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*Corporate Values of the Financial-Industrial Complex and Democratic Values: Challenges in the 21st Century**

Abstract

Until last quarter of the 20th century the central figure of economic scene was an entrepreneur. He was partly a discoverer and partly a manager who re-assembled factors of production into hitherto unknown combinations generating thereby new products and processes. This made him the engine of economic growth and development. His individual motive of profit-earning at the same time served the better satisfaction of the needs of others. To finance his operations the entrepreneur has to borrow from those who save., i. e. from rentiers. Nonetheless it was the entrepreneur, not the rentier, who was the key here of the epoch and who willingly accepted risks involved in production and commerce, in difference to rentiers motivated merely by usury greed. The corporate culture of the late 20th and early 21st century offers different values and priorities: it is an vogue to live a heavenly life of a rentier in an environment where scarcity does not appear; entrepreneurship hardly counts any more.

The paper argues that unrestrained greed of managers of financial-production corporations that presently dominates the economic scene, supported by greed of savers and their naïve faith that there exist some miraculous ways of cloning their savings, and the sweat and hardships of labour and entrepreneurship are reserved only for those who do not share that faith, give foundations to an important challenge of the 21st which is substituting corporate values for those of political democracy and social solidarity. The paper also shows that the corporate system

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> does not need to destroy political democracy, since gaining control over democratic political processes and the politicians would suffice to enable such a substitution. Should this happen, periodic financial bubbles and crises that wipe out virtual assets and profits, together with true savings made for precautionary reasons, will not be eliminated while economic and social development will slow down. This challenge of the 21st century can be overcome and political and social solidarity defended if democratic values are not surrendered to corporate values.

Will corporate culture of the 21st century first undermine and then destroy the culture of the systems of political democracy? Is this a real challenge in the decades to come, and if so, what one can do to prevent this happen? The paper offers a few thoughts on the subject as seen from a perspective of an economist.

Until the last quarter of the 20th century for nearly two centuries the central figure of economic scene was an entrepreneur. He was partly a discoverer and partly a manager. He assembled and re-assembled factors of production into hitherto unknown combinations generating thereby new products and processes. This made him the engine of economic growth and social development. His individual motive of profit-earning served at the same time the better satisfaction of the needs of others. Even though his actions resulted in business cycles and periodic crises, the latter also served economic development because in the process of 'constructive-destruction' (we owe the term to Schumpeter, 1934), in crisis the most costly and least effective producers are eliminated. To finance his operations the entrepreneur had to borrow from those who save., i. e. from rentiers-speculators. Nonetheless it was the entrepreneur, not the rentier, who was the key hero of the epoch. In difference to rentier, the entrepreneur neither limited his interests to speculation alone, nor was motivated merely by usury greed – instead, he willingly accepted risks involved in production and commerce.

In the years of great expansion of financial markets and speculative transactions related to them, Keynes warned us:

> 'Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an

institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism' (Keynes, 1936: 159).

This positioning on the economic and social scene of an entrepreneur vis á vis that of a rentier-speculator has dramatically changed in the last two decades, and the new balance is likely to continue well into the 21st century, Now it is in vogue to be a rentier-speculator, live a 'heavenly' life in an environment where scarcity does not appear and hence no room is needed for the boring tribe of economists who square the difficult task of allocating scarce resources between alternative uses. Unrestrained greed of managers of financial-production corporations that presently dominates the economic scene, supported by greed of savers and their naïve faith that there exist some miraculous ways of cloning their financial resources, and that the sweat and hardships of labour are rightly reserved for those only who do not share that faith, give foundations to our surrendering some crucial values and attributes of political democracy and social solidarity. As a matter of fact, we do not need to surrender them ourselves. On our behalf and with our consent, the surrendering is done by financial-productive corporations. Anyway, why should we care about those values when the promised reward is if not outright heaven on earth than at least a rather comfortable life until the end of our days.

The corporate system does not need to destroy the system of political democracy and social solidarity. To achieve the goals of the former it will suffice to gain control over the latter. When at the center of the stage of economic and social development is no longer the entrepreneur-innovator, nor the volume of national income and employment, nor technical, economic and social progress, but instead it is the mere multiplication of financial assets, then the main addressee of the ideology of the present-day corporate system become the savers and the protection of their assets.

Although most saving is done by the rich, the most numerous among the savers are the middle classes. Therefore, in a democratic system, it is the middle classes which must be persuaded that the miraculous vehicle for multiplying the value of their savings and their wealth must be run by financial corporations, and not by entrepreneurs. Moreover – that in order to make the vehicle properly function, management of private savings must be entrusted with financial corporations alone which, moreover, must be exempt from government control, and especially from financial supervision. Except for this trust, the savers are asked not to question too much and have unlimited confidence with the system's operation. And this, as a rule they have done.

Furthermore, for effective control over the system of political democracy the corporate system must also gain support of politicians and make them believe that multiplying the value of private savings rather than business profits is the essence of economic progress. Politicians must be persuaded to identify themselves with the thus defined goal of income generation and distribution, and defend that goal in the interest of the middle classes, as well as that of their own, and of the system of corporate values in general. For this purpose, politicians should be convinced among other things to encourage saving and defend unrestrained freedom of financial markets world-wide. For – it is argued – restraining that freedom by imposing any limits or control over freedom of capital movements at a global scale would be tantamount to opening the door to socialism which would be far worse than high volatility of short-term international speculative capital which movements destabilize the economy. Why introducing some control and limits over those movements (like the Tobin tax, for instance) should imply restoring a totalitarian economy is the question that is left short of a convincing answer.

Much for the same purpose the financial-industrial corporate system needs support of the media and their identification with its values.

Under normal conditions the value of stocks or shares of one corporation rise faster than of the other, or of one branch of the economy more than of another. However, capitalization of the stock exchange as a whole cannot possibly rise n-fold more that the rise in gross national output as a whole, or more than total profits of the corporate sector as whole, although this did happen in the past two decades or so. If this happens, it is due to speculative factors that must culminate in speculative financial crises that bring down the 'virtual' value of assets back to their real value or below it (thus giving rise to Minsky's financial instability and crises, see Minsky, 1982, 1986, and Toporowski, 2005). And there are also some special factors that facilitate those speculative rises in stock-exchange valuations. For instance, one such factor in a number of countries was the establishment of pension funds, mandatory for those below a certain age-threshold (say, born after 1970). As hardly any benefits are yet paid from those funds, the inflowing contributions are partly invested in stock exchange thus increasing demand and stock prices. Another such factor are special tax privileges that stimulate savings.

However, should the return on borrowed capital be as high as, say, –teen, or -ty percent per year, what must be the rate of profit of a Schumpeterian entrepreneur to pay for it? What kind of business in the real economy can generate such rates of profit? These will include illegal trade in arms, narcotics, human trafficking. What else? This cannot possibly be the essence of the miraculous affluence of the world economy of the 21st century, can it?

New technologies and products that represent technological progress are embodied in new investments put into operation by entrepreneurs. Therefore, broadly speaking, the engine of economic and human development are entrepreneurs' investments in fixed capital rather then speculative investments into different forms of saving instruments. Is economic dynamics the greater the greater are private savings or the greater is private capital accumulation? Do private savings automatically and instantaneously transform themselves into private fixed capital investments, and therefore the distinction between the former and the latter is economically irrelevant? Or else – if they don't – is the dynamics of economic and social development decided by an entrepreneur's investment decisions, or by savings decisions of rentiers that enable entrepreneurs to finance their investment projects?

National income accounting rules tell us that by definition gross investment and gross savings ex post factum must be equal to each other. If, in order to simplify the argument, a model of closed economy with no taxes nor public spending is assumed and, moreover, entrepreneurs are assumed not to consume and workers not to save, then private profits are by definition equal to private investments as well as to private savings. In an open economy with government revenues and expenditure, where entrepreneurs spend part of their profits on consumption and workers save part of their incomes, somewhat more complicated identity holds that makes the sum of private investments, export surplus (i. e. net exports) and general government budget deficit equal total private profits (and total private savings). Michał Kalecki – a Polish co-founder of Keynesian economics – was first to ask the question: which determines which? Do profits (or the sum of private investments, export surplus and budget deficit on a more general model of the economy) determine the volume of private investments, or the reverse of it?

Entrepreneurs may decide about their spending, but not about their profits ('capitalists earn what they spend, and workers spend what they earn' wrote Kalecki). In the course of multiplier process set in motion by additional spending, together with entrepreneurial profits, entrepreneurial saving are generated that enable financing that additional spending, provided the supply of credit by the banking system is sufficiently elastic to prevent a rise in interest rates. What is the place of savings in this argument? In so far as entrepreneurs need to borrow to finance their investment projects, their own wealth, i. e., the accumulated (and-or inherited) past savings reduce the risk of business failure of their investment projects. Therefore the greater their accumulated past savings, i. e. their capital, the easier and greater is their access to capital market and the size of their business:

> 'The limitation of the size of the firm by the availability of entrepreneurial capital goes to the very heart of the capitalist system. Many economists assume, at least in their abstract theories, a sate of business democracy where anybody endowed with entrepreneurial ability can obtain capital for starting a business venture. This picture of the activities of the „pure" entrepreneur is, to put it mildly, unrealistic. The most important prerequisite for becoming an entrepreneur is the ownership of capital. … The above considerations are of great importance for the theory of determination of investment. One of the important factors of investment decisions is the accumulation of firms' capital out of current profits' (Kalecki, 1954, 94-95).

What are the other factors determining private investments? 'Animal spirits' and profit maximization argued Keynes; profit maximization, albeit not in a strict sense, as this would require capitalists to know marginal demand for their products which they cannot know, would add Kalecki (because of this reservation his theory could not have been later deformed into 'Great Synthesis' cocoon, the way the Keynes's *General Theory* was). However, there is no way in which private savings of some automatically become expenditure of others. Whatever the form of the function of private investment decisions, and this subject has always belonged to the most difficult fields of economic research, its center-piece expected is the expected profitability of investment projects under consideration. It is assessed on the basis of past experience (but not too distant past). Thus, it is hard to argue that the more is saved – and therefore the smaller the expected market for the produce generated by investments after they are completed, the higher will be the propensity of entrepreneurs to invest. Anyway, in all this argument the central role in the process of economic dynamics of a market economy is played by entrepreneurs and their confidence with respect to future profits, not by savers seeking casino-type opportunities in allocating their savings.

Should factors of production be fully employed, savings would determine investments and thereby the rate of economic development. However, even at the peak of the boom neither productive capacities nor labour are fully employed. In fact, under-capacity employment of factors of production is a systemic feature of the market economy: its strength and its weakness at the same time. The strength lies in its ability to quickly adjust to market changes and the embedded drive to invest in new technologies, products and markets to maximize profits. The weakness is the cost of idling machines, equipment and labour.

Corporate culture and its values are rooted in the present-day mainstream economics. It assumes that market mechanism – notwithstanding its imperfections and weaknesses –ensures absence of involuntary unemployment and capacity use of other factors of production. When the cause of unemployment are 'sticky' wages, 'rational expectations' together with the 'Ricardian Equivalence' theorem make fiscal and monetary expansion lead only to price adjustments, no room being left for output and employment expansion, and when 'non-accelerating inflation rate of unemployment' takes care of keeping inflation under control, then private savings become the engine of economic development, greed is the virtue, and government intervention must be limited to bare minimum.

The 2008 world financial crisis undermined the trust in miraculous economic affluence for all, to be delivered by the corporate system. It brought back the question on public supervision over such public institutions as banks and other financial intermediaries. Moreover, in short time it reassessed the value of assets wiping out virtual profits but, at the same time also those private savings that were motivated by prudence rather than speculative thrift.

Will the financial corporate system and its values dominate over those of the democratic system? Will the former gain control over the latter? The syndrome of combined interests of financial-productive corporations, human greed and continuous deregulation in financial markets will inevitably lead to successive financial bubbles and crises, wiping out virtual assets and virtual profits together with savings made for precautionary reasons. This challenge of the early 21st century may be overcome, and political democracy, equal opportunities and social solidarity values may be defended against the values of the corporate system. This requires among others that the politicians and the media bring back to the center of their attention the values of the democratic system and will genuinely defend them, and that the public at large makes yet another attempt to give up the illusion of the 'golden calf'. None of that will be easy, however, the last being far most difficult.

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