

# The New Finance Capital: Corporate Governance, Financial Power, and the State

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## Abstract

We argue that a new form of finance capital has been consolidated in the United States since the 2008 crisis—defined as a fusion of financial and industrial capital. In this regime, financiers have become more entrenched in the governance of nonfinancial corporations while, reciprocally, industrial firm managers have increasingly become financiers. Indeed, this fusion has taken place on two interconnected levels: (1) within the nonfinancial corporation itself, and (2) between the nonfinancial corporation and the financial sector. Internal diversification and internationalization over the postwar era led to the reorganization of the industrial corporation as a financial group, managing not concrete production processes, but portfolios of financial assets. This was reinforced by the increasing power of outside investors over the neoliberal period. However, new forms of financial organization that emerged after 2008 produced tighter and more direct linkages between external financiers and the nonfinancial corporation, constituting the new finance capital.

## Keywords

political economy, corporations, financialization, neoliberalism, capitalism, globalization

## Introduction

Many critical scholars have identified “financialization” as one of the essential features of neoliberal capitalism. These accounts often see the rise of the economic and political power of finance as a corrosive and parasitic force on the “real” industrial economy. This especially occurs as a result

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of the imposition by finance on the industrial corporation of a “short-termist” outlook, whereby the latter have been forced to restructure in ways that are dysfunctional to long-term economic health and stability. Rather than investing in the development and renewal of the “productive” economic base, and the “good jobs” that come with it, managers have used corporate resources to simply line the pockets of wealthy and powerful investors. Moreover, as managers are themselves compensated with stock options, they have a direct incentive to undertake such damaging misuse of funds, since they can reap windfall gains by exercising options after inflating the share price. This has encouraged nonfinancial corporations to increasingly invest in relatively fast-growing financial markets, “hollowing out” production as financial services replace “real” commodities. However, such a view reduces the corporation to a two-dimensional asset portfolio, largely ignoring its organizational form and specific institutional integration within a wider structure of accumulation. New investments in financial services are seen as “added on” to “core” industrial operations, rather than rooted in changes to the firm’s basic organizational form—which remains a static and opaque “black box.” Meanwhile, the functionality of finance to the organization of accumulation is all too often hidden behind economic prognostications of decline. The implication is that finance can be separated from industry, and in fact *must* be if pre-neoliberal prosperity is to be restored.

In fact, the rise of finance has been fundamental to the restructuring and globalization of capitalism in recent decades. This has today culminated in the emergence of a new regime of capital accumulation: a new finance capital. Contrary to the conventional “outside-in” conception of financialization, this does not merely entail the empowerment of the financial *sector* over industrial corporations. Rather, we use this term in Hilferding’s sense, to refer to the *fusion* of financial and industrial capital. This fusion has taken place on two levels: (1) *within* the industrial corporation, and (2) *between* the industrial corporation and the wider financial system. It initially emerged within the industrial firm itself, as it evolved through a series of adaptive responses to diversification and internationalization. These shifts led to the empowerment of financial operations and logics within the firm, which was reorganized from a “system of production” into a “system of investment”—a group of investors competitively allocating money-capital across both internal operations and new external opportunities. These dynamics were then reinforced by the formation of new linkages between industrial corporations and financial firms. The result has been an institutional regime—spanning and interpenetrating financial and nonfinancial corporations—that has entrenched the dominance of finance within capital accumulation. Financialization, from this perspective, is not simply a matter of changing corporate asset mixes, or increased pressure on industrial firms from outside investors. Rather, it has entailed reorganizing *what the corporation is* and how it works. Challenging the power of finance therefore means confronting the basic organizational structure of capitalist production—and class power.

In this article, we begin by surveying some of the major works on financialization. We argue that understanding contemporary financialization requires returning in certain key methodological and analytical respects to the classical work of Rudolf Hilferding. On this basis, we deploy what we have elsewhere referred to as an Institutional Marxist framework, which conceives of institutions as social forms that are emergent from—but not reducible to—the basic structural dynamics of the capitalist mode of production (Maher and Aquanno, 2018), in order to examine the emergence within the United States of a new form of finance capital.<sup>1</sup> Crucially, we show that this process was not simply set in motion by external pressure on industrial firms by investors during the neoliberal era. Rather, it emerged over a much longer time horizon, as the operational decentralization of the industrial firm led to the restructuring of corporate planning as an internal capital market—a process that was, to be sure, joined with and reinforced by the growing hegemony of finance across the economy more broadly. Finally, we illustrate how new forms of financial organization that took shape through the state-led restructuring that followed the 2008 crisis contributed

to the formation of tighter and more direct linkages between the financial sector and nonfinancial corporations. The result, we show, was the crystallization of a new form of finance capital. This was marked by the more direct involvement of financiers in the governance of industrial corporations, on the one hand, as well as by the fact that these industrial corporations had themselves become financial groups, with internal operations managed as a portfolio of financial assets. Any clear line between financial and non-financial corporations had become blurred: both were now units of finance capital.

## Finance Capital and New Finance Capital

The ‘finance capital’ that Rudolf Hilferding analyzed at the turn of the century was characterized first and foremost by the fusion of *financial capital* and *industrial capital*. This fusion was mediated by the most abstract form of capital: *money-capital*. The ascendance of money-capital came with the increased dominance of the abstract over the concrete, secured through the organizational form of the corporation and its interface with the financial system. For one thing, the corporation replaced *personal ownership* with *impersonal ownership*. In the prior entrepreneurial era, capitalists directly owned and controlled capital assets (means of production), and raised investment largely through family networks. The corporation’s separation of ownership and possession, however, meant that it must engage with financial markets to secure financing. This facilitated the amassing of unprecedented pools of capital, but it also converted industrial capitalists into creditors, or owners of money-capital who have no necessary connection with the uses to which their money is put. Instead of qualitative capital goods (machinery, buildings, etc.), such capitalists owned tradable shares—effectively a draft on future profits generated by assets controlled by professional managers. This allowed banks to acquire new importance as shareholders, mobilizers of capital, and organizers of corporations and cartels. As the possessors of the largest pools of money-capital and capable of generating credit, banks were able to seize control of smaller-scale entrepreneurial firms and merge them into large corporations. Consequently, investment banks gained extensive power over industrial enterprises, creating interlocking networks by placing individuals on the boards of firms they controlled.

Hilferding (1912) argued that this formation of finance capital inexorably gives rise to ‘organized capitalism,’ resulting in what was effectively a planned economic system centered on the investment banks. However, large corporations are actually *more* competitive than smaller firms (Clifton, 1977; Shaikh, 2016). Capitalist competition is not primarily over sales or market share, but *profits*. Competition between capitals therefore takes the form of competition between investment opportunities: low profit rates lead to the withdrawing of investment, while high profits draw increased investment. Thus “the key strategic decision of the capitalist is what to invest in and the defining characteristic of capitalist competition is the mobility of investment – mobility over space and between different commercial/financial/industrial activities” (Bryan and Rafferty, 2006: 167). Importantly, such competition takes place not just *between* firms, but also *within* them. Understanding this requires that we distinguish between an individual *firm* and an individual *capital*. Large corporations undertake a range of separate circuits of investment and valorization, each of which can be identified as an individual capital. It is *primarily* individual capitals, not the corporate institutions to which they are articulated, which compete with each other. Since large multi-process firms are the most mobile, both spatially and sectorally, they are also the most intensely competitive. Planners in these firms have the greatest range of options for investing money-capital—both across diverse internal operations as well as new external opportunities. In sum, the ascent of the money-form that occurs through the development of finance capital is linked not to a

rigid system of non-market planning, as Hilferding thought, but rather a dynamic and fiercely competitive form of capitalist organization.

As this suggests, capitalist competitive pressures are most intensely focused on the money-form. Money-capital is the most liquid, the most abstract—and thus the most mobile and competitive—form of capital. As abstract capital, money-capital confronts the entire range of possible investments as concrete forms it could potentially take. Yet this range is determined by the capacities of the specific institutional forms that organize and oversee the circulation of this money in the course of its self-valorization as capital. The ability for bankers to merge small enterprises into massive firms in the 19th century was driven by intense competitive pressures, as they sought to assemble organizational forms that would allow them to outcompete others. Similarly, the deepening of a market for corporate control generates competition for investment and credit. Though these investors and creditors—money-capitalists—may not have any direct connection to the *qualitative* uses to which their capital is put, they clearly remain committed to maximizing the *quantitative* returns these processes generate. Of course, corporate investment is also financed through retained earnings, but again the same pressures operate within the firm, as money-capital in the hands of top managers competitively seeks the most profitable outlet. Over time, these “coercive laws of competition” have disciplined the evolution of the corporation toward the development and efficient operation of market mechanisms internal to the firm—especially as increasingly robust state regulatory capacities allowed for the creation of more functional markets across the broader economy. Indeed, it is the strength of state power—not its retreat—that marked the shift from an economy managed by trusts and cartels, as in the finance capital of Hilferding’s day, and contemporary global capitalism.

The question, therefore, is of the organizational forms that emerge to competitively allocate capital, including the “nonfinancial” corporation and the financial system in which it is embedded, as well as how these practices were enabled by the state apparatus. Yet this institutional framing, which we adopt in the analysis that follows, has been substantially missing from critical analyses of corporate “financialization.” The failure to examine the institutional structures and logics of corporate power, and the evolving modalities of its embeddedness within the financial system, has helped sustain the view that finance is an external, parasitic force corrupting the nonfinancial corporation and forcing it to serve ends that are dysfunctional to long-term growth and prosperity. Critical scholars such as Lazonick (2013, 2014), Krippner (2011), and Hudson (2014, 2015) have seen financialization in terms of corporations “hollowing out” production, diverting investment from traditional “productive” activities toward “unproductive” but relatively fast-growing financial services markets. This has been epitomized in the doctrine of “shareholder value,” according to which firms identify the maintenance of a high share price as the fundamental goal of corporate strategy. Rather than investing in “Good Jobs,” corporations have used funds to enrich wealthy investors, abandoning the postwar model that underpinned the “middle class” living standards of the Golden Age of capitalism. That executives are compensated with stock options has only further encouraged such dysfunctional strategies, as they enrich themselves and other investors by manipulating share prices while undermining the productive base that supported national prosperity.

Of course, all this tends to miss the fact that it was not the benevolence or far-sightedness of managers, but rather the balance of class forces, and the ability for unions to win distributional bargains from profit-driven corporations, which was responsible for the lower level of income inequality in the managerial era. These relations were supported by the unique circumstances of the postwar boom, as well as the structure of world trade prior to the neoliberal integration of global finance. Restoring “Good Jobs” is thus not simply a matter of reining in finance, but expanding unionization and gaining greater public control over investment, such as by imposing capital controls. Indeed, much of this contemporary thinking on financialization underplays the extent to

which corporations are *inherently* financial entities. This is an essential consequence of the tendency of capitalism to separate ownership and possession of productive assets. Therefore, different forms of “financialization” are present from the very beginning of the emergence of corporate organization. Furthermore, the historical roots of corporate diversification into financial services are far deeper than the neoliberal period, extending back at least to the 1960s. This occurred not merely as the result of external financial pressure, but also managers’ pursuit of profit-maximizing strategies. What is often interpreted as “impatient capital” stems as much from positive resources and capacities supplied by financial markets to corporate managers as it does from supposed disciplinary or structural limits imposed by finance (Knafo and Dutta, 2016, 2020).<sup>2</sup>

There are many other questions raised by the analysis advanced by Lazonick (2013, 2014) and others that go unanswered in these accounts, but which are impossible to fully address here—including the need to explain continued investment in firms that are not profitable in the short term (and may never be); tech companies’ ongoing investments in R&D at levels that have been sufficient to maintain their position as global leaders; the willingness of firms to undertake the considerable short-term costs of global restructuring in order to secure long-term competitiveness; the question of why financiers would have an interest in destroying the long-run value of their own assets; and much else. In fact, a growing body of scholarship suggests that there is scant reason to believe that the rise of finance has been accompanied by a growing “short-termism” at all.<sup>3</sup> And in the context of low interest rates, there is certainly no *necessary* contradiction between investing in production and undertaking buybacks—indeed, as a proportion of GDP, investment remains at historically normal levels, even if it has declined as a percent of profits and earnings (CEIC, 2020).

Rather than focusing on whether the empowerment of finance is economically efficient from the point of view of capital accumulation, we situate this as part of an emergent pattern of institutional power. The issue is not whether nonfinancial corporations are more “impatient” than they once were (Culpepper, 2005), but rather how corporate strategies reflect and reproduce particular patterns of corporate organization and capitalist class power. While the current regime may be characterized by relatively low growth, greater surplus capacity, and the like, these “defects” have not posed a systemic threat to capital accumulation. Far from simply being dysfunctional, the empowerment of finance—both within and outside the nonfinancial firm—has played a central role in disciplining surplus extraction and competitiveness, facilitating internationalization, and circulating and valorizing capital (Albo, 2005).

Lapavistas (2013) illustrates how finance has been essential to the restructuring of accumulation over the neoliberal period. Nevertheless, his analysis largely overlooks the institutional and organizational dimensions of this, remaining fixed at the very top of the institutional pyramid. Like Lazonick and Krippner in this respect, Lapavistas sees the financialization of the nonfinancial corporation in terms of the changing composition of its investment portfolio. The deeper transformation of the corporation this has entailed is substantially unexplored, as is the role of the shifting organizational linkages and patterns of interaction between the corporation and financial institutions in generating this restructuring. This is not merely a matter of market exchanges between static and unchanging monoliths, but is rather a dynamic and evolutionary process of institutional development. As we will show, institutional changes within the financial system are deeply interconnected with the reorganization of the industrial corporation—driving forward the financialization of the latter and supporting the power of financiers within corporate command and control structures. Understanding this institutional dimension of financialization highlights that this process was not merely a matter of new investments in financial services that are simply “added on” to other, “core” corporate operations. Rather, the financialization of the nonfinancial corporation has been a much deeper and more substantial *transformational* institutional process—involving the reorganization and redefinition of “core” corporate operations and capacities as it evolved into

a financial group (Serfati, 2013). The depth of this restructuring again points to the impossibility of simply returning to the postwar Golden Age by limiting financial pressure on corporate managers.

The neo-Weberian analysis of John Scott fills some of these methodological gaps. Writing in 1997, Scott compellingly illustrated the significance of changes in the form and extent of investor power in relation to the industrial corporation, based on an exhaustive review of the literature. Scott argued that the concentration of power in the hands of big institutional investors since the 1970s has generated a historic shift from the managerial firm, which was largely controlled by insiders, to the neoliberal firm, subject to greater investor power in the form of “polyarchic financial hegemony.” Rather than the direct and overwhelming control of corporate strategy by individual investment banks, as in Hilferding’s finance capital, or the corporate autonomy from banks described by managerialist writers such as Burnham (1941) and Drucker (1946), as well as neo-Marxists such as Baran and Sweezy (1966), polyarchic financial hegemony suggested that constellations of competing financial institutions established ephemeral alliances on corporate boards to exert broad influence and discipline on corporate “insiders.” We argue that this describes crucial aspects of the new finance capital regime that was just beginning to emerge as Scott wrote. Of course, he could not have appreciated what post-2008 shifts in financial organization would mean for his model of polyarchic financial hegemony, consolidating financial power and intensifying linkages between financial institutions and industrial firms. However, his emphasis on the role of external investor pressure in corporate financialization overlooks the way financial dominance emerged *within* the nonfinancial corporation. Indeed, despite his focus on ownership, Scott pays little attention to corporate organization—and how this is shaped and reshaped by the pressures of capitalism, especially competition and class relations.

Davis (2008) goes further than Scott in suggesting that the concentration of assets in the hands of mutual funds—and in particular Fidelity—marks the emergence of not merely a broad and decentralized “financial hegemony,” but a more tightly woven “new finance capital” centered around these funds. Yet far from Fidelity becoming a new J.P. Morgan, Davis argued that this concentration at the level of *ownership* showed little sign of translating into overt corporate *control*. Davis concluded that this was the result of a mixture of legal restrictions on large shareholders, conflicts of interest as Fidelity moved into pension management and outsourced corporate human resources operations, and the fact that trading shares is simply easier than activism. Obviously, Davis shares the “outside in” model of financialization, failing to understand the corporation as not merely a generic institution, but a *capitalist* one, whose strategy and structure is shaped by its ownership of capital. This includes developing a range of financial functions and practices, linked in complex ways to the broader financial system. Moreover, in his focus on mutual funds, Davis overlooked broader patterns of concentration and centralization. He did not anticipate how concentration in mutual funds would interact with other forms of financial organization to bring financiers more directly into the structures of corporate control. Nevertheless, like Scott, Davis described aspects of an institutional process that was *on its way* to emerging as the new finance capital. If Davis did not see the ramifications of ownership concentration on corporate control, the most important reason for this was that these substantially appeared only after the 2008 crisis.

In the last 10 years, however, Davis’ work has been updated and extended by a small cluster of institutional political economists—Babchuk and Hirst (2019), Jahnke (2019), Fichtner et al. (2017a, 2017b), and Braun (2016)—who have focused on the impact of the concentrated holdings of the “Big Three” passive management firms, namely Blackrock, State Street, and Vanguard, on nonfinancial corporations. Yet while these writers see this as constituting a new form of “asset management capitalism” linked to the “hidden” or “structural power” of these firms, in these works such changes are disconnected from both the wider structure of accumulation as well as from the



historical processes and dynamics from which they emerged. More specifically, they are not linked to the restructuring that followed the 2008 collapse, or to the changing role of mutual funds, hedge funds, and private equity firms, all of which have been crucial to the consolidation of the new finance capital since that time. Equally importantly, these accounts do not consider the significance for corporate strategy of the deep, long-term restructuring within industrial firms themselves, focusing instead on the shareholder voting patterns of the three large passive management firms. We argue, on the contrary, that the fusion of financial and industrial capital that constitutes the new finance capital is not simply a matter of the colonization of industrial firms by outside investors. While the growing role of financial firms in industrial corporate governance is one component of the new finance capital regime, the restructuring of the industrial corporation as a financial group took place through a longer-term process that was not simply caused by outside investor pressure.

## The New Finance Capital and the Nonfinancial Corporation

The corporation has hardly looked the same throughout its history. If the corporation of the *finance capital* era (1880–1929) constitutes one “type,” that which emerged during the subsequent *managerial* period (1930–1979) is another; the *neoliberal* firm (1980–2008), another still. Because crises of capitalism are also crises of these ensembles, they tend to be followed by restructuring and the emergence of new institutional patterns. Though the centrality of investment banks was already on the decline with the broadening of the financial system and breakup of the big family trusts over the early 20th century, the finance capital structure Hilferding analyzed was formally brought to an end after the 1929 crisis. Among other things, the crisis revealed the need for dramatically expanded state involvement in managing an increasingly complex corporate capitalism. The massive state-building effort that ensued further diminished the role of the banks, and deepened the markets for corporate control that mediate between investors and industrial firms. This was achieved through New Deal measures such as the Securities Act and the Glass-Steagall Act, both passed in 1933, as well as the Securities and Exchange Act the following year establishing the Securities and Exchange Commission.<sup>4</sup> Glass-Steagall’s separation of commercial and investment banking was particularly noteworthy. Banks opting to pursue commercial banking had to restrict equity holdings and limit their seats on the boards of industrial corporations, while investment banks could no longer accept consumer deposits and thus had reduced leverage. The act thus effectively “separated financial institutions from corporate boards,” thereby dealing the coup de grace to finance capital (Simon, 1998: 1090).

The development of the state economic apparatus dramatically accelerated over the war years and after. Massive state investment during World War II resulted in the *doubling* of production in the United States, as well as the formation of a durable “military-industrial complex” linking the expansive new Department of Defense and the vast science and technology nexus that emerged through the Manhattan Project with large high-tech engineering-based firms. These developments helped drive a tremendous wave of concentration and centralization, forming the giant corporations that were the foundation for what Mills (1956: 147) called “the managerial reorganization of the propertied class.” These dynamics facilitated the consolidation of corporate power in the hands of “insider” managers, and further reduced the power of external investors. Moreover, in contrast with the concentrated shareholdings that existed during the finance capital era, stock ownership was now fragmented and dispersed, preventing the emergence of a coherent ownership bloc that could challenge internal management. Shareholder-elected boards of directors, once centers of corporate control as mechanisms for organized interlocking directorates during the finance capital period, became backwaters that were fully captured and controlled by insiders. That the now-“multinational” corporations these managers commanded were substantially autonomous from the

banks also meant that they had to develop extensive new financial capacities, including a range of functions necessary to engage with a broader and more competitive financial system (McKenna, 1995). This “Golden Age” of managerial capitalism extended throughout the two-decade long postwar boom, until crisis struck once again in the 1970s.

However, even as corporate control was consolidated within this managerial layer, diversification and international expansion made it increasingly difficult to manage complex operations through hierarchical Weberian bureaucracies. Top executives had neither the time nor the industry-specific knowledge to be directly involved in the operations of each business (Chandler, 1962: 299–314; Cordiner, 1956: 44–45; Paxton, 1955). The solution was decentralization, whereby operational responsibility for specific businesses would be downloaded to lower-level divisional managers, while top executives became so-called “general managers.” This dynamic was exacerbated by trends in anti-trust prosecution, whereby price competition was protected by preventing firms from controlling too much market share in any one sector—leading large firms to pursue growth through acquisitions across unrelated sectors (Hyman, 2012). That “the top team was now less the captive of its operating organizations” also meant that they required “the financial offices [to] provide more and better data,” which drove the expansion and empowerment of corporate financial operations (Chandler, 1962: 310; Cordiner, 1956: 66–67, 98; O’Boyle, 1998: 52). As a result, the corporate financial unit now “exercised ultimate control over money and personnel.” The quantitative metrics these units provided constituted *general criteria* on the basis of which the new *general managers* could assess the performance of internal operating units alongside “new areas for development or expansion in which operating unit executives would have comparatively little interest or knowledge” (Chandler, 1962: 310). Increasingly, these abstract metrics were seen in terms of exchange-value: what made qualitatively distinct production processes *comparable* was their quantitative money-value as determined by rates of return.

As top executives moved away from *operational* roles in specific businesses and into general *entrepreneurial* or investment functions, they came increasingly to resemble finance capitalists—located at the nexus of finance and industry. This was the essence of the *financialization* of the nonfinancial corporation. Though often conceived in terms of industrial corporations morphing into banks by expanding their financial services investments, this process in fact entailed a much deeper institutional reorganization of the corporation from a *system of production* to a *system of investment* (Fligstein, 1990). This had three broad dimensions: (1) conversion of top corporate managers into bearers of abstract money-capital; (2) reorganization of corporate planning as an internal capital market; and (3) empowerment of corporate financial functions over the rest of the organization. By the 1970s, top executives within corporate conglomerates saw business divisions as a portfolio of financial assets. These divisions competed with one another, and even with outside subcontractors, for a finite pool of investment funds distributed by senior executives. Divisional managers developed business plans autonomously, which they presented to top managers as if they were external investors. In these ways, divisional managers were encouraged to act like owners, making autonomous decisions based on the need to secure investment from corporate planners for their self-contained business units. Additionally, to the extent possible, managerial remuneration was tied to the contribution of their business unit to the firm’s share price (Fligstein, 1990; Rothschild, 2007; Useem, 1993, 1996). Crucially, the increasing prominence of abstract exchange-value determinations and measurements within the firm was fundamentally aimed at increasing efficiency, improving productivity, and maximizing the production of surplus value.

The emergence of polyarchic financial hegemony was underpinned by a wave of concentration and centralization of equity in the hands of large financial institutions during the 1970s, fueled especially by the pools of capital that emerged in the form of institutional asset owners, especially occupational pension funds (Carroll and Sapinski, 2011: 180–195; Glasberg and Schwartz, 1983;



McCarthy, 2017; Mintz and Schwartz, 1986, 1987; Scott, 1997: 139). Ironically, the proliferation of such funds reflected the strength of unions in collective bargaining in the 1960s; yet these victories for union power ended up contributing to building financial hegemony, shifting the balance of class forces toward capital and intensifying financial pressure to restructure nonfinancial corporations. The state, too, was essential to the tremendous growth of such funds: tax advantages for both corporations and workers played a significant role in the extension of pension plan coverage from a fifth of the private sector workforce in 1950 to almost half by 1970. By the 1970s, pension funds became the largest single “holders” of corporate stock (Drucker, 1976: 1–2; Herman, 1982: 138; Kotz, 1978; Rifkin and Barber, 1978: 10, 234; Scott, 1997: 67). The hostile takeovers by the “corporate raiders” of the 1980s was the first reflection of these shifting relations of power; subsequently, as the new hierarchy began to crystallize in the 1990s, the power of institutional investors was felt in a wave of proxy fights. The consolidation of this neoliberal regime was evident in the new institutional linkages constructed between financiers and industrial corporations, including the development of “investor relations” offices and functions. This, in turn, further enhanced the power within corporations of financial units, which pressed forward the financialized reorganization of the corporation.

Thus, the rise of the financial sector was internally linked with the financialized restructuring of the nonfinancial corporation. While no major corporation had a Chief Financial Officer (CFO) in 1963, the trend began to sweep the business world in the 1970s, becoming all but ubiquitous by the 1990s—with diversified conglomerates in the lead. This signaled “a fundamental redistribution of managerial roles, with greater relevance of financial considerations built into the executive structure and the decision-making process” (Zorn, 2004: 346–347). In the past, “corporate finance had been a back-office function performed by treasurers or controllers, whose duties were confined to tasks like bookkeeping and preparing tax statements” (Zorn, 2004: 346–347). Now, the CFO was second-in-command, controlling vast institutional resources. CFOs “gained critical say in key strategic and operational decisions, from evaluating business unit performance, inventing new ways to leverage capital, managing acquisitions and divestitures, and fending off hostile takeover attempts, to serving as the company’s primary ambassador to investors and financial analysts” (Zorn, 2004: 346–347). The CFO’s “investor relations” functions in particular both reflected the rise of finance and contributed to the financialization of the corporation. CFOs supplied data and made forecasts for investors, while at the same time also pushing forward the disciplines within the firm necessary to meet these expectations. This included ensuring that financiers “got their cut” in the form of interest, dividends, and asset valuations—shifting the distribution of profits across the capitalist class toward the financial sector, and culminating in what would by the 1980s be called “shareholder value.”

Over time, these trends resulted in the replacement of the multidivisional conglomerate form with the multilayered subsidiary form (Cox, 2013; Prechel, 1997). As top corporate managers narrowed their institutional role to distributing investment funds across a portfolio of competing divisions assessed by abstract quantitative metrics, these divisions increasingly came into competition with external subcontractors. With the elimination of barriers to the free movement of capital from the 1990s onward, these firms set up globally integrated production processes and value chains by outsourcing stages of production to subcontractors located in relatively low-cost peripheral zones. The MNCs sitting atop the new global economy came to perform a “system-integrator” function, organizing a secondary layer of subcontractors that carried out actual production (Cox, 2013). The market power of these MNCs remained grounded not in their control over specific industrial processes, but rather in their possession of two unique kinds of financial assets: branding and intellectual property. Both, of course, constitute forms of monopoly power granted by the state. The shift to the multilayered subsidiary form was reinforced by rising investor power, as financial

institutions rewarded firms with the largest profits and the least assets. Whereas the multidivisional conglomerate had pursued endless growth through acquisitions, firms now undertook divestitures from “non-core” operations. And with the passage of time, it became increasingly clear that the “core” operations to which these firms pared down consisted precisely of financial asset management—the industrial corporation had become a financial group.

During the neoliberal era of polyarchic financial hegemony, constellations of competing financial institutions came together to exert broad influence and discipline on industrial corporations. Bank power was less centralized, less powerful relative to industrial firms, and its relationship to corporate governance more substantially mediated by institutions within which “insiders” retained considerable control than it had been in the finance capital period. To be sure, financial hegemony was partly expressed through interlocking directorates possessed by financiers, but corporate boards themselves were less significant institutional spaces for organizing and expressing corporate control than they had been in the finance capital era. Yet by the 1990s, boards began to become more significant again, supported by an increasingly powerful and assertive SEC. As financiers pushed for more substantial forms of corporate “compliance” and “good governance,” major episodes of corruption at Enron and WorldCom paved the way for rules that allowed boards to discipline management and initiate key operational and strategic policy. Reforms stressed the importance of having boards composed of a majority of independent members, as well as independent board compensation and audit committees, and pushed codes of business conduct to improve transparency. This was supported by regulatory developments, such as the Sarbanes-Oxley Act, and especially the SEC’s Regulation FD, which greatly strengthened the power and independence of boards. Yet while these shifts in state policy led investors to develop new institutional means to exert their influence, and reduced insider managers’ control of boards, they did not represent a qualitative shift in the modality of corporate ownership and possession: this would only occur after the regulations and restructuring that followed the 2008 financial crisis.

## The New Finance Capital and Institutional Investment

As described above, the fusion of financial and industrial capital has two reciprocal dimensions: as industrialists came to resemble financiers, so too did financiers become more integrated with industrial operations. As we have seen, this had effects *within* the nonfinancial corporation, but it is also registered in the institutional relationship *between* such corporations and financial institutions. If the fusion between finance and industry occurring through the reorganization of the corporation from a system of production to a system of investment marks one side of the new finance capital, the other involves changes within the financial sector itself, and the deepening linkages between financial institutions and the governance of nonfinancial firms that have resulted from them. These linkages are in some respects analogous to the system Hilferding described, whereby investment banks governed and tightly coordinated industrial assets by shaping the composition of boards of directors. However, the new finance capital is more diffuse in its ownership structure and is based around strategic shifts in fund management, making it qualitatively different than the early-20th century model of bank control. This model of capitalist organization emerged through the development during the neoliberal period of what Scott called polyarchic financial hegemony, or of the ownership structure later described by Davis—both of which are distinguished by the *absence* of direct financial control over industry.

Key to understanding the linkages between financial and industrial firms that took shape with the emergence of the new finance capital is the relationship between institutional investment companies, and the development of their business models, since the 2008 crisis. There are generally two types of institutional investors: *asset owners*, including many pension funds, insurance

companies, and endowment funds; and *asset managers*, such as private equity firms, hedge funds, and investment companies, which themselves manage mutual funds, exchange traded funds, and passive funds. These organizational forms are not separate, but deeply connected: in addition to attracting money from private investors, the latter often manage the assets of the former, thereby comprising a hierarchy of financial power stemming from institutions that functionally pool assets to those, like BlackRock and Blackstone, which distribute investment to specific corporations. The crucial point is that this system of specialization creates highly concentrated nodes of financial power capable of subjecting industrial capital to a coherent block of financial pressure. Though asset managers are beholden to their clients, they are perhaps more importantly beholden to their own bottom lines—implying that such firms play a distinct role in organizing financial power into a more or less unified, if contradictory, interest group. And as we have seen, closely linked with these “outside” institutions in this financial bloc are the financial operations *within* the “nonfinancial” corporation, with which these outside institutional investors have formed relatively stable linkages.

Despite substantial concentration and centralization in the financial sector throughout the neo-liberal period, it was only after 2008 that this generated a coherent organizational fusion between industry and finance: institutional investors owned as much as 70% of the S&P 500, but lacked the incentive to exercise this power, and while deal volume in the private equity market spiked in 2006 and 2007, these financial firms remained limited in both size and capacity. The financial crisis changed this—marking a clear dividing line in the operation of asset management firms, and further increasing institutional control over equities.<sup>5</sup>

The sweeping impact of state management of financial markets in the wake of the 2008 crisis provided a crucial impetus for a historic restructuring of the financial system and its linkages to non-financial corporations. Key here was the state intervention required to support financial institutions and markets, which transferred illiquid assets to central bank balance sheets, reshaped the yield curve, and supported asset prices through portfolio rebalancing. This triggered a new landscape of persistently low interest rates and inflated equity prices, creating new investment pressures and opportunities for institutional asset managers.<sup>6</sup> Moreover, though the crisis led to significant concentration in the banking sector, as US regulators looked to stabilize the financial system and found a solution in the merger of large financial institutions, it also resulted in a host of new regulatory constraints on banks that limited their role in investment management. In all these ways, state intervention led to a strategic reorientation within asset management firms toward more passive investment strategies, while creating new openings for these firms to further consolidate the market. These post-crisis interventions crystallized into a durable form of state regulation which consolidated a new structure of class power.

The shifts in state regulation that followed the crisis triggered three overlapping and mutually reinforcing changes in investment management that helped generate closer linkages between financial institutions and industrial corporations. The first and most important of these occurred within investment management companies such as BlackRock, State Street, and Vanguard, principally due to the equity price inflation caused by quantitative easing. As this increased returns across the market, leading stock indices to outperform fund managed portfolios, it created pressure on so-called active mutual funds, which attempt to generate higher returns through the continuous purchase and sale of equities.<sup>7</sup> The result has been a major shift in portfolio strategy toward passive management. Whereas prior to the crisis, 75% of US equity funds were actively managed by a portfolio manager, passive funds are now larger in size, with over \$4 trillion under management (McDevitt and Schramm, 2019). By contrast with active funds, passive funds follow a selected market index (e.g. the NASDAQ or S&P 500) and offer lower management fees because they do not engage in regular trading. Indeed, these funds hold shares indefinitely, trading only to reflect

the shifting weight of different firms in a given index. A similar shift occurred with the proliferation of exchange traded funds (ETFs).<sup>8</sup> Like passive mutual funds, ETFs have low management fees and typically track an index or economic sector, yet the assets in this index can vary widely and are not tied to a specific market. Another distinction is that ETFs are listed on market exchanges, like individual stocks.

The massive portfolios held by these passive and exchange traded funds means that they are collectively the largest equity owner in most of the largest American corporations: a 2019 report by the prestigious law firm Sullivan and Cromwell found that “as of December 2018 one of Vanguard, BlackRock, or State Street was the largest shareholder in 438 of the S&P 500 companies” (Sullivan and Cromwell, 2019: 20). And while some of these investments remain under active management, the buy and hold strategies these firms have embraced makes the power of passive management, its influence on the sector, and the discipline it imposes on industry increasingly unmistakable.<sup>9</sup> Yet the effect of this on industrial corporate governance is often unnoticed, viewed rather as a continuation of the concentrated but diffuse pattern of ownership characteristic of the pre-crisis period. In fact, the historic transformation of these investment companies into long-term “permanent shareholders” represents a critical turn in strategic orientation. Their contractual inability to sell equity provides a powerful incentive to shape corporate management strategies through other means (McNabb, 2015: 1). As Vanguard CEO Bill McNabb (2015: 2) noted, this triggered a “journey towards increased engagement” aimed at providing oversight and input on boards of directors. Holding stocks in perpetuity therefore “doesn’t mean [being] passive as an investor”; though it changes “the nature of engagement,” it does so by actually increasing the “desire to engage more actively” (Novick, as Quoted in Thompson, 2018).<sup>10</sup>

By and large, this oversight and control has been characterized by a practice of “constructive activism,” whereby funds engage in ongoing dialogue with their portfolio companies on matters of “business oversight and strategy” (McNabb, 2015: 3).<sup>11</sup> This typically occurs through the corporate governance and stewardship divisions that large asset management firms have established specifically to “monitor” and “police” their portfolio companies (Marriage, 2017b). The significant expansion of these divisions over the last 10 years, and the complex screening programs they have developed, speaks to the rapid expansion and increasing activism of such constructive approaches (Marriage, 2017a). Vanguard no doubt utilized these capacities when it sent 923 letters to corporations in 2014 “requesting specific governance structure changes” and inviting “bilateral” discussion on key management issues (McNabb, 2015: 2). Yet even this is less than the 1000 company “meetings, conference calls or visits” it conducted in 2019, or State Street’s current strategy of meeting with “between 600 and 700 companies each year, covering around 45 per cent of [its] assets under management” (Thompson, 2018). With the option of exercising “substantial voting rights in opposition to management” providing more than enough “leverage,” it is hardly surprising that these practices have had a “significant impact” on corporate governance (Appel et al., 2016: 114; Kumar, as quoted in Scott, 2014). Similarly, that passive investors share the same views on “best governance practices” means that corporations often face a united block of investors on key strategic issues like board independence and the removal of takeover defenses protecting insiders from investor pressure, as well as dual-class share structures and other unequal voting provisions (Appel et al., 2016: 114).

A second change in asset management occurred in the hedge fund industry, with the rise of a group of activist funds such as Elliott Management, Starboard Value, Carl Icahn, and ValueAct. Between 2004 and 2019, these funds increased their assets under management (AUM) by roughly 650%, from \$19.5 billion to \$146 billion, and though still only a fraction of the \$3.5 trillion hedge fund industry, and miniscule in comparison to index funds, they exert an outsized impact on corporate governance. Like traditional hedge funds, these funds utilize unconventional investment

strategies, but instead of relying on leverage, derivatives, or short selling as vehicles to increase returns, they attempt to extract latent value by influencing strategic and operational policies in underperforming companies. While activist funds frequently work with corporate managers through investor relations departments, and have increasingly moved toward such ‘soft’ forms of engagement that emphasize “behind the scenes” interaction, these newer funds are distinguished by their use of more aggressive, public facing tactics (Sullivan and Cromwell, 2019: 16). These aim to shape the composition of boards of directors through proxy contests, or “put a company up for sale or engage in divestitures” of a firm’s non-core assets (Sullivan and Cromwell, 2019b: 13). From 2014 to 2018, such activist firms led 1360 public campaigns in the United States alone, targeting companies as large as Xerox, Apple, and Morgan Stanley, and obtaining 668 board seats (Sullivan and Cromwell, 2019b: 19). Inasmuch as the strategic and organizational changes pushed by these activists would benefit all investors, such strategies often meet with approval from the passive funds that hold significantly larger blocs of equity. As a result, these hedge funds are able to “punch above their weight,” gaining outsized influence over corporate strategy and even representing ideal “outside directors” in the eyes of the larger institutions.

Paradoxically, then, the aftermath of the 2008 crisis saw both a sharp rise in hedge fund *activism* as well as a simultaneous historic shift in portfolio strategy towards *passive* management. Far from being antagonistic to one another, these two trends are in fact complementary and mutually reinforcing. Index fund managers have increasingly integrated their strategies with activist hedge funds, even if there remain very real tensions between these actors, particularly given the former’s longer-term investment strategy. As large, permanent holders of corporate equities, passive funds have in fact regularly supported activist hedge funds in their attempts to restructure corporate assets. Indeed, among the three large index investors (BlackRock, Vanguard, and State Street) support for activist board nominees increased 94% from 2013 to 2018 (Sullivan and Cromwell, 2019: 20). However, these forms of direct support are far less important than the *threat* of activist demands being supported by large mutual funds and ETFs, and the structural power associated with such institutional coupling. Moreover, by reducing market liquidity, passive funds have encouraged hedge funds to take more long-term strategies themselves. At the same time, hedge funds have spurred large institutional investors to build up sophisticated corporate management teams to further their control over corporate governance (Jahnke, 2017, 2019). Furthermore, it is crucial to note that hedge fund activism tends to occur in firms where passive funds have a lower ownership stake. This suggests not just that “passive investors reduce the need for activism,” but also that hedge fund activism *outwardly extends* the organizational linkages between investors and industrial corporations pushed by index funds, rather than merely bolstering forms of engagement already occurring or “igniting” the latent structural power of passive funds (Appel et al., 2016: 134).

Reinforcing this new constellation of financial control in public markets has been the growing power of private equity funds, managed by firms like Blackstone and Apollo. These firms raise money to acquire struggling or undervalued companies, with the aim of unlocking value and re-selling at a profit. This involves borrowing against the assets and future cash flow of the acquired company, and obtaining control of the firm, usually by delisting public companies from stock exchanges. Thus, rather than supervising industry by managing the priorities of boards of directors, private equity funds deploy more direct interventionist tactics. This often occurs though so-called “internal operating groups,” which configure the important operations of portfolio firms and set their strategic orientation. These groups aim to “improve operating performance” by implementing policies and replacing executives to align management interests with their own, and typically draw on the expertise of a wider “external operating group” of executives and consultants who provide industry-specific advice and direction (Philips and Vatsal, 2018). This focus on internal reorganization and strategic realignment means that private equity funds tend to have a longer-term outlook,



holding many of their portfolio companies for more than 5 years, and even then, often selling only a portion of the equity through “partial exits.” In the post-crisis period, intensified competition has reduced the number of publicly listed firms and made it more difficult to find attractive portfolio companies. The answer for many private equity firms has been to “engage more actively with their portfolio companies” by expanding internal operating groups and lengthening the time horizon on funds (Philips and Vatsal, 2018).

This third major change in asset management occurred as monetary policy collapsed yields in corporate debt markets, and low interest rates spurred the growth of private credit markets.<sup>12</sup> Though private equity was a prominent investment class prior to the crisis, its advancement has been more sustained and widespread following 2008. This was especially seen in *Bloomberg’s* (2019) declaration that “[p]rivate equity managers won the financial crisis.” Expansion occurred as these sources of funding provided cheap, stable credit, enabling private equity firms to use higher amounts of leverage to fund buyouts and generate attractive rates of return, despite increased competition and declining portfolio targets.<sup>13</sup> The most important marker of this growth is that the number of US firms owned by private equity funds at least doubled from 2006 to 2018, and by some measures currently exceeds 35,000 (Wilhelmus and Lee, 2018; Mclean, 2020).<sup>14</sup> While this all generates great pressure for maximizing equity value through cost cutting and enhanced margins, as other studies have highlighted, the extension by private equity funds of the activist strategies developed by hedge funds and index managers must be understood in relation to emergent forms of organized power. As is the case with the other components of the new finance capital, this is by no means simply dysfunctional to capitalism. Rather, it must be understood as a process of institutional restructuring that reflects shifting relations of power within the capitalist class, as well as between capital and labor.

## Conclusion

As we have seen, the post-crisis restructuring of the financial system produced rapid changes in all key facets of the asset management industry, influencing the trajectory of institutional investment. This pushed forward restructuring already underway within nonfinancial corporations, whereby financial operations became paramount and industrial managers increasingly came to resemble money-capitalists. The result has been a new structure of ownership and control, marked by a *fusion* of finance and industry and the further dominance of money-capital over production: what we call a *new finance capital*. This new form of economic governance is rooted in the same type of financial long-termism identified by Hilferding, and resembles the system described in *Finance Capital* in that it consists of stable institutional linkages spanning and interpenetrating financial institutions and industrial corporations. These constitute an interlocking system of financial control that has increased the voice of financiers within corporate command and control systems, and intensified the role of financial logics and the discipline of money capital inside nonfinancial firms (Hilferding, 1912: 199). As we saw, in addition to the growing prominence of boards of directors as arenas for organizing control of productive assets, this fusion of finance and industry has been apparent from the emergence of “investor relations” offices within nonfinancial corporations, as well as the development of the multilayered subsidiary form. So too was it evident from the reciprocal growth of similar “stewardship divisions” and internal operating groups within passive management and private equity firms, respectively.

But if all this suggests that a qualitatively new phase of capitalist development is emerging from the restructuring underway since the 2008 crisis, is it not yet completely clear that this new finance capitalism represents a permanent shift from the interlocking forms of financial, industrial, and state power that constituted the neoliberal form of class hegemony. To be sure, many firms have

acquiesced to the new logic, either by accepting activist demands or moving towards majority voting and away from classified boards and poison pills. Nevertheless, the intensification of financial discipline has also produced new strategies for insulating corporate governance from this, such as through limiting shareholder-voting rights. The future of these new modalities of corporate ownership and control, and the outcome of the conflicts between different capitalist class fractions they entail, remains uncertain, especially in the context of new political and economic crises. Similarly, the power of activist investors may still be tied to the combination of low interest rates, low inflation, and monetary stimulus, as these conditions shaped the investment strategies leading to the closer fusion of finance and industry. While the development of investor and corporate relations departments and their reciprocal interaction highlights the institutional durability of these new linkages, their connection to a specific set of market conditions means that this is simultaneously unstable and volatile. Yet if these organizational processes remain to some degree fluid, and their future uncertain, we have attempted here to grasp some of the contours of the truly historic shift in the organization of capitalist power that has emerged from the 2008 crisis.

What is clear, however, is that it would be deeply wrong to simply identify financialization with the rise of an unproductive and parasitic financial sector, which has undermined a prior model of capitalism that guaranteed shared prosperity for all. As we showed, financial hegemony gradually emerged out of the contradictions of the managerial period. Moreover, finance is not alien or external to the industrial corporation, but is rather utterly essential to its organizational integrity as a capitalist institution. Thus, financialization cannot be understood merely as outside investors imposing a dysfunctional logic on corporate managers, but rather must register how the rise of finance was related to the thorough and deep restructuring of the corporation itself. This transformation took place in the course of the emergence of a new regime of capital accumulation conjoining the restructuring of the industrial corporation with that of the financial system whereby financial dominance was secured. The line between a “financial” and “nonfinancial” corporation has never been thinner. Obviously, this goes considerably beyond what could be seen merely in terms of changing asset mixes. The implication is that regulatory efforts aimed at restoring the managerial Golden Age by restraining financial pressure on corporations are largely tilting at windmills, however helpful and constructive specific reforms may be. Rather, reducing economic inequality and bringing investment in “Good Jobs” back to the United States requires challenging the competitive logic of global financial integration with state-imposed barriers on the movement of investment worldwide. Given the role of finance as the nerve center of global capitalism, and the fact that the defeat of the trade union movement has brought declining wages and greater indebtedness, its prominence within corporations as well as outside them is unlikely to be seriously diminished without taking on globalization itself by establishing a greater public role in determining the allocation of investment.

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## **Notes**

1. For a deeper treatment of the ontological, epistemological, and methodological aspects of the Institutional Marxist framework than is possible here, as well as a discussion of its relationship to key works and concepts from the Marxist and other intellectual traditions, see Maher (2017) and Maher and Aquanno (2018).

2. For a discussion of “patient capital,” see Culpepper (2011). Though somewhat beyond the scope of this paper, we are skeptical of the “varieties of capitalism” framework from which this notion derives (Hall and Soskice, 2001). This is because it tends to lose sight of the fact that these are all *capitalist* societies characterized by common underlying generative mechanisms, despite the often-significant variation in their particular effects. See Albo (2005), Maher (2016), and Maher and Aquanno (2018).
3. See, among others: “Corporate Short-Termism Is a Frustratingly Slippery Idea,” *The Economist*, 16 February 2017; Jesse Fried, “Trump and Warren Offer the Wrong Diagnosis of Short-Termism,” *Financial Times*, 27 August 2018; Charles Nathan and Kal Goldberg, “The Short-Termism Thesis: Dogma vs. Reality,” Harvard Law School Forum on Corporate Governance and Financial Regulation, 18 March 2019, <https://corpgov.law.harvard.edu/2019/03/18/the-short-termism-thesis-dogma-vs-reality>; Lizanne Thomas, “Stop Panicking About Corporate Short-Termism,” *Harvard Business Review*, June 28, 2019; Stephen Maher, “The Truth About Finance,” *Jacobin*, 5 January 2016.
4. Similar to Gourevitch and Shinn (2005), we seek here to draw out the deep linkages between particular forms of corporate governance, on the one hand, and state policy and institutional structure, on the other. However, we do not share Gourevitch and Shinn’s neo-pluralist focus on interest group activism as the primary source of state policy (and therefore transformations in corporate governance). Instead, we see the state as relatively autonomous, and thus an active force with its own internal dynamism, generating policy and organizing class power. Moreover, we see changes in corporate organization as emerging through the dialectical interaction between human agency, institutional forms (including but not limited to the state and corporation), and deeper capitalist structural pressures. See Maher and Aquanno (2018).
5. By 2018, companies in the S&P 500 were 84% owned by institutional investors (Sullivan and Cromwell, 2019: 24).
6. Key here was the Fed’s quantitative easing program. In the process of detoxifying bank balance sheets and backstopping losses, QE pushed up asset prices along the risk spectrum, as private sellers rebalanced their portfolio into riskier assets. This drove a boom in equity prices that made it difficult for investment firms to justify high management costs. All of this took a significant step forward with the passage of the Dodd-Frank Act, which gave renewed impetus to corporate governance reform that served to further consolidate investor power. The 13 sections of the DFA dedicated to corporate governance include new “say on pay” and disclosure rules that have greatly emboldened shareholders.
7. Active managers therefore typically “sell out if they are concerned with the risks a company is running” (Scott, 2014).
8. These include the iShares suite of funds, which currently manage \$1.9 trillion, accounting for more than 25% of BlackRock’s total investment portfolio. iShares is an investment subsidiary of BlackRock.
9. According to a number of different studies, many active mutual funds in the United States are actually “closet indexers,” meaning that while technically operated by a fund manager, the fund closely follows a benchmark index (see Coates, 2018; Cremers et al., 2016). Moreover, active mutual funds have also come to rely on active engagement to boost returns and use their credible threat of exit to influence stock valuations. According to Sullivan and Cromwell (2019), in 2018 active mutual fund managers “went public” with their demands 60 times, “compared to just 40 such demands in 2014” (p. 9).
10. This quote by Barbara Novick, vice chairman and co-founder of BlackRock, demonstrates the essential nature of passive investment and has subsequently been echoed by other firms and executives. Rakhi Kumar, head of corporate governance at State Street, has echoed this same position: “As an asset manager with one of the world’s largest passive offerings and a near perpetual holder of index constituents, active ownership represents the tangible way in which SSgA can positively impact the value of our underlying holdings” (as quoted in Scott, 2014). Similarly, Jim Rowley, head of portfolio research at Vanguard, has stated that “passive funds are not passive owners” (as quoted in Thompson, 2018).
11. Referring specifically to State Street, but also referencing passive large passive investors more generally, Kumar (as quoted in Scott, 2014) notes: “Our size, experience and long-term outlook provide us with corporate access and allow us to establish and maintain an open and constructive dialogue with company management and boards. The option of exercising our substantial voting rights in opposition to management provides us with sufficient leverage and ensures our views and client interests are given due consideration.”

12. According to one analyst, private credit has served as “fuel for private equity’s post-crisis boom” (Rasmussen and Obenshain, 2020). On the relationship between private equity and private credit, see also Butler (2019).
13. The “half decade from 2013 to 2018 saw the most private equity deals over any five-year period in American history” (McLean, 2020).
14. Jahnke provides a good empirical description of this new form of corporate control. He shows that while 6% of S&P 500 companies reported investor engagement in 2010 this rose to 23% in 2012, 50% in 2014 and 72% in 2017. His research also finds that from June 2016 to June 2016, Vanguard, a major passive investment firm, reported 954 engagements with corporate managers.

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