Pay without Performance: The Unfulfilled Promise of Executive Compensation, by Lucian Bebchuk and Jesse Fried. Cambridge: Harvard University Press. 2004. Cloth, ISBN 0674016653, $24.95. 278 pages.

A Long and (Dis)Respectful Tradition

The argument in this book comes from a long and (dis)respectful tradition that has looked askance at the influence of corporate management for over 200 years. The tradition easily can be traced back at least to Adam Smith's criticism of the avarice and waste of the agents of the British East India Company ([1776] 1937, 710–13). At about the same time that Smith was writing, an angry band of Americans who fancied themselves "the sons of liberty," and who may or may not have read Smith, took revenge on the East India Company by destroying company property in a grand display of outrage. In what we Americans like to call the Boston Tea Party, these wild "sons of liberty" dumped the company's tea into Boston Harbor. This disrespectful treatment of the company's merchandise was a bit too much for those who respected property more than they loved liberty. The tradition of disrespect has been considered more or less disrespectable ever since first the American revolution, then the French, and, much later, the Russian revolutions ruffled the feathers of the powers that be. Smith has been forgiven for his intellectual participation in the tradition. Most respectable people do not even know that he sinned. The dalliance with heterodoxy by the father of modern economics is just not mentioned in polite circles. Nor do the affluent offspring of the sons of liberty give much thought to the actions of their forefathers when defending their own modern intellectual property rights in the ports of present-day third world countries.

In spite of its disrespectability and suppression, the critical tradition still resurfaces from time to time and in sometimes more and sometimes less disrespectful forms. The sideways glance at corporate management is a mainstay of institutional economic theory, which is considered disrespectable even without it. The sideways glance currently is referred to as the "Berle-Means" hypothesis by institutionalists. In their 1932 book on the continued evolution of private property and the corporation, Adolf Berle and Gardiner Means pointed out that a gap was widening between corporate management and corporate ownership. The gap was making management more independent because ownership was becoming widely dispersed among shareholders who simply sold their shares if they disagreed with how the corporation was managed.

As long as management made a satisfactory rate of return, their hold on the corporation was secure. Satisfied shareholders would not interfere. A whole series of "satisficing" theories emerged to explain corporate behavior. (A definitive treatment is in Blair 1974.) With the vital nerve connecting ownership to control cut, the pricing, hiring, investing, and other forms of corporate behaviors could no longer be explained by mechanical neoclassical theory. Instead, explanations and critiques of how management used its discretion became relevant. (The importance of discretion in economics is discussed in Tool 1995.)

The disrespectable tradition in economics was made almost respectable by John Kenneth Galbraith in his *New Industrial State* (1967). In this extraordinarily insightful book, Galbraith explained how the separation of ownership from control in the modern corporation had given rise in the 1950s and the 1960s to a technostructure. The technostructure ran the modern corporation so as to earn a satisfactory profit for shareholders, thereby keeping them quiescent. Then, with ownership satisfied with their own rate of return, the technically trained managers who made up the technostructure used their discretion to pursue their own pet projects. The pet projects usually involved the pursuit of corporate growth, technological goals, or some other more or less benign objective. The technostructure was not only benign but docile in the sense that it could be induced to follow the public purpose, Galbraith believed. What was needed was a system of wage and price controls and enlightened government leadership of the economy. (Galbraith 1973). However, the "benignity" and docility of the technostructure began wearing thin in the 1970s. The worm began to turn (see Dugger 1992a, 1992b, and 2000). The players in the higher managerial circles began pursuing their own personal pecuniary gain at the expense of whoever ended up paying the bills, even at the expense of the owners. By the late 1990s CEOs (chief executive officers) and their cronies were pushing their own rates of return to unheard of levels. They turned the technostructure to their own purpose, instead of the public purpose.

The old argument that socialism was inefficient because the managers of state-owned property lacked the personal incentives of individual owners applies with equal force to corporate capitalism. The managers of investor-owned property also lack the personal incentives of individual owners. Whether they manage state-owned or investor-owned property, managers lack the incentives of owners. Both corporate and state managers are participating in the evolution of a form of managerial capitalism in which the discretion of management makes a shambles of orthodox theory and of the traditional efficiency defense of private property. How embarrassing!

But all these unhappy implications were neutralized and forgotten by more advanced neoclassical theorists. Instead of addressing the new realities of managerial capitalism, the whole Berle-Means hypothesis and its radical theoretical and political implications were replaced by the technical issues raised by what is called "the agency problem." In the agency problem, all you need to do is arrange the incentives of management to coincide with the incentives of ownership and voila, efficiency is reestablished. How nice! No more worries that corporate capitalism was degenerating into something very different from what the textbooks teach us. No more questions about just what that something might be. John Kenneth Galbraith and his technostructure could be forgotten, along with even more radical thinkers and their rantings. This is where the book by Lucian Bebchuk and Jesse Fried comes into the picture.

Executive Compensation and Ownership Control

Bebchuk and Fried write their book from the point of view of the shareholder. Corporate management, they explain, should run the corporation in the interest of corporate ownership, not in their own interest. The trick is to devise a compensation scheme that will induce management, particularly the CEO and the CEO's allies, to run the corporation for the benefit of its owners. Recent corporate reforms, made in response to the Enron and other scandals, were supposed to do just that. But, Bebchuk and Fried argue, the reforms have not done so. They recognize that the reforms have improved corporate performance (made the higher circles somewhat more accountable to shareholders) but point out that far more still needs to be done to make the higher agents of the shareholders actually pursue the shareholders' interest.

Bebchuk and Fried gather a wide range of empirical evidence to show that many CEO pay schemes are still rewarding CEOs lavishly whether or not they are effective in managing the corporation for the benefit of the owners. In spite of recent reforms and in spite of recent window dressing, CEOs still are paid salaries, granted options, and rewarded retirement benefits and other perks without regard to how well they perform their duties. To be far more direct than Bebchuk and Fried are in their book: Many CEOs are still making out like bandits, even if they are still acting like them. To put all this in Galbraithian perspective, the technostructure has been replaced in a wide swath of corporations by a kleptocracy. If Bebchuk and Fried are correct, and I believe that they are, then many powerful CEOs and their allies are still using their discretion to pursue their own personal interests, not to pursue the interests of shareholders, and certainly not to pursue the public purpose.

This is an important conclusion. Bebchuk and Fried use their conclusion to argue in favor of further corporate reforms that try to construct payment schemes that will really induce CEOs to pursue the shareholder interest. They are brave and correct to do so. They come dangerously close to joining the disrespectful and disrespectable tradition of institutional economics. I only wish that they had joined that tradition by discussing the ways and means of inducing the corporation to pursue the public purpose of the community, not just the private interest of the shareholders. Alas, they do not.

This book is well-written, well-researched, full of excellent citations, and strongly grounded in empirical and historical evidence. It is well worth careful study.

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Thorstein Veblen, John Dewey, C. Wright Mills, and the Generic Ends of Life, by Rick Tilman. Lanham, Md.: Rowman and Littlefield Publishers, Inc. 2004. ISBN 0742532844, $65.00. 295 pages.

Rick Tilman's book is a scholarly examination of the contribution of Thorstein Veblen, John Dewey, and C. Wright Mills to the development of a heterodox American intellectual tradition. It need hardly be added that Veblen and Dewey were also among the most important figures in the development of the institutional school of economic thought. The book is a welcome addition to the intellectual history literature, although in actuality it is more precisely an addition to the Veblen literature. It is primarily an examination of Veblen's contribution; Dewey and Mills are considered mostly as they supplement and complement Veblen's thought.

Tilman's research is extensive. The works of Veblen, the economist, Dewey, the philosopher, and Mills, the sociologist, are explored using extensive archival material, including from the Veblen, Dewey, and Mills collections at Carleton College, Columbia University, Southern Illinois University, and the University of Texas at Austin. Tilman also makes broad use of primary and secondary sources. He has built a careful, interesting, and solid case.

The book is ambitious, as befits its subject matter. Tilman compares the thought of his key figures on a broad range of topics: feminism, the positive state, sports and games of chance, the business-industry distinction, aesthetics, wasteful consumption, and marginal utility economics. He also plumbs the work of other scholars on similar questions or for their reaction to the work of his central players. Tilman concludes with consideration of the social and human meaning of the goal, adopting Veblen's terminology, of "the generic ends of life, impersonally considered." Tilman feels that it is their common advocacy of this concept that most unites his three key characters. Tilman links this concept to the Veblenian proclivities for workmanship (sometimes craftsmanship), curiosity, and the parental bent (altruism), all endorsed also by Dewey and Mills, and all based in values that sustain community. He opposes these proclivities to those that are based