

# Chapter 1

## Introduction

The purpose of this book is to identify some important developments in the evolution of capitalism and to judge whether this evolution is in accord with fundamental American principles. Particular attention is paid to corporate governance, the investment-finance link in the economy, and monetary issues. The corporation has been the dominant enterprise in the American economy for some time and much more recently, money manager capitalism has altered capitalist finance and corporate governance. Is the corporation and money manager capitalism congruent with basic foundational principles of American society? Public policy should be grounded in American values, and this book will examine whether contemporary monetary policy is compatible with American principles and current economic evolution. It is argued that populist values inform the American republic. These are the central questions and issues that frame this book.

To give a proper context for understanding the book's central questions, I first explore the issue of income distribution. All societies must determine how rights to property and income are to be allocated. Different societies throughout history have employed different institutions or means to distribute income and wealth, and often income allocation and inequality have prompted criticism and conflict. United States income data are reviewed. Despite the general American acceptance of inequality, an inequality based on merit and productivity differences, the actual inequalities of our society are extreme and are not acceptable by American standards. This chapter explains income distribution, why we should care how income is distributed, and the prevalent myths that justify great inequalities.

## 2 Populist Challenge to Corporate Capitalism

Next, I layout the economic context that is crucial to creating a positive or negative environment from which business is conducted. Business investment drives innovation and economic growth, and depends heavily on profit income to motivate risk taking and as provision for finance. But investment drives profit as well because business spending on capital goods and production inputs determines income for the firms selling the capital and inputs. Government policy and regulation, Federal Reserve interest rate policy, and the social-economic setting create the backdrop for business investment and macroeconomic performance. Capitalist economies are dynamic with a penchant for expansion and innovation but growth does not move along an uninterrupted straight line. Business cycles and financial crises are inherent features of capitalist societies, and they affect and are affected by the prevailing economic climate. The existing income distribution can influence the vitality of an economy and the degree to which there is popular acceptance of the system. The text explains the great 1990s expansion and why it may end.

The American economy has evolved through a series of distinct stages. This book takes the reader chronologically through these stages, identifying the distinguishing characteristics of each epoch. Focus is placed on specific institutional features. What most concerns me is the governance system of business, and the means by which firms raise capital to finance investment. Who has power in the firm, and over finance, matters for the macroeconomic functioning of the economy. Business cycles, growth, and the economic environment are all affected by the particular stage in force.

Important recent developments in economic structure are identified, of which great attention is given to the description and importance of money manager capitalism. Large pension and mutual funds have surpassed banks as leading financial institutions, and money managers are important in affecting the flow of funds and financial asset prices of the economy's major corporations. An argument is made that this change in finance has significant macroeconomic implications and the book provides some empirical evidence to buttress that case. Furthermore, there is a particular monetary policy regime associated with the current economic stage. Policy has returned to a

Classical orientation,<sup>1</sup> quite consistent with much of monetary policy history in the United States. The book explains the conventional wisdom of how monetary policy works and provides an historical overview of the history of policy. The heterodox economic view is then contrasted with the conventional perspective of monetary policy, and it is argued that business should accept the responsibility of controlling inflation. Reforming monetary policy along heterodox lines is consistent with the current stage of money manager capitalism, whereas the current Classical orientation is incompatible.

The subsequent section of the text presents the central argument. America is based on a set of core principles, as laid out by important documents, thinkers, and eras. These principles inform American political economy and are populist oriented. Yet, despite explicit foundational principles, U.S. economic history demonstrates that the central business unit, namely the corporation, has evolved along a path inconsistent with these principles. American populism of the late nineteenth century attempted to restructure the country back along its intended path but failed. This book calls for a renewal of populist economic reform, and describes what contemporary forces may pull America along such a path. In particular, the corporation may be pressured over the long run to change in ways more compatible with America's roots.

The final section of the text summarizes the main points of the earlier chapters and revisits the topic of economic booms. Eight populist policy reforms are suggested that could create a modicum of success in the short run at redirecting American economic life. The book ends with further reflections on democracy and politics.

In sum, this book is a discourse in political economy and is instructional in that it describes the causes of economic growth and cycles, and the

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<sup>1</sup> The Classical Tradition in monetary policy is based on what economists call the quantity theory of money. This notion argues that the government or central bank controls the quantity and growth of the money supply in an economy. Money growth affects only the price level and not employment and production in the economy. Limiting money growth creates price stability and stabilizes economic activity according to this view.

#### 4 Populist Challenge to Corporate Capitalism

process by which monetary policy affects economic activity. This effort pulls together elements of American history and important political-economic concepts to argue that contemporary monetary policy and the corporate form of business are not consistent with either money manager capitalism or the country's founding principles. The book conveys an appreciation for institutional and policy evolution, and undertakes a critical examination of the current stage of economic development. And finally, the work draws a sharp distinction between America's populist foundational values and the prevailing dominant values of the U.S. elite.