27
FINANCIAL ECONOMICS
AND BUSINESS SCHOOLS

Legitimating corporate monopoly,
reproducing neoliberalism?

Kean Birch

Economics is not neutral knowledge or practice, despite claims made about it in academic or
popular debate. This statement should go without saying, but it is important to emphasize, con-
sidering that economics, as a form of knowledge, has extraordinary power to shape the world
(Fourcade et al. 2014). I do not want to argue that economics is ‘performative’ – see Glass (2016) –
but rather that the production of knowledge and its practice are bound up with one another. For
example, while economics has an obvious influence in policy and business circles, it is also
important to unpack economics as a specific language and set of assumptions that are produced
and learned, and thereby shape people’s behaviour, decision-making and beliefs about the world
and how people should act in the world (Ferraro et al. 2005). It is crucial, in this sense, to examine
how knowledge (e.g. economics) is produced in the world and how it comes to (re)make the
world (e.g. in business practice).

Neoliberalism represents an interesting topic to understand this relationship between
knowledge and practice. As Peck (2010) argues, this does not mean restating the history of
neoliberalism as an explanation (or, the explanation) for everything that has happened in the
world over the last few decades; it means taking neoliberalism as the thing we need to explain
and understand. This task necessitates problematizing neoliberalism as a social reality and
analytical concept – see Barnett (2009), Weller and O’Neill (2014) and Birch (2015a) for exam-
ples. One area that highlights several key contradictions with both the reality and critique of
neoliberalism is the area of corporate power and corporate monopoly, since these forces contrast
sharply with the underlying emphasis on (free) markets in both the epistemic basis of neoliberal
thought and the understanding of neoliberalism by critical scholars, activists and suchlike. However,
these criticisms and contradictions need not lead us to throw out the ‘analytical’ baby with the
‘reality’ bathwater in our task of understanding neoliberalism (Springer 2014).

My aim in this chapter is to unpack neoliberalism as a market-centred epistemology and
practice by examining financial economics as a specific form of economic knowledge that legiti-
mates corporate monopoly by resolving the contradiction in neoliberalism between monopoly
and free markets. Financial economics, as it is recognized today, emerged in the 1960s and 1970s
with the work of people like Eugene Fama and Michael Jensen, and is not usually associated with
neoliberalism (cf. Styhre 2014; Birch 2015a, Birch 2016). It has developed in business schools,
rather than economics departments, and focuses on the pricing of investment assets and business
finance – specifically as these relate to corporate governance and control (i.e. shareholding).
Similarly, business schools are not usually associated with neoliberalism (cf. Harney 2009; Nik-Khah 2011). In focusing on financial economics and business schools, this chapter aims to highlight the importance of two things to the reproduction of neoliberal order: on the one hand, new business and financial knowledges legitimate the expansion of corporate monopoly through the reworking of the ‘firm’ as a ‘nexus of contracts’; and, on the other hand, business schools are key sites of the production of this knowledge, and therefore of neoliberal order.

I start the chapter with an outline of neoliberalism as a market-centred order, highlighting how critical scholars have presented neoliberalism as underpinned by a market ethic or market principles; however, this characterization of neoliberalism is problematized by the expansion of corporate monopoly and the fact that neoliberalism now sits comfortably with the rise of monopolies. After this I provide a brief background on changes in corporate governance and form over time in order to situate better the discussion of financial economics within its historical context. I then discuss the reproduction of neoliberalism through the emergence and spread of financial economics and the sites of its reproduction, business schools. I then conclude.

**Neoliberalism as market-centred order**

**Neoliberalism and markets**

Neoliberalism is an ambiguous thing to define and identify. There are several reasons for this. First, neoliberalism has a complex and evolving intellectual history involving diverse schools of liberal thought – for example, Austrian, German or Freiburg, British, first Chicago, second Chicago, Virginia (Birch 2015a, 2015b). Second, and just to confuse things further, people we now identify as neoliberal – examples would include Friedrich Hayek, Wilhelm Röpke, Milton Friedman, Gary Becker and James Buchanan – rarely self-identified as ‘neo-’liberals themselves; many preferred other terms like ‘classical liberal’ or ‘libertarian’ (Peck 2010). Third, there are now numerous analytical definitions of neoliberalism, most of which are critical of neoliberalism both as a set of knowledge claims (e.g. markets are efficient) and as a set of policy practices (e.g. liberalization, privatization, marketization) (Boas and Gans-Morse 2009). In relation to the latter, the identification of neoliberal practice or implementation is, necessarily, always constituted by the analytical approach or perspective taken in the examination of neoliberalism; e.g. institutionalism, Foucault, state theory, geographical, Marxist, etc. (see Birch 2015b). The introduction and other chapters in this handbook demonstrate this diversity of perspectives perfectly.

Despite these difficulties in defining and identifying neoliberalism, it is possible to find one commonality that crosses all these differences; that is the emphasis placed by ‘neoliberals’ on markets as the best – and most ethical – institution for organizing the economy as well as society. For example, both Hayek (1944[2001]) and Friedman (1962) emphasize the importance of competitive markets in their writings. Similarly, critics like Bourdieu (1998) and Harvey (2005) highlight the central role of the market and market ethic in neoliberal thinking and practice, especially in contrast to collective action. In this sense, neoliberalism can be characterized as a market-centred epistemology and set of practices. Although neoliberalism, in these terms at least, implies the installation of the market as the sole institution for organizing society, this does not mean that neoliberalism is anti-statist. For example, the Mont Pelerin Society – identified as the central organizing structure of the ‘neoliberal thought collective’ by Mirowski (2013) – includes the following in its statement of aims: ‘The redefinition of the functions of the state so as to distinguish more clearly between the totalitarian and the liberal order.’ Critics of neoliberalism further emphasize the important relationship between markets and the need for the state as the creator and regulator of those markets (Birch and Mykhnenko 2010; Peck 2010).
Contradictions of neoliberalism and corporate monopoly

The state plays a key role in markets by ensuring the rule of law, without which markets would not exist and would cease to function. In particular, markets require the protection of private property and the enforcement of contract (Hayek 1960). Another important function of the state, according to most early neoliberals, is the enforcement of anti-trust regulation to stop and/or erode the build-up of corporate (and other) monopolies (Birch 2015a). While certain schools of neoliberalism (e.g. German/Freiburg) retained this negative approach to monopoly, others like the second Chicago School jettisoned it in the 1950s and afterwards. Recently a number of scholars have researched this evolving and ambiguous relationship between neoliberalism and corporate monopoly.

In their work, in particular, Robert Van Horn and Philip Mirowski argue that there was a transformation in the perception of monopoly by Chicago neoliberals after the 1950s (Van Horn 2009, 2011; Van Horn and Mirowski 2009). Before the 1950s, neoliberals were almost universally opposed to corporate monopoly since monopolies of any sort interfere with the proper functioning of market competition and prices – that is, monopolies limit competition and distort market prices, meaning that markets cannot function efficiently in the allocation and distribution of resources (Crouch 2011). This attitude to monopoly was evident across a range of neoliberal schools of thought, including the Austrian, German, Chicago and British schools, with neoliberals like Hayek, Friedman and Röpke all denouncing corporate monopoly (Birch 2015a). However, Van Horn (2009, 2011) and Van Horn and Miroskowski (2009) argue that during the 1950s this attitude changed in the (second) Chicago School as the result of several studies carried out at the University of Chicago, including the Free Market Study and Anti-Trust Project.

Apart from denying claims that corporate monopoly was increasing, what these studies in the 1950s led to were numerous attempts to reconcile markets and monopoly – this is especially evident in the law and economics movement originating in the school of law at the University of Chicago. According to Davies (2010), of particular importance to this project of reconciliation was the adoption of Ronald Coase’s (1937) theory of transaction costs – this enabled a wholesale redefinition of the relationship between the firm and market, as well as reconsideration of the distorting impacts of monopoly. In his theory, for example, Coase characterized markets and firms as part of the same continuum, meaning that the firm and the market can be treated as part the same process or system – this proved highly influential in the way financial economics defined the firm as a nexus of contracts (see below). Moreover, it meant that monopoly could be redefined as only temporary and subject to being competed away through market competition, and therefore an unimportant issue (Crouch 2011). The role of knowledge, especially financial economics, in this transformation is critical, as is the emergence of new forms of business organization and practice (Birch 2016). It is these issues that I turn to next.

Background: the evolution of corporate governance and form

In order to understand the relevance of financial economics and business schools in the story of neoliberalism, it is important, first, to get some sense of the transformation of the corporation over time (Birch 2016). This necessitates understanding how corporate governance – as a set of knowledge claims about how corporations should be managed – and corporate form – as the organization and practices of corporations – come to constitute each other in different ways at different times. As Whitley (1999) suggests, this does not mean that the corporation has become more (economically) efficient over time, merely that forms of governance and organization are constituted by changing knowledge claims and social practices.
The first thing to note is that capitalism and the corporation have gone through at least three main historical phases since the early nineteenth century. The first two phases have been called ‘proprietary capitalism’ and ‘managerial capitalism’ by scholars like Bowman (1996) and Whitley (1999), while I call the most recent phase ‘neoliberal capitalism’ for convenience (Birch 2016). I have outlined the specific characteristics of each phase in Table 27.1.

According to scholars like Bowman (1996) and Whitley (1999), proprietary capitalism was centred on Britain in the nineteenth century, and constituted by ideas derived from political and economic liberalism – or laissez-faire. For example, it was based on notions of individual private property and individual competition in self-regulating markets, where effort and decision-making were rewarded or punished by market effects (e.g. bankruptcy) (Ireland 2010). In this era the key business entity was the partnership comprising owner–managers whose livelihoods rose and fell with those of their business. The joint-stock company (or corporation equivalent), in contrast, was seen as a gift (or grant) of government, conferring illegitimate monopoly privileges that inhibited the functioning of the market (Barkan 2013). Direct governance and control were the order of the day when it came to business practice.

Towards the end of the nineteenth century, however, proprietary capitalism was eclipsed by managerial capitalism as a result of the so-called ‘corporate revolution’ (Fligstein 1990; Roy 1997). Corporations were no longer gifts of government; instead they could be established through general incorporation and were run by professional managers. As a result they were able to concentrate significant market and economic power through mergers, vertical integration and economies of scale, all underpinned by shifting modes of ownership and governance (Bratton 1989). Corporations benefited from the ability to attract a large number of distributed shareholders who, in turn, relied on managers to run corporations on their behalf; consequently, securities law became a critical mechanism for coordinating this relationship (Berle and Means 1932). However, managerial capitalism – as the name suggests – was dominated by a new breed of managers, trained in professional business schools in new management techniques and practices, and with enormous leeway in the decisions they made (Khurana 2007).

Table 27.1 Phases of capitalism

<table>
<thead>
<tr>
<th></th>
<th>Proprietary (pre-1900)</th>
<th>Managerial (1900–70s)</th>
<th>Neoliberal (1970s onwards)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate governance</strong></td>
<td>Market as self-regulating</td>
<td>Market as transaction costs</td>
<td>Market as (nexus of) contracts</td>
</tr>
<tr>
<td>(epistemology)</td>
<td>Corporation as fiction, concession</td>
<td>Corporation as real entity</td>
<td>Corporation as aggregation of contracting parties</td>
</tr>
<tr>
<td></td>
<td>Transactions based on market price</td>
<td>Transactions based on historic cost accounting</td>
<td>Transactions based on contracts</td>
</tr>
<tr>
<td><strong>Corporate form</strong></td>
<td>Key businesses are small or medium-size partnerships</td>
<td>Key businesses are large, oligopolistic corporations</td>
<td>Key businesses are large, monopolistic corporations and others</td>
</tr>
<tr>
<td>(practice)</td>
<td>Businesses controlled through private property</td>
<td>Businesses controlled by securities law</td>
<td>Businesses controlled by contract law</td>
</tr>
<tr>
<td></td>
<td>Business governance based on ownership</td>
<td>Business governance based on separation of management and ownership</td>
<td>Business governance based on shareholder primacy</td>
</tr>
</tbody>
</table>
By the 1970s, however, this managerial capitalism came under attack from a new breed of neoclassical economists. While some, like Milton Friedman (1962), decried the notion that corporations had any responsibility other than the pursuit of profit, others sought to re-orient corporate governance and control around the notions of shareholder value and shareholder primacy. According to Lazonick and O’Sullivan (2000), this shift reflected dissatisfaction with the management of corporations, especially their poor performance during the 1970s, and the rising power of institutional investors (e.g. pension, mutual and insurance funds) in corporate finance. A growing emphasis on presenting the market – in this case the financial market – as the arbiter of value, as opposed to management or government, led to significant changes in the running and valuation of corporations, as well as behaviour, decisions and practices of senior management (Dobbin and Jung 2010). The reasons for this shift include the emergence of new forms of economic knowledge (e.g. financial economics) and economic practice (e.g. financial accounting), as well as the transformation of key sites of (practical) knowledge production and training (e.g. business schools).

Analysis: legitimating corporate monopoly and the reproduction of neoliberalism

Financial economics: legitimating corporate monopoly

I now turn to financial economics as a form of knowledge that has managed to reconcile the contradictions between markets and corporate monopoly. Financial economics, in its current guise, emerged in the 1960s and 1970s with the work of neoclassical economists on theories of the firm; many of these economists were (and are) working in business schools rather than economics departments. As a branch of economics, financial economics focuses on the issue of pricing investment assets (e.g. share values) and corporate finance (e.g. sources of capital). It is, to all epistemological and practical purposes, focused solely on increasing the value of shares for investors through the actions of a firm’s managers; as such, it is built on the assumption that capital owners (i.e. investors) are the best people to determine the allocation of capital investment, and not managers (Styhre 2014). This assumption is somewhat tautological, in that it assumes the market is the best mechanism for capital allocation because capital owners are the best allocators. However, financial economics has come to form the epistemological basis for corporate governance (see Shleifer and Vishny 1997), and is one constitutive element in a significant shift in corporate structure and ownership. It has led to what Stout (2012) and others have called an ideology of ‘shareholder value’ maximization (Lazonick and O’Sullivan 2000; Engelen 2002), which has helped to legitimate corporate monopoly.

There are two important components of financial economics that help in this legitimation process. First, in his work, Eugene Fama (1970: 383) argued that markets are inherently efficient, in that ‘prices provide accurate signals for resource allocation’. This ‘efficient market hypothesis’ (EMH) underpins the later theoretical contributions of people like Jensen and Meckling, among others. What it implies is that market prices are, by definition, accurate reflections of the underlying value. Thus a corporation’s share price reflects all the information that investors know about it, which reflects their (accurate) knowledge of its real value (or earnings potential). As Whitley (1986: 176) points out, however, ‘No empirical “finding” about investor behaviour could demonstrate the truth or falsity of the EMH because it does not state what “all relevant information” consists of.’ Second, the work of Jensen and Meckling (1976) on the theory of the firm proved highly influential in promoting particular forms of corporate governance (see Shleifer and Vishny 1997 for a review). They argued that there is a ‘principal-agent problem’ – leading
Financial economics and business schools

to the term ‘agency theory’ to describe their perspective – in which corporate managers need to have their interests (e.g. remuneration) aligned with shareholder interests (e.g. share price) (Dobbin and Jung 2010). What this theory stresses is that there should only be one goal for managers – that is, share value – since it is difficult to balance more than one aim in managing a business (Jensen and Meckling 1976).

Writing in the 1970s, Jensen and Meckling (ibid.: 310) were concerned with determining ‘the equilibrium contractual form characterizing the relationship between the manager (i.e., agent) of the firm and the outside equity and debt holders (i.e., principals)’ – that is, with the agency costs (e.g. Fama 1980). These costs relate to the separation of ownership from management (i.e. corporate governance); managers, for example, can exploit their insider knowledge to their benefit and owners disadvantage. Agency theory, however, provides the corrective to this problem, although it depends upon certain assumptions – namely, that the firm is merely (and only) a nexus of contracting parties (e.g. manager, investor, worker, supplier, etc.).\(^1\) This idea that the firm is a nexus of contracts builds on the work of Coase (1937) on transaction costs mentioned earlier. For example, it helped Jensen and Meckling (1976: 311) to frame the firm as (basically) a market in another form: ‘In this sense the “behavior” of the firm is like the behavior of the market; i.e., the outcome of a complex equilibrium process.’ From this perspective, the firm has no responsibilities since it does not really exist, except as a ‘legal fiction’. This refocusing of attention and concern onto corporate decision-making and investor returns enables Jensen and Meckling to argue that ‘the existence of monopoly will not increase agency costs’ and competition ‘will not eliminate the agency costs’ (ibid.: 330). Consequently, the focus on agency costs means that corporate monopoly becomes irrelevant, since agency costs are characterized as the only real problem since they stop investors (i.e. capital owners) from re-allocating their money efficiently – that is, from lower-value investments to higher-value ones. Shifting emphasis from the firm to the investor means that corporate monopoly becomes an irrelevant issue, since investors will always pursue those investments that ensure the most efficient returns, whether or not they are monopolies.\(^2\)

As should be evident, financial economics is bound up with the valuation of investments and assets; this means it is intrinsically bound up with (corporate) accounting principles and practices. As Styhre (2014: 63) notes, political-economic actors (e.g. executives, analysts, investors, etc.) need training in financial economies, especially when it comes to understanding value as market price and how to evaluate tangible but especially intangible assets. What is interesting here is that Whitley (1986: 175–6) argues that the rise of financial economics, and specifically Fama’s efficient market hypothesis, ‘says remarkably little about market valuation processes’ (also see Power 2010). Whitley (1986) goes on to argue that the threat of legal action against corporations by shareholders – based on agency theory and ideology of shareholder value – led managers to seek new forms of valuation to legitimate their claims, which helped to stimulate the massive expansion of financial intermediation, analysis, brokerages, and so on. All of this has led to new asset valuation models like fair value accounting (Ronen 2008; Zhang et al. 2012). However, while these new models may claim to be ‘market-based’, what this actually means is very different from market transacting and pricing (i.e. sale). In fact, according to Power (2010), the notion of market-based valuation underpinning fair value does not actually entail a market valuation per se (i.e. sale). Instead, it involves an expert judgement of value, thereby ‘shifting the focus from transactions to economic valuation methods’, which helps to ‘embed further the principle of fair value accounting as the “mirror” of the market’ (my emphasis) (ibid.: 201, 205). This point is supported by Bignon et al. (2009: 11), who suggest that fair value ‘is based more on the estimates of certified experts than on the current market price’. What this means is that ‘Values do not passively reflect the “objectivity” of the market, but are the product of a measurement technology that, by
demarcating and measuring resources, assists in the construction of the marketability of assets’ (Napier and Power 1992: 87). Here we can see a similar legitimation of corporate monopoly since it is no longer necessary to actually derive value from market transactions (i.e. sale); value and evaluation can be done via expert and as if calculations of ‘market’ value side-step the distorting power of corporate monopoly.

The reason this is important to our understanding of neoliberalism is that it moves the analytical focus away from economics and sterile economic debates to the business school and the training and practices of executives, managers, analysts, traders, market experts, etc. In this sense, it demands a much needed analysis of the sites of the reproduction of economic knowledge and practice.

**Business schools: reproducing neoliberalism**

The transformation of business schools occurred over several decades and stretches back to the late 1950s when the Ford Foundation sought to instil greater intellectual rigour in business schools by encouraging the integration of neoclassical economics in business curricula (Khurana 2007). While it is possible to see the later re-orientation of business schools as a neutral project based on new forms of economic knowledge, the resulting focus on pushing both free markets and corporate interests was not done in political isolation. For example, the now (in)famous 1971 Lewis Powell Memo to the US Chamber of Commerce, titled *Attack on American Free Enterprise System*, specifically suggested that the ‘Chamber should enjoy a particular rapport with the increasingly influential graduate schools of business’ in order to support Corporate America. While this enrolment of business schools in support of corporate power is not the focus of this chapter, it does highlight the need to examine the role of the business school as both a site of knowledge production and a social institution for the reproduction of neoliberalism. While there are a number of scholars who have and are doing this important work (e.g. Khurana 2007; Dunne et al. 2008; Harney 2009; Henisz 2011; Locke and Spender 2011; Nik-Khah 2011; Styhre 2014), there is a need for more work in this area.

Business schools first emerged in countries like the USA at the end of the nineteenth century as the corporate revolution was transforming capitalism. Khurana (2007: 4) argues that these new business schools played an important role in legitimating corporations and their activities through the creation of a ‘managerial class that would run America’s large corporations in a way that served the broader interests of society rather the narrowly defined ones of capital and labor’. Hence, business schools supported and legitimated the shift from proprietary to managerial capitalism (Bowman 1996; Whitley 1999). This led to what Locke and Spender (2011: x–xi) – and others – have called managerialism, or the emergence of a professional group (i.e. managers) who seek and acquire systematic control over (corporate) decision-making to the exclusion of others (e.g. shareholders, workers). What differentiates managerialism from laissez-faire is that the former is not centred on cut-throat market competition; rather, managerialism is concerned more with cost and resource efficiencies in the pursuit of productivity, all based on supposedly technocratic and scientific decision-making (ibid.: 6). During this period, and up until the mid-twentieth century, business education and knowledge was dominated by these practical goals; hence, it was taught more by ‘practitioners’ than academics (Fourcade and Khurana 2011).

This managerial perspective dominated business education until the late 1950s, when there was a concerted effort to transform business and management studies into more technical and academic disciplines, based primarily on the incorporation of statistical modelling and quantitative methodologies. This move came about as a result of, on the one hand, the demands of state planning: first, with operations research during World War II and, second, with the alliance
Financial economics and business schools

between state and corporations in response to Cold War fears (Locke and Spender 2011). On the other hand, it also resulted from the actions of philanthropic foundations like the Ford and Carnegie foundations, which sought to ‘professionalize’ and ‘scientize’ business school education through funding specific research and teaching programmes (Khurana 2007; Henisz 2011). These demands led to the incorporation and integration of neoclassical economics into business school curricula, which has had several important consequences.

First, Chicago is often represented as an important site to the reproduction of neoliberalism. Usually, the economics department is presented as the most important site, as are other economic departments in other universities (e.g. Peck 2010). However, it is important to consider the role of business schools in the reproduction of neoliberalism, especially places like Chicago’s Graduate School of Business (Fourcade and Khurana 2011; Nik-Khah 2011). Business schools are dominated by forms of economic knowledge, especially financial economics discussed above, that reproduce specific epistemic claims and train people in specific business practices. According to Henisz (2011: 302), for example, ‘agency theory and models of asset pricing’ that underpin financial economics have isolated other social scientific approaches in business schools. Moreover, business schools have ‘reinforced and diffused the belief system [in efficient markets, shareholder value, etc.] to traders, fund managers, analysts and managers’ around the world (ibid.: 304). This process starts with the integration of neoclassical economics into business schools in the 1950s, but gained a real hold in the 1970s with the emergence of new branches of economics like financial economics and associated fields like corporate governance. Henisz (2011) argues that this work embedded a ‘culture of selfishness’ in business schools.

Second, business schools not only produce knowledge, they also train students in business practices, embedding the culture and assumptions that underpin disciplines like financial economics. This has become increasingly important to the reproduction of neoliberalism because the number of students trained in business schools – at both undergraduate and graduate level – has risen considerably. For example, Harney (2009: 318) claims that ‘one in eight university undergraduates in Britain [are] studying business and management’. Khurana (2007: 338) provides data on the number of MBA programmes in the USA, which rose from 138 in 1955–6 to 955 in 2003–4. As Khurana notes, the range in quality of these programmes is often significant, as are the benefits to students in their careers. In terms of total student numbers, those graduating with a business degree reached 266,000 undergraduates in 2001 and 120,000 MBAs in 2006, according to Fourcade and Khurana (2011). The huge increase in numbers of students taking business degrees is also reflected in the growing proportion of all students who study business and management courses at university.

Finally, the expansion of student numbers has meant that a growing number of people in the workforce, not just in management, have been exposed to specific forms of economic knowledge that promotes specific business practices – for example, beliefs about agency costs, shareholder value and aligning management incentives with share values (Dobbin and Jung 2010). The range of careers that these students go into has diversified significantly since the 1960s according to Khurana (2007). By the 1980s, for example, over 50 per cent of students graduating from Harvard Business School went into consulting and finance, rather than general management (ibid.: 328). The growth in areas like consulting, analysis, finance, investment banking, etc. reflected broader trends in the growth of institutional investment, according to Whitley (1986), which led to an expansion in the demand for business school-trained employees, binding together the expansion of business schools and finance. However, what this has meant, according to Dobbin and Jung (2010), is that business practices based on financial economics – and its neoliberal tenets – that are internal to the corporation have been (and still are) reinforced by the investment practices, again based on financial economics, of external social actors who judge,
analyse and value the performance of businesses. In particular, framing corporations as maximizers of shareholder value provides external analysts with a single, simple indicator on which they can focus to the exclusion of other concerns (e.g. social responsibility, employment creation, quality, etc.).

Conclusion

My aim in this chapter has been to understand, on the one hand, the relationship between specific forms of economic knowledge and the legitimation of corporate monopoly, and, on the other hand, the reproduction of neoliberalism in specific sites of economic knowledge production, namely business schools. The overall point I want to stress is that although neoliberalism is generally characterized as a market-based epistemology – in that neoliberal thinkers laud the benefits of (free) market interaction over any other – what this representation of neoliberalism obscures is how neoliberalism is reproduced, especially in a world dominated by large, monopolies that rarely want or seek market competition. This contradiction, as I see it, is resolved through the reworking of the economic understanding of corporations as merely another form of market, and therefore no epistemic or practical threat to neoliberal claims; this emerges in the subfield of financial economics. In turn, this new perspective of corporations is promulgated in business schools as the basis for understanding the business world; students adopt these views and reinforce them in their various employment positions (e.g. executive, manager, analyst, broker, trader, investor, etc.). Thus this economic knowledge comes to inform and shape the world, although not always as initially imagined.

Notes

1 Jensen and Meckling (1976) and other financial economists are rather ambivalent about differentiating between the firm and the corporation, frequently conflating the two when their theories are (largely) only relevant to the latter.

2 An issue not addressed by Jensen and Meckling (1976) – probably because it was not as relevant in their time – is the growing concentration of investment funds in the hands of institutional investors (e.g. pension, mutual and insurance funds). As Davis (2008) highlights, around 75 per cent of the US stock market is now owned by institutional investors rather than individuals; moreover, only three funds represent around 30 per cent of total institutional investment. This suggests that investment has become a form of monopoly, alongside the corporations themselves.

References

Financial economics and business schools


