

Performing Agency Theory and the Neoliberalization of the State

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Abstract

According to Streeck and Vogl, the neoliberalization of the state has been the result of political-economic developments that render the state dependent on financial markets. However, they do not explain the discursive shifts that would have been required for demoting the state to the role of an agent to bondholders. I propose to explain this shift via the performative effect of neoliberal agency theory. In 1976, Michael Jensen and William Meckling claimed that corporate managers are agents to shareholding principals, which implied that their main task was the procurement of shareholder value. Agency theory subsequently prescribes a series of measures to ensure the alignment of principal and agent interests in corporations. The diffusion of agency theory, however, moved beyond corporate governance to reconfigure the state. Due to its reliance on capital markets, the state supposedly likewise becomes an agent of the investment public and should procure bondholder value.

Keywords

agency theory, corporations, critical theory, financial power, neoliberalism, performativity, state theory

Introduction

The state occupies an enigmatic position in neoliberalism. Some insist on the decline of the nation-state in recent decades. Here, “neoliberalism tends to be considered in terms of the declining capacities of states vis-à-vis disembedded financial markets” (Konings, 2010: 748), a narrative particularly present in the literature on globalization (Guéhenno, 2000; Rodrik, 2011; Strange, 1996), empire (Galli, 2010; Hardt and Negri, 2000), and global governance (Rosenau and Czempiel, 1992). Students of neoliberalism, however, stress the crucial role of the state in imposing competitive entrepreneurialism upon populations, an emphasis found in governmentality studies (Brown, 2015; Dardot and Laval, 2013; Foucault, 2008; Lazzarato, 2015), the literature on new constitutionalism (Cutler, 2016; Gill, 1998a; 1998b), authoritarian neoliberalism (Bruff, 2014; Oberndorfer, 2015), and most importantly in neoliberal authors themselves (Friedman, 1951, 2002; Hayek, 2013). Streeck (2017a, 2017b) and Vogl (2017) reconcile both approaches by focusing on the political economy of neoliberalism. For them, the neoliberal state stages the

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confrontation of two constituencies with opposing interests and legitimate claims to the state's allegiance. Whereas the general population, or *Staatsvolk*, votes for politicians to enact the "will of the people", financial investors in state bonds, or the *Marktvolk*, expect indebted states to enact policies that strengthen their creditworthiness and guarantee a good return on investment. They maintain that the state's subjection to investors is an ongoing process that tends to instrumentalize the state apparatus for financial interests. In recent years, the *Marktvolk* has supposedly captured the state apparatus from the *Staatsvolk*.

Though this approach may be convincing, its proponents do not fully explain how this situation came about. What, or whom, has rendered contestable the state's sovereignty over its territory and economy? Only a substantial discursive transformation could have dethroned the state from its instituting role in society (Birch, 2016; Braeckman, 2015; Lievens, 2015). The political-economic explanations of Streeck and Vogl do not account for this discursive mutation. They show how a crisis in public governance emerged, but not how financial epistemic communities were able to convincingly render the state responsible for this crisis. Streeck (2017b: 75–76) sometimes hints at the performative power of neoclassical economics, but does not develop this claim, while Vogl (2015) almost completely omits the role he granted to the performativity of economics in previous writings. I claim that agency theory – an economic doctrine developed by exponents of the Chicago School of Economics to rationalize the management of open corporations in the interest of shareholders – has instigated this discursive shift. It first responded to a crisis in corporate governance and later provided the tools for dealing with the crises of neoliberal governance (Feher, 2017).

In the first section of this article I explain how, in agency theory, corporate agents are viewed as servants to shareholding principals who have invested in these companies through the stock market. To guarantee management's loyalty to maximizing shareholder value, agency theorists have devised a range of monitoring techniques. The second section deals with the performative diffusion of agency theory in the corporate world. By convincing key actors of its truth and through changes in the variables of corporate decision-making, agency theory has become an adequate description of corporate behavior. Its privileging of shareholders over other stakeholders has, however, rendered disposable the workers who cannot contribute to shareholder value maximization. Agency theory has also surreptitiously redesigned states' responsibilities to the owners of public debt, this being the topic of the third and final section. Just as shareholders demand certain actions to ensure a return on their investments, bondholders can limit political decision-making to make democracies conform to market standards. In the third section, I explain how agency theory's epistemic community has also acquired key positions in public governance; positions from which it can reconfigure state practices in times of crisis. As a result of this diffusion through public institutions, the same problems with the disposability of "surplus populations" return in public governance.

Agency Theory: Confronting the Separation of Ownership and Control

The core claim of agency theory is clearly articulated in a remark from Milton Friedman (2002: 133) about the purpose of corporations: "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible". Management allegedly has a duty only to optimize shareholder value, but no responsibilities toward other stakeholders (Bento et al., 2017: 769–71; Feher, 2017: 49–50; Stout, 2012: 34). The context of this remark is the neoliberal critique of managerial capitalism. During most of the 20th century, many firms sought to grow by selling stocks. They became large bureaucratic corporations, producing mass-consumption goods

(Chandler, 1984; Davis, 2016: 19–28; Mizruchi and Kimeldorf, 2005: 214–16; Styhre, 2017: 46–47). These corporations were hierarchically organized firms that granted high wages and union representation to workers to ensure a broad consumer base and social peace (Lazonick, 2017: 219; Sassen, 2014: 211). They survived by retaining their profits and reinvesting them in the further expansion of the firm (Lazonick and O’Sullivan, 2000: 14). This approach not only boosted employment, but also diversified the firm’s activities, which reduced its overall exposure to market downturns (Dobbin and Jung, 2010: 41; Lazonick and O’Sullivan, 2000: 15). When one sector experienced troubles, management could compensate for the risks with profits from other branches of the firm.

This system was obviously not perfect. Not only did corporations gain worryingly high amounts of power thanks to their size (Berle and Means, 1932: 46; Davis, 2016: 29), but many people were also excluded from the corporate social contract (Graeber, 2010: 374; Sassen, 2013: 198). Minority groups did not experience the advantages of managerial capitalism in the same way as white, male, heterosexual workers. Economists, however, worried about a different issue. They observed nefarious incentives among managers due to the separation of ownership and control within the corporation (Arrow, 1964; Berle and Means, 1932; Jensen and Meckling, 1976: 309; Ross, 1973). “Executives were serving their own interests rather than those of owners. They had been building large, diversified empires that could shield them from downturns in any particular industry, but which maximized corporate size rather than profitability” (Dobbin and Jung, 2010: 30). The firm’s capital came from many small investors, but the latter subsequently lacked the time and expertise to hold management accountable for how they spent it (Berle and Means, 1932: 4; Mizruchi and Kimeldorf, 2005: 214; Useem, 1990: 682). Self-serving corporate agents allegedly neglected the owners’ interests. Eventually investors lost confidence and exited stock markets. Especially in the 1970s and 1980s, this led to a series of “investment strikes” that heralded the end of managerial capitalism (Fligstein, 2001: 152; Marazzi, 2010: 29; Streeck, 2017a: 23).

In 1976, two business professors at the University of Rochester, Michael Jensen and William Meckling, published “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure” in the *Journal of Financial Economics*. It revolutionized the economics of corporate governance. They employed agency theory to construct a neoliberal approach to the separation of ownership and control (Fligstein, 2001: 125–26; Lazonick and O’Sullivan, 2000: 15–16; Styhre, 2017: 68).¹ They regarded the firm not as an individual entity with its own interests, but as a nexus of contracts (Jensen and Meckling, 1976: 310; Useem and Davis, 2015: 490; Zajac and Westphal, 2004: 436).² Shareholders are assigned the role of “principals”: they invest money in promising ventures, but lack time and expertise to run those endeavors personally. They consequently delegate the organization of corporate activities to managers as their “agents”. The latter subsequently hire employees to perform the actual work. The whole firm is hence a network of principal/agent-relations with the shareholders operating as ultimate principals to whom all others are subservient. “The corporation is an instrument of the stockholders who own it” (Friedman, 2002: 135). For neoliberal economists, the central issue is then to reduce “agency costs” (Jensen and Meckling, 1976: 308; Jensen, 1983: 331; Jensen, 1988: 28), i.e. the costs incurred by agents wasting resources on their own selfish interests (“shirking”) and for monitoring these agents. The “survival value” (Fama and Jensen, 1983a: 303; Jensen, 1983: 328) of a corporation allegedly depends on the firm’s ability to reconcile principals’ and agents’ preferences. Assuming that all agents are utility-maximizing egoists, one can reduce agency costs by making loyalty to shareholder interests rewarding and disloyalty costly. Most of the literature on shareholder value maximization thus focuses on the techniques that manipulate managers’ calculations to enact their principals’ preferences.³ One could, for instance, align agents’ incentives with shareholder value by making their wages dependent on stock prices. During the 1980s, stock-option wages and performance-based

bonuses for managers hence arose. Another measure is to populate the board of directors with outside experts to represent shareholders. This board should supposedly discipline managers to enact shareholder interests. If these procedures do not suffice, then economists, thirdly, put their hope on the “market for corporate control” (Fama, 1980; Jensen, 1988; Manne, 1965). Underperforming managers fail to attract investors and consequently cause stock prices to decline. This incentivizes other entrepreneurs to target this firm and buy out its shareholders until they have enough shares to oust the underachieving management team (Director, 1951; Jensen and Meckling, 1976: 329; Jensen and Ruback, 1983: 6).

Returning to Friedman’s privileging of shareholders over all other stakeholders, it is obvious how agency theory provides an excellent discursive infrastructure for the norm of shareholder value maximization (Fligstein, 2001: 148; Ho, 2009: 125). As original principals, shareholders are the “residual claimants” (Fama and Jensen, 1983a: 302; 1983b: 328) of corporate profits. Whereas managers and employees have pre-established rewards, or wages, for their efforts, only shareholders have no guaranteed return (Lazonick and O’Sullivan, 2000: 27–28; Zajac and Westphal, 2004: 437). If a firm fails to make profits, managers and workers still receive wages, but shareholders get no return on their investments. They bear the residual risk, even though they have provided the corporation with its initial capital (Aglietta and Rebérioux, 2005: 34–36). It is therefore, according to neoliberal economists, fair for shareholders to receive the residual profits after deduction of production costs and necessary investments. Whatever is left of profits after basic expenses is a return on shareholders’ original investments. Managers should therefore not reinvest profits in building ever-growing corporate empires, but should instead return those profits to their rightful owners via dividends, stock repurchases and increasing stock prices (Lazonick and O’Sullivan, 2000: 13; Lazonick, 2017: 221; Ross, 1973: 138).⁴ “In his capacity as corporate executive, the manager is the agent of the individuals who own the corporation [...] and his primary responsibility is to them” (Friedman, 1970: 174).

Performing Agency Theory in Corporate Governance

Agency theorists would describe their own work as purely “positive economics”, i.e. a politically neutral description of economic behavior (Friedman, 1984; Jensen, 1983). If they draw more prescriptive conclusions, they interpret their policy suggestions as recommendations in light of firms’ survival value, based on factual evidence discovered in a reality independent from themselves. Sociological research on the diffusion of agency theory however indicates that the latter has a performative effect on corporate governance (Fligstein, 2001: 149; Ho, 2009: 28; Weinstein, 2013: 46; Useem and Davis, 2015: 490).⁵ Agency theory reshapes the reality it studies. Just like all other economists, agency theorists do not merely describe economic behavior, but frame behavior in specific contexts so as to render more likely the outcomes that they deem rational. This is not to say that agency theory is a conspiracy of false claims that dupe managers into thinking they are agents to stockholders. It implies that, for an economic theory to be applicable to the world, prior work is required to render that world susceptible to the extraction of economic data (Mitchell, 2009: 407). Agency theory can only influence individual behavior if it secures an infrastructure that highlights the information that agency theorists need and that allows economists to frame economic behavior according to agency-theoretical precepts.

Following Michel Callon’s classification of forms of performativity (2007: 321–26), one can identify two ways in which agency theory reshapes corporate behavior: (1) as a self-fulfilling prophecy and (2) as prescription:

(1) Economic theories firstly influence behavior by acting as self-fulfilling prophecies.⁶ If the theory can persuade key decision-makers of its truth, they will act accordingly and

eventually *make* the theory true. Agency theory has especially profited from its central role in business education and its inventors' links to neoliberal think tanks and academic organizations to expand its influence to corporate governance. Although only Meckling was a member of the Mont Pelerin Society (Fourcade and Khurana, 2017: 363), agency theory informed the neoliberal thought-collective (Mirowski, 2013: 64). It quickly replaced older, less scientific theories of finance in the business school curricula (Birch, 2016: 327) and has been standard course material since the 1980s. An epistemic community has subsequently formed around agency theory via its diffusion in both educational and other settings (Fourcade and Khurana, 2013: 151; 2017: 367).⁷ These channels interpellated current and future managers to self-identify with the role of agents to shareholders. They produced a dispersed group of knowledge carriers that quickly populated key corporate positions (Aglietta and Rebérioux, 2005: 260; Heilbron et al., 2011; Zorn et al., 2014). It became the spontaneous way that executives make sense of their world and their place in it (Fiss and Zajac, 2004: 527; Ho, 2009: 123).⁸ Unsurprisingly, agency theory's recommendations such as paying managers with stock options and hiring external members to the board of directors have been implemented more frequently since the 1980s. Business executives learn during their education to self-identify with utility-maximizing agents whose purpose is to augment shareholder value, and so they act accordingly once they attain management positions.

(2) Callon (2007: 324) calls the second mode of performing economic theories "prescription". Instead of being limited to directly and explicitly influencing individuals, one can also alter behavior indirectly by manipulating the environment of individual decision-makers (Guala, 2007: 137). For example, the trade between strawberry farmers and salespeople in Fontaines-en-Sologne in the 1980s was predominantly based on old customs and personal relations (Garcia-Parpet, 2007). Thus, prices were chiefly determined via non-monetary considerations. The French government noticed that farmers received lower than average prices due to these traditionalist practices and hired economists to train farmers how to calculate their own self-interests. Economic rationality was not a natural phenomenon, as positive economics claims, but the product of government interventions. The authorities built an auction house that physically separated farmers from salespeople and anonymized trading. From then on, prices were displayed on an electronic board and individuals agreed to a price by pressing a button. Without directly targeting the farmers' conscious decision-making, this tactic disentangled farmers from customs and personal obligations and incentivized them to pursue higher monetary gains.

Similarly, agency theory has infiltrated the infrastructure of corporate governance – maybe not in the architectural design, but in the financial environment of corporate decision-making (Zajac and Westphal, 2004: 438). Apart from an epistemic community diffusing knowledge through the power of persuasion, there is also an assemblage of human and non-human elements that indirectly incentivize corporations to act according to agency theory standards. When, for example, before the advent of agency theory, a corporation would have paid its shareholders a large dividend, this would have been treated as an ominous sign. It implied management was unable to find a way to reinvest this money in the expansion of the firm. Stock prices would go down. Corporations would thus try to avoid paying dividends because financial markets provided a context that punished corporations for doing so. After the emergence of agency theory, financial markets operated in an entirely different incentive infrastructure. Since procuring shareholder value was now the aim of corporate governance, financial markets rewarded the return of residual profits by increasing stock prices. They now evaluated large dividends as positive signals of good governance. They incentivized the behavior that agency theory would expect corporations to exhibit. The financial environment of corporations therefore stimulated pro-shareholder actions instead of punishing them with declining stock prices.

Agency theory is consequently not a merely neutral, descriptive device. It is a program for the alteration of managerial behavior in line with shareholder demands. Agency theorists have had to construct an alliance of business schools, financial operations, security analysts, etc. to disentangle managers from acting in favor of multiple stakeholders and frame them as utility-maximizing egoists in the service of shareholders. They had to convince key players and control environmental conditions to make the corporation into a neoliberal laboratory. From the 1980s onwards, agency theory and shareholder value primacy have been central to corporate governance to the point of almost universal convergence (Davis, 2013; Hansmann and Kraakman, 2001; Sassen, 2012: 32; Useem and Davis, 2013: 492). The outcomes are controversial, however, even for shareholders (Fligstein, 2001: 145; Stout, 2012;). To foster survival value and boost stock prices, corporations have reduced their size to their core operations, while outsourcing non-essential activities to sub-contractors that can execute these tasks more cost-efficiently (Amoore, 2004: 182–83; Davis, 2016: 69–76; Marazzi, 2011: 19; Useem, 1990: 685). This has not only aggravated economic inequality because of income increases for people owning shares or acquiring managerial bonuses. It has also meant laying off employees and replacing them with machines and cheap foreign labor (Davis, 2013: 293; Kristal, 2013; Lazonick and O’Sullivan, 2000: 29; Van Der Zwan, 2014: 109). It has also generalized economic insecurity by transferring the risk of market downturns to a precarious population of investees that lack many resources to combat market pressures (Feher, 2017: 139–49; Lorey, 2015; Moulrier Boutang, 2011: 128–32; Styhre, 2017: 80). As long as managers were supposed to serve multiple stakeholders, workers could put pressure on management via labor unions and state interventions. Today, however, it is assumed that the invisible hand of the stock market will allocate investments more efficiently than the visible hands of corporate managers. This assumption in turn affects the power relation between investors and investees (Davis, 2016: 71; Davis and Robbins, 2005: 292; Fama and Jensen, 1983b: 330–31; Zajac and Westphal, 2004: 437). Unions and other classic strategies lose their effectiveness in this framework. In Marxist terminology, one could say that agency theory installs a “rule by abstractions”: the anonymous forces of competitive financial markets determine the fate of workers instead of this being done by the personal decisions of capitalists (Berardi, 2012: 103–04; 2016: 162; Ho, 2009: 32; Whyte, 2017: 20). Managers cannot guarantee high wages or social benefits, because they do not possess the authority for final decision-making. They can only do what “the market” signals them to do. Managers are primarily agents of the market’s investment public. The latter is not, like the managerial class, a clearly identifiable social group, but an assemblage of dispersed investment decisions governed through its own dynamics. Stock markets function as information processors that gather all these individual investment decisions into a single stock price (Appadurai, 2016: 59–60; Hayek, 1978: 179–90; Vogl, 2015: 77). Price fluctuations subsequently reflect the investment public’s judgment. The latter is produced not through an identifiable conscious decision-making process, but through a spontaneous order of human actions without centralized human design. Prices are the abstract outcome of aggregated investment decisions. Agency theory thus exposes corporations to volatile price fluctuations beyond anyone’s control.

Investors buy stocks because they expect future residual claims higher than current stock prices. Financial markets consequently function as expectations markets (Aglietta, 2000: 149; Lazonick, 2017: 222; Moulrier Boutang, 2011: 144–45; Vogl, 2015: 64–67). Since the future is uncertain, stock prices fluctuate with investors’ estimations of future corporate profits. Firms subsequently manage these expectations to attract potential shareholders and thereby boost stock prices. The corporation depends on the successful management of its “reputation capital”, i.e. its capacity to convincingly promise potential investors that it will be a well-performing agent for shareholder value maximization (Feher, 2017: 146).⁹ In today’s financial markets this capital is determined by rating agencies, quarterly reports, past financial performances, symbolic statements of allegiance

to shareholder value, etc. These instances allow investors to continually decide upon and evaluate corporations' reputations. Corporations must set high expectations with each quarterly report and attempt to beat those expectations at every turn in order to inflate stock prices indefinitely.

To illustrate the adverse side-effects of shareholder value primacy in a capricious market order, the case of *France Télécom* is illuminating. It is a French telephone company where a suicide epidemic occurred between 2008 and 2011. *France Télécom* used to be a state-owned enterprise, but was privatized in 1997. Under the influence of agency theory and due to the urgent need to reduce the company's debts, priorities shifted toward the procurement of shareholder value (Chabrak et al., 2016: 506–07). The main obstacle, however, was that employees' labor protections were still identical to those of French civil servants, which rendered comprehensive downsizing impossible (Waters, 2014: 130). The solution was a “*management par la terreur*” (Waters, 2014: 125). Managers established policies that pressured employees to voluntarily resign. It relocated employees frequently throughout France, shifted staff to new positions without adequate training, implemented humiliating evaluation techniques, etc. It even went so far as to explicitly encourage employees to leave “so that better statistics could be communicated” (Chabrak et al., 2016: 510). The goal of these measures was not to improve performance, but to expel the “excess human capital” (Ho, 2009: 237) that depressed quarterly reports (Renou, 2010: 159). To phrase it more cynically, if firing was not an option, the only way to procure shareholder value was to encourage those unable to contribute, to resign from life itself. In three years, there were 69 employee suicides and 41 attempted suicides, with many occurring on the job or with explicit reference to work-related stress (Chabrak et al., 2016: 502).

Although at *France Télécom* the injustice was obvious and the people responsible were easy to identify and convict, a similar politics of disposability appears in other corporations under conditions of “structural irresponsibility” (Vogl, 2017: 4; Waters, 2017: 194). Corporations have to manage their reputations by seducing abstract investment crowds with promising statistics. Investors judge these firms on the basis of quarterly reports, rating agency announcements, financial news, etc., predominantly geared toward shareholder interests. If workers' interests depress financial expectations, they counteract the firm's attractiveness to investors. Corporations thus expect workers to deliver productivity for lower salaries and job security, since the latter would inhibit quarterly projections (Chabrak et al., 2016: 503; Ehrenberg, 1991: 240–41; Ho, 2009: 243–48; Lazonick and O'Sullivan, 2000: 19–20). If managers signal to financial markets that they are using shareholder investments to overpay workers instead of delivering shareholder value, they not only decrease their own wages, but also expose the firm to monitoring devices such as the board of directors or the market for corporate control. Like the situation at *France Télécom*, the result is heightened psychological instability with rising rates of depression, burnout, and suicide (Bröckling, 2016: 200–01; Dardot and Laval, 2013: 288–93; Ehrenberg, 1991: 253). Job insecurity and the continuous pressure to perform generate work-related stress.

Transforming the State into a Corporation

Gradually agency theory reaches beyond its corporate environment to reconstruct the neoliberal state, but this does not turn states into mere instruments of transnational capital or populations into passive victims of financial markets (Bruff, 2014; Streeck, 2017a: 160–64). Performativity is never a one-way street. Those subjected to performative attempts can contest them and subsequently alter their direction (Callon, 2010). Public resentment has expressed itself in electoral successes for movements that combat pro-market rule across the political spectrum (Eribon, 2013; Streeck, 2017b: 93). Syriza, Podemos, Brexit, Donald Trump, the Front National, or MoVimento 5 Stelle are just a few examples of this populist opposition to neoliberal governance. They show the

resistance of *Staatsvölker* against neoliberal – which is to say, agency theory informed – financial discipline (Streeck, 2017a: 79–90).¹⁰ In what follows, I will, however, ignore these upsurges of contestation and focus on the performative efforts of agency theory. A convincing account of popular resistance against the primacy of bondholder value would require a study of social movements and political parties taking different shapes in variegated contexts, an endeavor beyond the scope of this article. This final section consists of two parts. I first explain how agency theory’s epistemic community can gather enough influence to shape the state according to the image of agency theory. Afterwards I turn to the effects of agency theory’s restructuring of the state, namely what kind of monitoring techniques are established to avoid governmental shirking and how the politics of disposability discovered in corporate governance returns in states’ attitudes toward so-called “surplus populations”.

The State as an Agent of Bondholder Value

To grant agency theory’s epistemic community influence, it must (1) have its knowledge carriers in key governance positions and (2) get an opportunity to exert influence:

(1) As previously explained, agency theory’s epistemic community emerged from the University of Rochester’s business school, but it quickly dominated business education across the Anglo-Saxon world. In the job market for professional economists, American and UK universities are the main gateway to key positions in governments and international organizations like the IMF, the OECD, or the World Bank (Babb, 2012: 279; Kogut and Macpherson, 2011; Mahon and McBride, 2009). Even non-American economists predominantly access the institutions of their home countries or international organizations thanks to diplomas from Anglo-Saxon universities (Fourcade, 2006: 178–79). The universities most likely to teach agency theory are hence also the places most likely to deliver personnel to public and international institutions. Graduates with backgrounds in neoclassical economics, of which agency theory is one element, frequently occupy the key positions in those administrations. Wherever they subsequently enter institutions, more neoliberal policies like privatizations, central bank independence, etc. are enacted (Kogut and Macpherson, 2011; McPherson, 2006).

(2) Epistemic communities’ access to authority largely depends on the occurrence of crises (Haas, 1992: 14). In the case of agency theory, the epistemic community responded to an intensification of a tension between capitalist and working class demands (Arrighi, 2010: 309–35; Streeck, 2017a, 2017b: 73–94). During the late 1960s and 1970s international capital mobility increased simultaneously with worker demands in Western nations. The solution was to deregulate financial markets, which facilitated both states and private individuals to compensate for stagnating wages and declining welfare services with public and private debt. The latter, however, made states increasingly dependent on capital markets to fund their expenditures (Dardot and Laval, 2013: 256; Van Der Zwan, 2014: 116; Vogl, 2017: 162–63). This provides the ideal terrain for agency theory to reconfigure the state. For agency theorists, contemporary democratic states serve two principals (Feher, 2017: 81–82; Streeck, 2017a: 79–81). On the one hand, politicians are accountable to the electorate or *Staatsvolk*. The latter expresses its preferences by voting for the candidates that best articulate the people’s concerns. On the other hand, there is the *Marktvolk* that pushes for “sound policy” in the service of investors (Gill, 1998a: 15). Governments thereby occupy an agent-position toward bondholders, similarly to corporations toward their shareholders. Consequently they are expected to procure bondholder value maximization (Streeck, 2017a: 80). In contrast to corporate discourses, political statements do not explicitly refer to agency theory. Proclaiming the primacy of bondholder value over other stakeholders does not sit well with populations (Blyth, 2013: 88–90; Gill, 1995a: 412), so the performative attempts within public governance of agency

theory are more discrete. We can again distinguish between (a) self-fulfilling prophecies and (b) prescriptions:

(a) On the level of self-fulfilling prophecies, the performative reconfiguration of the state is mainly visible in terminological transfers to “principal-agent theory”, a branch of political science that studies political decision-making as the outcome of principal/agent-relations (Bevir, 2011).¹¹ In political science, the reception of corporate agency theorists like Williamson (1975, 1996) and Ross (1973) led to a new field that applies corporate insights to global governance and New Public Management (Gruening, 2001; Kostanyan, 2014: 168; Vogl, 2017: 144–47). Although the conclusion that states should be governed like corporations is never made explicit, some concepts from agency theory have disseminated, like “stakeholder” or “transaction cost”. A second indication appears in discourses on “credibility” and “investor confidence” within international organizations like the IMF and the World Bank (Brune et al., 2004; Gill, 1998a, 1998b). The IMF’s 2017 World Economic Outlook, for example, argues that “in Mexico, [...] growth for 2017 has been revised upward by 0.4 percent since the April 2017 WEO, reflecting better-than-expected growth outturns for the first two quarters of the year and a recovery in financial market confidence” (IMF, 2017: 17), implying that Mexico should manage its reputation capital among financial markets with good GDP statistics to uphold “investor confidence”. The World Bank’s 2017 World Development Report maintains that “in line with the economic theory of incomplete contracts [an addition to Jensen and Meckling’s original agency theory to account for risk in principal-agent relations (Aglietta and Reberieux, 2005: 37–38)], policies require commitment devices to ensure their credibility” (World Bank, 2017: 5). In both instances, the aim is to encourage states to manage their reputation capital among financial investors with reliable performance data in order to retain access to capital markets (Gill, 1995b, 1998b: 26). In a cloaked form, this discourse hails mobile investors as principals who express their confidence with their portfolios, while tasking governments with attracting investors with credible and reliable pro-business policies.

(b) On the level of prescription, agency theory’s performative attempts are legible in policies that lock in states’ dependency on the *Marktvolk*’s demands for high bondholder returns. States have some competences that could alleviate their dependence on investors. Especially in monetary policy, indebted states differ substantially from corporations because they can devalue their currency and default without creditors seizing their assets (Streeck, 2017b: 121–22). They thus have other options besides serving financial interests in exchange for investments. Agency theory indirectly shows its influence via the reforms that prevent states from using these alternative possibilities, as in the case of EU central banking policy (Bruff, 2016: 110–13; McBride, 2016: 7–9; Oberndorfer, 2015; Streeck, 2017a: 106–09). Before the Maastricht Treaty of 1992, Southern member states like Italy and Greece used currency devaluations to reduce the value of public debt. The Maastricht Treaty and subsequent Eurozone regulations, however, established an independent European Central Bank (ECB) whose only aim is to maintain price stability. This detaches monetary policy from political control and thereby constitutionalizes the impossibility of strategic currency devaluations or defaults (McBride, 2016: 8; Oberndorfer, 2015: 31; Streeck, 2017a: 153). Eurozone member states can consequently only access credit by borrowing from international financial markets under *Marktvolk* conditions (Oberndorfer, 2015: 38). Eurozone central banking reforms thereby consolidate the imperative of bondholder value maximization by setting limits on states’ monetary policies.

The Effects of Turning States into Corporations

If the aforementioned performative attempts indeed frame public governance within the parameters of agency theory, one would expect analogous policies to reduce agency costs. According to

Jensen and Meckling (1976), corporate managers opportunistically ignore shareholder interests, so shirking is minimized via three mechanisms; namely, a market for corporate control, performance-based payment schemes, and monitoring agencies. Neoliberals¹² also portray state officials as disloyal agents (Blyth, 2013: 155–58; Mirowski, 2009: 436–37), but bondholders obviously do not have the three mechanisms at their disposal. First, there is no substitute for the market for corporate control. Competing states cannot buy out bondholders to replace underperforming policy-makers. Policy-makers are, secondly, not paid by performance with bonuses or bond options. The system of revolving doors between politics and finance could be regarded as an equivalent to performance-based payment (Feher, 2017: 89; Streeck, 2017b: 33), although the evidence on this phenomenon is mixed. There are a number of individual examples of pro-business top politicians with highly lucrative jobs in the financial sector after their tenure point (Tony Blair, Mario Monti, Bill Clinton, Mario Draghi, etc.). This would point to the validity of the revolving doors hypothesis. At credit rating agencies as well, there is evidence that credit analysts profit from leniency toward financial firms if they want to get a job there (Cornaggia et al., 2016). When regulators, however, have less power over specific financial firms—the Securities and Exchange Commission (SEC), for instance—the opposite effect occurs. There, the most stringent risk analysts have the highest chance of acquiring positions at the financial firms they regulate, if those firms wish to reduce risk exposure (Lucca et al., 2014; Shive and Forster, 2017).¹³

Thirdly, monitoring agencies like the IMF, the Troika, or the European Commission, restrain governmental “shirking” (Gill, 1995b; McBride and Mitrea, 2017; Oberndorfer, 2015; Vogl, 2017: 132–65), similarly to how corporations are monitored by their board of directors. Whenever a state deliberates a pro-*Staatsvolk* policy that could harm financial interests, these institutions can halt or alter its implementation. *Marktvolk* interests are thereby represented in hybrid para-democratic institutions able to curb the use of state power, like a corporate board of directors controls managerial decisions in the name of its shareholders. The IMF, for instance, makes the extension of credit conditional upon “structural adjustment programs” that serve investors’ interests (Blyth, 2013: 162–65; Gill, 1998a: 25–27). To defend bondholder interests, the IMF obliges governments to implement policies that might not suit politicians’ constituents, but that guarantee that state’s attractiveness to foreign investors. Governments accept such limitations to democratic participation because they depend on the IMF’s loans and the “credibility bonus” such self-limitations grant in the eyes of the investment public (Brune et al., 2004: 208; Vogl, 2017: 123). The latter accordingly disciplines states via IMF-like institutions in a similar way to shareholding principals monitoring their corporate agents. States should purportedly also manage their reputation capital to boost their survival value. International institutions monitor whether states are loyal to this mission.

Compared to corporate shareholders, the *Marktvolk* has a fourth extra instrument to ensure states’ loyalty, namely new constitutionalism (Cutler, 2016; Gill, 1998a, 1998b; McBride, 2016). Whereas corporations are private subjects within a particular legal framework, states have the power to change laws and thereby to evade bondholder value maximization under electoral pressure. Warranting the *Marktvolk*’s interests hence necessitates fixing the rules of the game in favor of bondholders, as already shown in the EU central banking example. As Dierckx explains:

The central goal of new constitutionalism is [...] to transform public policy in accordance with the interests of internationally mobile capital. This implies binding constraints on fiscal, monetary, and trade and investment policies, and emphasizes values such as market efficiency, discipline, business confidence, policy credibility, and competitiveness. Via these constraints, disciplinary neoliberalism is legally encoded. (Dierckx, 2013: 804)

International treaties, constitutional changes, and national laws seek to detach economic policies from political accountability so that governments are forced to enact not popular demands, but investors' wishes (Gill, 1998a: 5). New constitutionalism withdraws economic policy-making from democratic pressures so that *Marktvolk* interests are better served.

The state's purpose is thus surreptitiously dislodged from the *Staatsvolk*. The ultimate principal is an abstract assemblage of investors gathering in ephemeral financial markets to determine bond prices (Sassen, 1996: 33):

Policy decisions can be attributed to particular individuals or institutions, which can therefore be held accountable for them, whereas *market judgments* [...] seem to fall from the sky without human intervention and have to be accepted as a fate behind which lurks a higher meaning intelligible only to experts. (Streeck, 2017a: 62–63, emphasis in original)

Within this new framework the state functions as an agent to the *Marktvolk* principal and hence its actions can be reduced to the creation of bondholder value. In contrast to voters, who can only minimally affect policies in between election cycles, financial markets also have the advantage that they can instantly recalibrate and redirect governments (Feher, 2017: 88). This does not completely demote the *Staatsvolk*, but it reconfigures the struggle between *Staatsvolk* and *Marktvolk* to the advantage of investors. If bondholders lose confidence, they can discourage a government by selling their bonds:

As creditors, they cannot vote out a government that is not to their liking; they can, however, sell off their existing bonds or refrain from participating in a new auction of public debt. The interest rates that are determined at these sales [...] are the public opinion of the *Marktvolk*, expressed in quantitative terms and therefore much more precise and easy to read than the public opinion of the *Staatsvolk*. (Streeck, 2017a: 81)

This creates problems similar to the ones encountered in corporate governance. States manage their reputation capital by signaling to financial markets that they serve *Marktvolk* interests. Statistical metrics once informed the government about its own economic performance, but they are now window-dressing tools. Just as *France Télécom* attempted to attract shareholders by hiding their “excess human capital”, governments must now manage their “surplus populations” (Sassen, 2016: 90), i.e. the people who fail to contribute to economic productivity and on that account hinder the procurement of bondholder value. They are expelled from official statistics for the sake of maintaining a good public credit rating:

There is a de facto redefinition of “the economy” when sharp contractions are gradually lost to standard measures. The unemployed who lose everything – jobs, homes, medical insurance – easily fall off the edge of what is defined as “the economy” and counted as such. So do small shop and factory owners who lose everything and commit suicide [whose bankruptcies are never officially filed and are thus deemed inexistent]. And so do the growing numbers of well-educated students and professionals who emigrate and leave Europe all together [...] The expelled become invisible to formal measurements, and thereby their negative drag on growth rates is neutralized. (Sassen, 2014: 36–37)

For example, in January 2013, the European Central Bank announced graphs that demonstrated how the Greek economy was recovering (Sassen, 2014: 214). The statistics, however, ignored the increases in poverty, suicide rates, abandonment of children at local churches, etc. These negative side-effects were of no importance to the ECB, since they were not included in the official measurements. Metrics meant to express economic growth can hence easily conceal unpleasant realities (Fioramonti, 2016: 16).

Conclusion

According to political economists, the neoliberalization of the state has developed through the gradual capture of the state apparatus by *Marktvolk* interests. The question remaining is just exactly how the discursive mutation has come about to rearticulate the state as accountable to its bondholders and responsible to procure bondholder value. I have argued that this is the product of the performative effect of agency theory. The latter is an economic theory that identifies shareholders as a corporation's principals, while managers and employees are the latter's agents. Agency theory subsequently prescribes measures that ensure the diminution of agency costs by aligning managerial interests to those of the shareholders. Managers should be paid out with stock options to reward them according to financial performance, the board of directors should monitor for managerial shirking, and the market for corporate control should force underperforming managers out of their corporate seats. Agency theory has reshaped corporate governance not only via self-fulfilling prophecies that convince managers to act as if they were agents to shareholder interests, but also with prescriptive devices that alter the incentive structures of corporate environments so that pro-shareholder actions are stimulated and attention to other stakeholders is discouraged. The unfortunate result of shareholder dominance is that corporations push workers to their limits to maximize productivity and expel those who cannot keep up.

The effects of agency theory, however, reach further than corporate governance. "States become less like sovereigns and more like firms" (Streeck, 2017b: 134). Agency theory's epistemic community occupies not only key corporate positions, but also administrative posts in domestic and international politics. When a governmental crisis occurs, they can advance *Marktvolk*-oriented reforms. This effect is visible on the level of self-fulfilling prophecies in the proliferation of principal-agent approaches in political science and in the emphasis on financial credibility and investor confidence in international organizations such as the IMF and the World Bank. On the level of prescription, it is observable in the mutations of monetary policy that block states' alternatives to dependency on capital markets. As a result, the devices that align principals' and agents' interests in corporate governance reappear in altered forms. Although there is no performance-based payment of executives nor an equivalent to the market for corporate control, there is a revolving door mechanism that rewards top politicians as well as some regulators for advancing pro-*Marktvolk* policies. There is also a myriad of monitoring agencies that supervise and discipline states in the name of investor confidence. Lastly, new constitutionalism locks in bondholder value maximization via international treaties, constitutional changes, and regular laws. This leads to nefarious side-effects similar to those observed in corporations. States manage their reputation capital by presenting over-optimistic statistics to the investment public that expel surplus populations from the data. Those unable to contribute to bondholder value are downsized from the economy and financial markets reward governments with rising credit for keeping these populations invisible.


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Notes

1. For an historical overview of agency theory's applications, see Eisenhardt (1989); Shapiro, (2005).
2. This approach can be contrasted with the legal understanding of open corporations that stresses its juridical personhood (Stout, 2012: 24–32).
3. For overviews, see Daily et al. (2003: 372); Eisenhardt, (1989: 64–65); Fama and Jensen (1983a: 312–15); Shapiro (2005: 269–70).
4. In its pure form, neoliberal agency theory hence leaves no room for other stakeholder interests. Maximizing shareholder value can thus undermine the interests of workers, consumers, third parties suffering from negative side effects, etc. Since such disregard for other concerns is frequently bad publicity, some economists argue for “enlightened shareholder value theory” (Weinstein, 2013: 47). Especially in the wake of many corporate scandals, such as Enron's in the beginning of the 2000s (Aglietta and Rebérioux, 2005: 224–51; Dobbin and Jung, 2010: 54–55; Stout, 2012: 68), critics have successfully challenged the absoluteness of shareholder value primacy. For enlightened agency theory, long-term shareholder value is best procured if corporations take stakeholder interests into account to foster goodwill among the population. It might boost short-term stock prices to underpay employees, evade tax and environmental obligations, or deceive consumers, but this risks a backlash effect once the word spreads. Taking non-shareholding stakeholders seriously is therefore more sustainable for shareholder value maximization in the long run. Although this approach softens the dictates of agency theory, radical neoliberals tend to reject its logic. Friedman (1970: 177) questions the authenticity of “hypocritical window-dressing”, while Jensen (2001) warns that introducing extra metrics of managerial success beyond shareholder value maximization leaves managers without ultimate certainty about what constitutes a good managerial decision.
5. For background on the performativity of economics, see (Callon, 1998; MacKenzie, 2006; MacKenzie et al., 2007).
6. Herrmann-Pillath (2016: 62) argues that “self-fulfilling prophecy” might not be an apt term, since it assumes that the economic theory in question was first false, but then made itself true by being publicly announced. If one takes the performativity of economics seriously, however, the truth/falsity dichotomy is misplaced and should be substituted for an appropriate/inappropriate duality.
7. Sometimes these neoliberal epistemic communities can be very visible, like the Chicago Boys (Klein, 2009; McPherson, 2006: 192), but most epistemic communities are more discrete (Haas, 1992: 31). Also, for agency theory, there is no clearly identifiable group of knowledge carriers, since most of the diffusion has occurred through more impersonal channels.
8. Heilbron et al. (2011: 30) warn not to overestimate the importance of self-fulfilling prophecies. Examining business media from the 1980s they find almost no explicit references to Jensen and Meckling's (1976) agency theory. Economic theories, however, do not always have to be referenced explicitly to shape human behavior.
9. The term “reputation capital” is not of Feher's own invention, but is an innovation in contemporary accounting to address the rising importance of reputation as an agent's intangible asset to engender trust within impersonal market transactions (Eisenegger, 2009; Gandini, 2016).
10. My emphasis on struggle in the performativity of economics resembles Poulantzas' approach. We both agree that the state is not a monolith, but a strategic field of struggles riddled with social contradictions (Poulantzas, 2014: 138), which implies that the state possesses a relative autonomy vis-à-vis the ruling class yet expresses a structural selectivity in favor of the reproduction of capitalism. There are however two differences. First, the current approach is not grounded in a class analysis like Poulantzas'. The *Staatsvolk* does not originate in relations of production but relies on a politico-legal criterion (the right to vote), while the *Marktvolk* cannot be equated with a global elite of finance capitalists, since ordinary citizens are incorporated in the financial system via pension funds, local community investment funds, etc. (Streeck, 2017b: 88). Second, Poulantzas (2014: 19–20) provides a general theory of the capitalist

state as such, positing its relative autonomy as a general feature. I study states, on the contrary, as the product of local and contingent performative attempts that in this case happen to produce an infrastructure akin to the one outlined by Poulantzas, but I make no claim about the capitalist state in general. For contemporary uses of Poulantzas, see (Bruff, 2012; Maher, 2017; Taylor, 2017).

11. For examples in EU governance, see Delreux and Adriaensen (2017); Kerremans (2004a; 2004b).
12. In neoliberal economics, this is called the “capture theory of regulation” (Becker, 1976, 1983, 1985; Peltzman, 1976; Posner, 1974; Stigler, 1975).
13. Financial market themselves also believe in a revolving doors mechanism. Whenever top managers from specific firms enter into political offices, the stock prices of their former employers tend to go up (Luechinger and Moser, 2014). Investors believe those firms will garner more profits thanks to their links with political policy-makers, especially in times of crises when personal connections become more important (Acemoglu et al., 2016). Political appointees from the business world supposedly use their newfound influence to benefit their former employers.

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