better for all and everyone.

The author states that the shareholder value oriented-theory yielded policy implications not only to corporations but also to institutions in which they were embedded. Creating conditions appropriate for the implementation of shareholder value maximization came to be seen as one of the major roles of governments in economy. In Chapter 5 the author explains how regulators are sucked into a “rat race” to attract companies to their jurisdiction. States entered into a competition in a globalized world. They are transcended by corporations that adopted a kind of “legal masala” model to evade their control and taxation. They turn the domicile of each component of the value chain, such as intellectual property, in tax havens and friendly corporate law states with the help of the accountancy profession, to avoid corporate, sales and payroll taxes (Sikka & Hampton, 2005). The limit of their capacities to raise revenues pushed revenue-hungry states to have a new role – business of law. The nation-state was re-purposed and succeeded by a new form of marketing state: the vendor-state. In the U.S. federal unregulated competition model, the state became a provider and vendor of corporate law with the help of contractors. Each state competes with others on the global market to attract corporate customers. This kind of rate race is not new. Since 1900s, Delaware has been preeminent as the place for businesses to be incorporated. Because of its shareholder-friendly corporate law and its highly responsive judiciary and legislature, the state of Delaware won the bulk of the incorporation business in the jurisdictional Mall of America to become the McDonald’s of corporate law (p. 48). According to the leading securities lawyer Lewis S. Black, the success of the Delaware is related to many factors among them, its enabling corporation statute, which is intended to offer the maximum flexibility to corporations and their shareholders in ordering their affairs. The statute is conceived with a bias against regulation and does not purport to be a code of conduct. Today, Delaware continues to grow smartly in the shareholder era because of its favorable tax treatment and the absence of formalities offered by the limited liability company format under the Delaware law.² “More than 50% of all publicly-traded companies in the U.S. including 63% of the Fortune 500 have chosen Delaware as their legal home.”³

3. The spread of financial market over economy and society

The spreading out of financial reasoning and the loosening of ties between employees and firms allowed financial markets to become the new orienting force even for households. The author explains how besides their reach beyond the

² http://corp.delaware.gov/whycorporations_web.pdf

³ <http://www.corp.delaware.gov/aboutagency.shtml>

corporate world and its surrounding institutions, financial markets extended to every social and political aspect to draw them into their rhythms. He states that the recent global economic crisis revealed that social organization at least in the U.S. was shaped by the gravitational pull of financial markets. Finance has seeped ever deeper into the fabric of everyday life, he adds that every basic social process is penetrated by financial thinking. According to the author, this is the outcome of one theory of the corporation, according to which shareholders own the corporation that should be run for shareholder value. As explained by Callon (2007), economics has a performative role. Economists contribute towards enacting realities that they envision. They strive to construct the socio-technological *agencements* that they believe are compatible with their models to form a new world that is nothing but a patchwork cobbled together with elements from their narrative. Quoting a top jurist in Delaware, the author stands that “this view is not premised on the conclusions that shareholders do “own” the corporation in any ultimate sense, only on the view that it could be better for all of us if we act as if they do” (p. 67). As in the corporate era, it was better off imagining the corporation as a social institution, with obligations to its community (this is the case in Hershey, Pennsylvania), in the shareholder era (the case in Delaware), the maximization of social welfare and wellbeing is tied to shareholdings and trading on the market. The role of the U.S. government and advocates of neoliberalism was instrumental in developing this conception of the corporation coupled with the idea of the “ownership society”.

In chapter 6, the author explains how households are drawn into the orbit of financial markets because they come to believe that freedom, democracy, equality and justice are possible only through shareholding. Shaped by the ideology of widespread stock ownership and free society, households entered into a new era, called the portfolio or the “ownership society.” The slogan of “Ownership society,” claimed by former U.S President George W. Bush, was instrumental in developing the shareholder ideology. This model of society advocates that individual welfare and freedom are tight to the ability of individuals to control their own lives and wealth instead of relying on government support. As formulated by David Boaz from the Cato Institute,⁴ one of the U.S. influent neoliberalism think-tanks, “individuals are empowered by freeing them from dependence on government handouts and making them owners instead, in control of their own lives and destinies. In the ownership society, patients control their own health care, parents control their own children's education, and workers control their retirement savings.”

According to Gerald Davis, to be agent of their own destiny, people were indoctrinated by the Republican government that they should trade on financial

⁴ https://www.cato.org/special/ownership_society/boaz.html

markets and become investors instead of savers. If the “commodity fiction” was the organizing principle of society in Industrializing Britain where human society had become an accessory of the economic system, “capital fiction” dominates the post-industrial America or the U.S. portfolio society. Investment became the dominant metaphor to understand the individual’s place in society. All categories of social life have been turned into a kind of capital; education and talent constitute “human capital”, friends and family are called “social capital”, homes are no more places to live but an option on future housing price increases.

The origin of this deep shift was the decline of “corporate feudalism” and the abandon of their old paternalism. The advent of a free-agent nation came when the corporate serfs left the iron cage of their corporation when they became independent from the corporate-sponsored social welfare system. At the end of the 20th century, reliance on corporations as social welfare agencies became costly for U.S. economy threatened by loss of jobs in a flat world frontier offering for savvy companies the opportunity to offshore where the value can be added. The planned decline of “defined benefit” corporate pension plans pushed employees and retirees to rely more on personal savings and Federal programs. Yet, instead of putting more money for retirement, U.S. household savings became negative in 2005 for the first time since the Great Depression. Such paradox is explained by the rising home prices and the availability of mortgage financing that allowed households to smooth their consumption without the cushion of savings. However, the author didn’t mention the role of wage inequality in increasing the recourse of households to debt in order to face their needs. Atkinson et al (2011) and Piketty and Saez (2003) give plausible explanation to the negative trend of household savings, which is related to the less egalitarian wage structure in the U.S. During the first half of the twentieth century and mainly during the interwar period, wage inequality has gradually decreased. Due to large redistributive programs and to the increasing unionization, top wage shares were compressed and did not recover after the war. Since 1970s, which marked the end of the Glorious Thirty, wage inequality is persistently increasing. The pay gap between top executives and the average worker ultimately depend on ownership-oriented changes in corporate governance and management, and could be legitimized by changing social norms such as the acceptability of very high levels of wages and inequalities in US society.

While household savings were decreasing, deposits migrated from bank accounts to money-market accounts and to “defined contribution” 401(k) plans providers’ accounts. The share of employees in corporate pension plans with a “defined benefit” plan passed from 81% in 1981 to 38% in 2003. It is then the market and no longer the corporation that determines the individual’s view of his society. The rise of the industry of securitization, with deregulation, had contributed to the advent of the ownership society since it had “split the atom of

property” so that everyone could own – in some microscopic way – thousands of different assets and a slice of the overall market instead of being tied to a particular corporation. Employees became free-agent traders perceiving their education, job, friends and neighborhoods as ephemeral and fragmented investments in a portfolio. They are positions and no longer commitments. Meanwhile, securitization had also contributed to its own speeding up and to the transformation of the business of banking and the finance world in general as explained in the next section.

4. The industry of securitization and the new financing ecosystem: the dispersed ownership is challenged

Allowed by advances in information technology and financial theory, the ability to make estimates, discounting to present value and valuation of any kind of future income streams made it possible to securitization to become increasingly baroque; it has become possible to channel into a tradable capital asset the most incomprehensible financial instruments: in sum, to trade on anything having some possible cash flow associated with it. Loans, mortgages, receivables, insurance payouts and even lawsuit settlements were turned into securities: “rather than making loans and holding them on their balance sheet, banks could originate loans and then re-sell them, to be turned into securities and marketed to institutional investors” (p. 116). Banks embraced broadly securitization as an alternative business model. Meanwhile, securitization straddled commercial and investment banking and divided-up traditional functions, which came to be performed by separate specialist firms. In chapter 4, the author explains how securitization and deregulation transformed the business of banking. They contributed to dissolve the long-standing distinction between commercial and investment banking in the U.S. enacted by the Glass-Steagall Act in 1933. Also, they provoked the crumbling of geographic segmentation regulations (the McFadden Act). By the end of the 1990s, the universal banking format came to dominance in the U.S. If conglomerates were considered as poison for American manufacturers, they were seen as a good thing for the financial sphere as it would spread risk and make the financial system safer.

The financial regulations of the Great depression separated investment banking, commercial banking and insurance. Furthermore, U.S. commercial banks used to be prohibited from operating in more than one state. Hence, they served for decades as social and political hubs for their local industrial economies.

However, since the 1970s, the “wonderful life”⁵ model of banking came to its end, since corporations have adopted new financing alternatives by issuing commercial papers at relatively low cost. This pushed U.S. banks to expand overseas. Yet, the globalization switched into reverse after the wave of defaults caused by the Mexican crisis in 1982. By the mid-1990s, banks came to realize that the basic model of taking deposits and lending them at a higher price was being undermined on the asset and liability sides. Borrowers and savers were convinced that they are better served by markets which are more lucrative and safer than banks. The author quoted Dick Kovacevich, CEO of Wells Fargo, who declared the death of the banking industry that should be buried. As a consequence, several banks morphed into investment banks while others pursued a new strategy by offering a range of client services. Those that wanted to stay in traditional banking embraced securitization.

American investment banks, which were segregated from commercial banks, were organized as partnerships. As the value of the bank depended on its reputation, bankers had incentives to take the long view instead of taking short-term advantages and walk away: “to banking the confidence of the community is the breath from which it draws life” (p. 123). When investment banks abandoned the traditional partnership model and went public, one of the implications was that bankers’ compensations became tied to short-term results and specific transactions (or products). They stopped looking after the affairs of firms whose securities they have underwritten and of homeowners whose mortgages they have securitized. Conflicts of interest at investment banks, which are now financial conglomerates, are considered to have a decisive influence in inflating the 1990s stock market bubble and in its collapse. Analysts working for investment banks that do business with the companies about which they report have no interest to render harsh judgments and place rarely “sell” recommendation on their stocks. In their socio-economic analysis of financial analysts’ recommendations, Biondi and Chambost (2009) provide descriptive statistics confirming this idea. Rather, analysts prefer simply drop coverage by following the rule: “if you can’t say anything nice, don’t say anything at all” (p. 128). The investment banking industry took a dramatic turn in September 2008 with the bankruptcy of Lehman Brothers, the control of Merrill Lynch by Bank of America and the transformation of Goldman Sachs and Morgan Stanley into bank holding companies.

Securitization, the move of household savings from banks to markets and the shift of retirement plans from a “defined benefit” to a “defined contribution” system had other beneficiaries. The number of U.S. households with savings accounts declined from 77% in 1977 to 44% in 1989. If only 20% of households

⁵ In reference to Frank Capra’s 1946 movie “It is a wonderful life”: <http://www.imdb.com/title/tt0038650/> portraying the story of a banker owner of a small “Savings & Loans” bank which was ruined by speculation and the crisis.

had some money invested in the stock market in 1983, this proportion became 52% in 2001. Moreover, instead of owning directly shares in their employer or other companies, households owned shares of mutual funds, either directly or through retirement accounts. This participation in mutual funds expanded from 6% in 1980 to approximately half by 2000. Assets gathered by mutual funds increased from about \$1 trillion in 1990 to almost \$7 trillion in 2000. Mutual funds grew 1000% between 1990 and 2005 to become the predominant owners of corporate America. The securitization rise changed the banking ecosystem which becomes dominated by the “originate, securitize and distribute” model. New players such as free-standing mortgage lenders, asset financiers and hedge funds came to complete the financial panorama. Yet, a major consequence of this shift is that the dispersed ownership described by Berle and Means (1932), having it actually existed, is no longer relevant. The “democratization of ownership” is a fiction. Financial investment is channeled through intermediary institutional investors such as mutual funds, which control more than three-quarters of the average large firm’s ownership since 2005. If democracy exists on the market, it is certainly not direct but representative, leaving the destiny of the whole society in the hands of few market lords.

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