A Note to the Reader: Thanks for reading the text, I am looking very much forward to the discussion. The text is part of the work I do as a member of the research project *Corporate Subjects: An Intellectual History of the Corporation* (http://corporatesubjects.com). Without abstract, keywords and bibliography the text is 7700 words, if you skip the two sections from page 18-24, the text will be around 5000 words. The text is a draft, please do not cite or circulate.

Abstract: The paper analyzes the theory of the firm associated with Chicago School economists such as Friedman, Jensen, Meckling, Alchian, Demsetz, and Fama. According to these economists, the theory of the firm is a neutral, technical, and economic approach to analyze the nature of the modern firm, hereby understanding the firm as a purely private, economic entity. In contrast, the paper understands the Chicago School conception of the firm as an ideological operation seeking to depoliticize the firm and insulate it from state regulation, public scrutiny, and employee influence. By utilizing the Cambridge School of intellectual history's notion of 'rhetorical redescription', the paper elucidates the conceptual struggles around determining the nature of the firm, by focusing especially on the notions of contractual freedom and individual voluntarism inherent in the Chicago School theory of the firm. Through this analysis, the paper demonstrates how the depoliticization of the firm essential to the Chicago is part of the wider neo-liberal project of *de-democratization, privatization*, and *marketization*. Ultimately, the Chicago School theory of the firm have had widespread practical consequences for the corporate governance regime of shareholder primacy, and the paper contributes to elucidating the ideological commitments of much corporate governance literature and practice.

Key words: theory of the firm, corporate governance, the Chicago School, neo-liberalism, Cambridge School contextualism

Contractual Freedom and Individual Voluntarism: The Nexus of Contracts Firm as Political Ideology

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Introduction

As the global Financial Crisis of 2008-09 challenged the prevailing neo-liberal consensus, the last 15 years have seen a rise of multiple *political* theories of the firm (Ferreras, 2017; Singer, 2018; Ciepley, 2018; Anderson, 2017; Landemore & Ferreras, 2015; Classen, 2022; Barkan, 2013; Bakan, 2005). In markedly different ways, these political theories of the firm aim to demonstrate that today's large, multinational companies are indeed political actors – 'shadow sovereigns' as one commentator phrase it (George, 2015) – because they exercise political power, heavily influence global economic growth, derive their powers and privileges from state authorities, and function like quasi-authoritarian 'private governments' towards their employees. The effect of these conceptual interventions is a *politicization* of the business company, hereby conceptualizing it as an entity, which can legitimately be regulated by the state, made accountable to the public and subject to democratic decision-making. Not only are these interventions critical of contemporary corporate power and workplaces characterized by hierarchy, surveillance, and degrading working conditions; they are also criticizing the dominant notion of the firm as a purely economic entity based on private law and voluntary contractual relations. As such, these contemporary *political* theories of the firm are also a response to 20th century economic or neo-liberal theories of firm. The theory of the firm signifies here a number of economic, legal and managerial theories that explain the nature, structure and behavior of modern companies in economic, and essentially non-political terms (Kantarelis, 2007). These theories proliferated in the disciplines of economics, law, and management throughout the second half of the 20^{th} century, especially via the intellectual dominance of Chicago School economists like Milton Friedman, Michael Jensen, William Meckling, Armen Alchian, Harold Demsetz and Eugene Fama[1]. Viewed together, the Chicago School conceptualized the firm as a private, economic entity with the sole object of maximizing profit (Friedman, 1970; Ferreras, 2017: 65-70), hereby laying the intellectual foundations for the shareholder value maximization paradigm of corporate governance (Lazonick, 2017; Van Horn & Mirowski, 2015; Gane, 2023) made authoritative by The Business Roundtable in 1997[2], and taught at every business school around the globe (Christiaens, 2020).

This paper will take a step back from the contemporary, prolific, and often innovative discussions on *political* theories of the firm, and instead analyze in-depth their initial object of critique: the 20^{th} century economic theory of the firm. The paper explores how these different theories of firm managed to depoliticize the firm, how they depicted and conceptualized the firm as a purely private and economic actor – a legal fiction and nexus of contracts (Jensen & Meckling, 1976) – based on voluntarism and contractual freedom, and hence how the Chicago School economists aspired to insulate the firm in specific and safe-guard the free enterprise economy in general from political intervention and state regulation.

The economic theory of the firm and its central idea of the corporation as a nexus of contracts developed from the 1970s and onwards by economists and management scholars affiliated with the

[1] While not all these economists worked at the University of Chicago, it is commonplace to group them together in the analysis of the Chicago School's position on various economic and political matters. See for example Singer (2019): 84-109) and Davis (2014): 73-110.

[2] The first line of the 1997 Business Roundtable White Paper reads: "The Business Roundtable wishes to emphasize that the principal objective of a business enterprise is to generate economic returns to its owners" (Business Roundtable, 1997: 1). In 2019, the organization published a statement that superseded the 1997 white paper, and argued in favor of a broader, stakeholder-oriented position on corporate governance.

Chicago School of economics remains incredibly influential. Although the shareholder value maximization paradigm of corporate governance is facing criticism, and proponents of 'woke capitalism' hope to subject enterprises to mechanisms of responsibility and accountability, the conception of the modern firm as a private, non-political entity held together by multiple contracts between shareholders, managers, employees, subcontractors, and suppliers remains dominant (Ferreras, 2017: 9-11). The concept of the nexus of contracts firm developed by Chicago School economists depicts itself as a technical and non-political analysis of the structure, behavior, and nature of the modern enterprise, but is simultaneously a criticism of conceptual and political positions that see business enterprises as subject to state intervention, public scrutiny, and democratic decision-making. As stated most programmatically in the influential 1976-article by Michael Jensen and William Meckling, and in stark contrast to other prominent theories of the corporation such as artificial person theory and real entity theory (Blair, 2013), the business enterprise is simply a "*legal fiction which serves as a nexus for contracting relationships*" (Jensen & Meckling, 1976: 311, italics in original). As such, everything that goes on within a business enterprise – be it a small, local firm or a multinational corporation – can be understood as the result of voluntary, bilateral contractual relationships. Accordingly, and argued reiteratively by the Chicago School economists in different ways, the same contractual freedom and individual voluntarism which exists between, say, the seller and buyer of a piece of bread in a grocery store exists among the various groups and individuals within (shareholders, managers, and employees) and beyond (subcontractors and suppliers) a company. Hence, as argued by Nicholas Gane, the nexus of contracts concept of the firm, "at the surface level appears to be little more than a technical contribution to an economic understanding of the structure and management of firms. But beneath this technical veneer there is a strong politics" (2023: 2). This relation between the 'technical veneer' and the 'strong politics' in the nexus of contracts firm is in no way concealed in Jensen and Meckling's article (1976: 311, italics in original):

> "Viewing the firm as the nexus for a set of contracting relationships among individuals also serves to make it clear that the personalization of the firm implied by asking questions such as 'what should be object function of the firm', or 'does the firm have a social responsibility' is seriously misleading. *The firm is not an individual*".

The aim of this paper is to demonstrate how the assumptions of contractual freedom and individual voluntarism – i.e., the key argument that there is no difference between bilateral contracts on the market and within the modern business enterprise as a nexus of contracts – is a way for the Chicago School economists to render inoperative three influential conceptions and critiques of the enterprise and its position in the free-market economy:

1) Firstly, the nexus of contracts firm entails a critique of the foundational assumptions of managerial capitalism (Chandler, 1984), and the prevalent diagnosis, most influentially developed by Adolf Berle & Gardiner Means, that the separation between ownership and control have empowered corporate managers, who have in turn usurped control at the expense of shareholders, hereby transforming the very notion of private property (Berle & Means, 1932). The critique of managerial capitalism and the Berle & Means position on ownership and control is predominantly developed through *agency theory*. Hence, the 'technical veneer' of the firm as a nexus of contracts entails a specific notion of *corporate governance*.
2) Secondly, the nexus of contracts corporation entails a critique of the Marxist tradition, which sees economic relations as permeated with domination, hierarchy, and exploitation. By analogizing the voluntary, bilateral contract to every other transaction and relation throughout the market economy, the nexus of contract corporation aspires to render the Marxist critique

of capitalism inoperative, hereby portraying a market economy as an apolitical and power-free arena. Hence, the ‘technical veneer’ of the firm as a nexus of contracts entails a specific notion of *domination* and *voluntarism*.

3) Thirdly, at the most general level and building on the following critical interventions, the nexus of contracts firm entails a critique of the welfare state and economic regulation in general. Instead, the Chicago School conception of the firm emphasizes how free competition increases economic growth, and consequently demonstrates how state regulation of business enterprises simultaneously infringe upon individuals’ contractual freedom and decreases the overall prosperity of society. Hence, the ‘technical veneer’ of the firm as a nexus of contract entails a specific notion of the *free market* and a theory of *limited government*.

The result of this three-front battle is a novel conception of the firm – an original, neo-liberal defense of the corporation (Gane, 2023) – with direct political consequences: If the firm as a private, contractual, voluntary entity is founded upon individual freedom to contract and property, and if the unregulated enterprise maximizes economic efficiency on an aggregate, societal level due to market-based competition, then state intervention and public scrutiny of the firm is both an infringement upon basic individual rights and economic growth – that is, the twin pillars of modern liberal capitalism. Consequently, the paper contributes a particular strand of research on neo-liberalism, namely the relation between neo-liberalism and democracy – or to be precise, between neo-liberalism and de-democratization. As argued by Wendy Brown in her influential book *Undoing the Demos: Neoliberalism’s Stealth Revolution* (2015), democracy is in different ways “challenged by neoliberalism’s ‘economization’ of political life and of other heretofore noneconomic spheres and activities” (Brown, 2015: 17). Whereas some scholarship has demonstrated the inverse relationship between democracy and neo-liberalism at the level of global governance (Slobodian 2019, 2023;

Martin, 2022), and whereas others have provided similar arguments to Wendy Brown in showing how neo-liberalism have transformed national democracy, national public sectors and state regulatory institutions at the national level (Cordelli, 2020; Cerny, 1997; Jessop, 2002; Jensen, 2022), this paper demonstrates neo-liberalism's de-democratizing effects at the level of theory – in the 'technical veneer' of economic theory, so to speak. Hereby, the paper also contributes to a growing literature within critical management studies, which focuses on the ways in which the corporation might be reformed to create stakeholder value (Donaldson & Lee, 1995; Philips, 2003), redirects its activities toward a specific purpose (Mayer, 2021; Barlett & Ghoshal, 1994) or whether more fundamental democratic structures and state regulation are needed to control corporations' economic activity (Davis, 2021; Ferreras, 2017; Ferreras et al 2022). While the paper remains indifferent about these approaches to reforming the corporation, it demonstrates the enormity of the task, as decades of corporate governance directed at shareholder primacy rests on a collection of theories, which had as their direct objective to de-democratize the firm and bring it outside the orbit of public scrutiny and state regulation (Van Horn & Mirowski, 2015: 139-178).

To demonstrate how the Chicago School's nexus of contracts firm achieve such de-democratization, the paper is structured the following way: Firstly, I provide the arguments for how to read the Chicago School theory of the firm as political ideology. Here, I draw on the Cambridge School of intellectual history, especially Quentin Skinner's analytical approach and the idea of *rhetorical description*. In the three following sections, I reconstruct how the nexus of contracts firm, agency theory and the Chicago School allegiance to contractual freedom and individual voluntarism aspire to delegitimize the foundational assumptions of managerial capitalism, Marxism, and state interventionist policies. In the final section, I summarize the argument and conclude.

Analytical Approach: Intellectual History, Political Ideology and Rhetorical Redescription

Why see academic texts by university professors and Nobel Prize laureates as interventions in an ideological struggle? Are these authors not merely seeking to understand the nature of business enterprises and how companies are best structured to attain their goals? The American philosopher John Dewey, otherwise known as a key thinker of pragmatism, was also a scholar of corporations. According to Dewey, theories of the corporation such as the 'concession', 'fiction', 'real entity' and 'contractual' theory – although they are conceptually markedly different – display no logical relation between their content and their practical-political application (Dewey, 1926: 669-673). Stated differently, Dewey argues that theories of the corporation have always been used to achieve *something*, and to argue against *someone*: "Nothing accurate and intelligible can be said" about the nature of corporations, Dewey argues, "expect by specifying the interest and purpose of a writer, and his historical context of problems and issues" (1926: 673). We might rephrase Dewey's insight by saying that theories of the firm are always also *ideological operations* through which certain economic behaviors, hierarchies and structures are naturalized and depoliticized.

Contemporary critical scholars of the business corporation seem to take Dewey's lead. The political philosopher Elizabeth Anderson labels the Chicago theory of the firm an "*ideological blinder*" (2017: 48, italics added), insofar as these theories "purport to offer politically neutral, technical, economic reasons" (2017: 50) to explain corporate behavior and structure, while purposefully ignoring how hierarchical relations of authority structure the workplace beyond the voluntarism of initial open-ended employment contract. According to David Ciepley, one of the most influential advocates of a political theory of the firm, there is a "gross mismatch between the corporate world we inhabit and the liberal individualist frames we use to interpret and address this world" (2013: 140). That is, contemporary capitalism is not made up of individual producers and sellers who interact, exchange and contract voluntarily in the marketplace, as implied by the nexus of contracts firm, but by organizations with hierarchies, obligations, and internal planning. To Ciepley (2013: 140, italics added), "painting the corporation as private and contractual – a voluntary associations of shareholders", as is the core of the Chicago School's conception, "is *potent ideology*, because it neatly squares the corporation with our liberal 'social imaginary', of society as a prepolitical association of moral equals". According to another commentator, the Chicago School theory of the firm is nothing less than an "*ideological coup*", which "serves as the justification and legitimization of a profound transformation in the structures and operating modes of large enterprises", hereby making corporations concomitant with "policies of deregulation, development of market finance, and the affirmation of private property, contractual freedom and the free market as the foundations of the economic order" (Weinstein, 2012: 44, italics added).

While the section above briefly demonstrates how critical scholars understand the Chicago School's conception of the firm as an ideological operation, we need a general analytical framework for studying academic texts as political ideology. According to a host of different approaches to conceptual analysis and intellectual history developed since the 1960s, in the wake of the so-called 'linguistic turn' in 20th century philosophy (Rorty, 1967), political and ideological struggle is ultimately also struggles of *meaning*. To be able to establish the *nature* of something is also to *govern* it, to decide which measures can be taken, to determine relations of political and conceptual ex- and inclusion. Ideological struggle, hence, does not merely take place between already established actors and entities, but also at the level of their constitutive formation. The precondition of this understanding of ideology is an anti-essentialist philosophy of language, which does not presuppose any necessary or logical link between words (concepts) and meaning. Hence, meaning is always plural and contestable, always contingent, temporary and the result of political struggle. To analyze the ideological interventions performed by Chicago School economists, the paper utilizes what the leading figure of the Cambridge School of intellectual history, Quentin Skinner, has called *rhetorical redescription*. According to Skinner, political and economic concepts can be studied through acts of rhetorical redescription, referring to speech acts by political actors, intellectuals, and theorists, through which the established understanding of a concept is ignored, and is given novel and undisputed meaning, hereby masking the controversial and ideological nature of the intervention (Skinner, 1999, 2018). If political struggle is also the struggle for determining the meaning of the important concepts of political, economic, and social life, rhetorical redescription is an important analytical tool for accessing the political stakes in any conceptual discussion. As such, in this paper I shall explore the Chicago School's *rhetorical redescription* of the firm; that is, how the business enterprise – via the Chicago School's analogy between the voluntary, bilateral contract and every other relation throughout the market economy – came to be regarded primarily as a private, non-political actor, resting on voluntary agreements and individual rights to property and contract.

In at the very general level, the rhetorical redescription of the corporation from a public actor, accountable and dependent upon the state[3], to a private actor, with rights against the state, has – to be sure – multiple sources: legal verdicts in numerous courts, laws agreed upon in various parliaments, regulatory frameworks established by a network of international organizations, economic theory, and legal and political thought. In that sense, the argument in this paper is limited: I demonstrate how a particular rhetorical redescription of the business corporation within a limited number of theories – those associated with the Chicago School's nexus of contracts firm – aim at dismantling existing conceptions of the firm and its position vis-à-vis the state and democratic decision-making. I do not claim that the nexus of contracts firm is entirely hegemonic and that no other schools of thought

[3] For a history of the corporation as a public entity, owing its power and privileges to the state, see Winkler, 2018: 1-17

challenged the Chicago School. But I do claim that the Chicago School's analogy between the voluntary, bilateral contracts and the modern business corporation is a powerful ideological weapon against state intervention, public scrutiny, and democratic decision-making and hence a pivotal part of the wider neo-liberal project of marketization, privatization, deregulation, and de-democratization.

The Nexus of Contract Firm as Political Ideology

Before proceeding to the paper's main arguments concerning the Chicago School's refutation of managerial capitalism, Marxism, and state intervention in general, I elaborate on the concept of the firm entailed in the nexus of contracts thinking. Earlier theories of the corporation during the 18th and 19th century had argued that corporations are *artificial persons* or *real entities* separate and distinct from the humans that make them up (Blair, 2013). Legal privileges attached to the corporate form, such as limited liability, entity shielding, and asset lock-in, were thought to be granted or conceded by the state, hereby treating business corporations as independent *legal persons*, and instituting a clear-cut distinction between *personal* and *corporate* property (Ciepley, 2013). Throughout the history of political, legal, and economic thought various analogies between natural persons (humans) and legal persons (corporations) have been made in order conceptualize the corporation. What is crucial for the Chicago School concept of the firm is that every analogy between personhood and the corporation breaks down. As emphatically argued by Jensen & Meckling: "*The firm is not an individual*. It is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals … are brought into equilibrium within a framework of contractual relations" (1976: 311, italics in original). The enterprise itself, hence, is an 'internal' or "private market" or arena (Alchain & Demsetz, 1972: 793), where individuals (owners, managers, employees, and suppliers) contract with each other to maximize self-interest. While "we seldom fall into the trap of characterizing the wheat or stock market as an individual, (but) we often make this error by thinking about organizations as if they were persons with motivations and intentions" (Jensen & Meckling, 1976: 311). Hence, there is no difference between markets and business corporations (as the firm *is* a market), and consequently, firms for the Chicago School are voluntarily and spontaneously created as a result of individuals' contractual freedom, and management is only understood as the continual process through which these voluntary contracts are successively renegotiated (Bratton, 1989: 1478).

As alluded to in the introduction, at the center of the Chicago School's rhetorical redescription of the firm is the analogy between bilateral interaction on the market and the internal structure and external behavior of modern corporations. Whereas early 20th century theorists of the firm, such as Frank Knight and Ronald Coase, both highly influential for the development of the Chicago School, recognized the fundamental differences between markets and firms (Knight, 1921; Coase, 1937; see also Foss, 1996), the neo-liberal concept of the firm developed in the 1970s and 1980s purposefully supersedes this distinction. Due its instructiveness, I quote Alchian & Demsetz's influential 1972 paper in length below. For them, the firm

> "… has no power of fiat, no authority, no disciplinary action *any different in the slightest degree from ordinary market contracting between any two people* … He [the employer] can fire or sue, just as I can fire my grocer by stopping purchases from him or sue him for delivering faulty products. What is then the content of the presumed power to manage and assign workers to various tasks? *Exactly the same* as one little consumer's power to manage and assign his grocer to various tasks … This is *precisely all* that and employer can do to an employee. To speak of managing, directing or assigning workers to various tasks is a deceptive way of noting that the employer continually is involved in renegotiation of contracts on terms that must be acceptable to both parties. Telling

> an employee to type this letter rather than to file that document *is like* telling my grocer to sell me this brand of tuna rather than that brand of bread … Wherein then is the relationship between grocer and his employee different from that between a grocer and his customers? (Alchian & Demsetz, 1972: 777-778, italics added)[4].

The upshot of this lengthy quote that the firm as such does not exist; what exists, are only contractual relations between a variety of individual actors. Or as Friedman (1970: 2) says in his (in)famous discussion of corporate social responsibility, as he denies that companies can have any social responsibility: "What does it mean to say that 'business has responsibilities? Only people can have responsibilities". Moreover, every interaction between managers and employees within a firm is characterized by the same voluntarism as that between a buyer and seller of simple commodities in the market. Accordingly, the power or authority that other theories ascribe to the corporation and to its directing managers is taken to be the same kind as the 'power' consumers have in choosing products. In fact, three different arguments are at play in this rhetorical redescription of the firm as a nexus of contracts: Firstly, because the origin and ongoing functioning of the firm is merely a result of voluntary contracts agreed upon by legally free and equal individuals, to regulate business enterprises is to infringe upon individuals constitutionally secured right to contract. Regulation, quite simply, as argued by the intellectual leader of the Chicago School Milton Friedman, equals a loss of freedom (Friedman, 2020: 29-44). Secondly, because of the crucial analogy between market behavior and intra-firm behavior, no power, authority, or hierarchy exists within enterprises, only the continual, voluntary renegotiation of contracts. Thirdly, because contractual relations are merely a way of codifying the behavior of rational, self-interested individuals, and because this form of behavior

[4] Jensen & Meckling (1976: 311) makes a similar argument, as for them "it makes little or no sense to try to distinguish those things that are 'inside' the firm (or any other organization) from those things that are 'outside' of it", and hence "the 'behavior' of the firm is like the behavior of a market".

creates optimal aggregate allocation of resources, to regulate business enterprises is decrease economic growth and society's wealth. The three succeeding sections will show the complete rhetorical redescription of the corporation through which these arguments are advanced.

The Nexus of Contract Corporation Against Managerial Capitalism: Corporate Governance and Agency Theory

One conception of the firm, which the Chicago School's rhetorical redescription was designed to refute was managerial capitalism and specifically the problem with the bifurcation of ownership and control famously identified by Berle & Means in their classic *The Modern Corporation and Private Property* (1932). According to managerialists, the development of the economy in advanced capitalist countries since the Industrial Revolution, especially the US, had profoundly changed the nature of property and corporations' role in society. With the development of the factory system and the growth of the number of publicly traded companies not only was large amounts of labor placed under the direction of a few managers, an incredibly amount of capital was also controlled by the same managers (Berle & Means, 1932: 18-46). As companies grew in size and as tradable shares became vital means of investment, ownership became more fluid, temporary and nominal, and organizational bureaucracy grew more complex. According to Berle & Means, these developments in the economy divided ownership from control, insofar as the legal owners of the company – the shareholders – could no longer realistically control it; a power which instead was usurped by corporate managers. "This dissolution of the atom of property", as Berle & Means call it (1932: 8), i.e., the traditional unity of ownership and control, changed according to managerialists the very nature of the bsuiness corporation. Whereas the unity of ownership and control secured the legitimacy of corporate behavior, as a corporation's actions were legitimate, because they were decided upon by those who owned it[5], the split between ownership and control rendered corporate behavior potentially illegitimate, because those who decided – the managers – had no ownership over the corporation (Berle & Means, 1932: 69). According to Berle & Means, since liberal notions of property, ownership, and legitimacy could no longer characterize modern companies, due to the split between ownership and control, a new conception of the corporation had to be developed. Instead, for Berle and Means, as well as other managerialists, the modern business corporation is to be understood as a "social organization" (Berle & Means, 1932: 352). Since it cannot be controlled by the shareholders, it must instead be politically regulated, brought under the state law, and encouraged to pursue public purposes. With ownership widely diffused, and shareholders only in control *de jure*, the practical way to safeguard the corporation against the self-interested behavior of corporate managers, was according to Berle & Means to bring the corporation under increased public regulation. The position of Berle & Means, like that which the Chicago School developed later as a response, is a mix of academic analysis and normative-political claims. *The Modern Corporation and the Private Property* was published during the Great Depression, and at the beginning of Franklin Roosevelt's New Deal calling for increased welfare services, government spending and regulation of economic life, and Berle served as an influential member of Roosevelt's 'brain trust', a highly influential group of New Deal policy advisors. Hence, Berle & Means analysis of the changing nature of corporate power and their call to increased political regulation of corporations due to the split between ownership and control resonated with the major trend of American politics at the time.

For the Chicago School scholars, writing at decades' distance of the New Deal and influenced by the changed political and economic conditions of the 1970s, the political consequences of Berle & Means' analysis and their conception of the business enterprise as 'social organization' could not be

[5] For this traditional understanding of property as related to control rights, see Waldron, 2004.

accepted. Thus, they began the scholarly and political project of "the reprivatization of the corporation" (Ireland, 2001: 11). The nexus of contracts firm, and the analogy between bilateral market relations and the modern corporation, is a way for the Chicago School to argue that the split between ownership and control identified by Berle & Means is potentially unproblematic, as long as adequate mechanisms of corporate governance of contractual relations are established, hereby laying the foundations of the shareholder value maximization paradigm. To this end, *agency theory* was developed, forming an intrinsic part of the Chicago School's defense of free market economics and the modern firm's central position in the free market system. While managerialists had sought to explain why the development of the modern corporation – with its bureaucracy, organizational norms, and internal planning – discredited liberalism, individualism, and private property, agency theory and nexus of contracts thinking was developed to explain why the modern enterprise was *entirely* in accordance with liberal ideas of freedom, individualism, property, and voluntarism. Hereby, in the phrasing of Singer (2019), the "Chicago school attempts to extend the domain of the economic: the goal is to show that price theory holds in areas where it was previously thought not to apply", or stated more programmatically, "where markets exist, the Chicago school attempts to show the results to be optimal; where results are optimal, Chicago attempt to show that markets exists" (Singer, 2019: 87).

Instead of the politicized relation between owners and managers entailed in the managerial position, agency theory holds that this relation ought to be understood as a contractual, principal-agent relationship in which the shareholders are principals and managers are agents. In the modern corporation with diffused ownership, managers are authorized to act on behalf of the shareholders' interests, which is assumed to be the maximization of shareholder value (Jensen & Meckling, 1976: 308-309). Consequently, through the correct contractual relations – such as performance-based compensation in the form of salary increase, bonuses and stock options – managers can be incentivized to deliver on the goals determined by the shareholders, as agency costs are effectively minimized. Hence, while agency theory accepts the division between ownership and control as an empirical fact, it is rhetorically redescribed as unproblematic as long as the correct corporate governance regime is established to minimize agency costs. Or phrased differently, corporate governance *is about* minimizing agency costs, and incentivizing managers to maximize shareholder value most efficiently. According to Eugene Fama, 2013 Nobel Prize laureate in economics, the "separation between security ownership and control can best be explained as an efficient form of economic organization within the 'set of contracts' perspective" (1980: 289).

The development of the corporate governance model of shareholder value maximization based on agency theory is a well-taken example of the Chicago School's rhetorical redescription of the firm. What was previously taken to be problematic by managerialists, i.e., the division between ownership and control, and which necessitated a conception of the corporation as a 'social organization' in need of state regulation, is now explained as economically efficient and as a result of voluntary contracts between free individuals. What was by managerialists understood as an attack on traditional liberal notions of property, is by Chicago School agency theory understood as the most efficient was to maximize return on property. The crucial analogy between bilateral contracts and the internal workings of the business corporation, again, do most of the work. Insofar as the firm is only a legal fiction for a set of contracting relationships similar to those between two individuals – as argued by Alchian & Demsetz (1972) and Jensen & Meckling (1976) – there can be no regulation of the business enterprise, since it does not exist as an entity to be regulated; only voluntary contracts between individuals exist. As phrased by Oliver Weinstein, for agency theory, "*the firm does not exist as a real entity*; the only reality that counts is that of the contracts made *between individuals*. In this way, the firm, including the large corporation, is treated as a purely private arrangement" (2019: 149, italics in original). While Herbert Simon's famous, hypothetical Martian might reasonably label advanced, capitalist economies as an "organizational economy" (Simon, 1991: 28), due to the prevalence of organizational forms vis-à-vis market transactions, the core of the Chicago School's rhetorical redescription of the firm is to argue that this distinction is indeed nonsense, as all there exist are individuals with a primordial right to contract. In short, organizations are also markets, or function like markets. The aim of corporate governance, hence, is to institutionally design the most efficient way of holding managers accountable to shareholders, hereby respecting the contract and property rights of shareholders.

The Nexus of Contract Firm Against Socialism: The Economy as an Apolitical and Power-Free Arena

The next step in the Chicago School's rhetorical redescription of the firm is to argue, on basis of contractual freedom and individual voluntarism, that the economy is an apolitical and power-free arena. The Chicago School economists, to be sure, did not develop their concept of the nexus of contracts firm as an explicit response to Marxism, and Karl Marx and 20th century exponents of Marxism do not feature in the theories of the firm by Alchian & Demsetz, Jensen & Meckling, Fama and others. But for the more openly ideological members of the Chicago School and neo-liberal thinkers in general, such as Milton Friedman and Friedrich Hayek, socialism, and the Cold Way contest between the 'free world' and its socialist, totalitarian rival, played a pivotal role in their theoretical endeavors. In *Capitalism and Freedom*, Friedman constantly compares the political and economic arrangements of capitalist, liberal democracies and socialist, planned economies, and proclaimed that "I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that not also been used something comparable to a free market to organize the bulk of economic activity" (Friedman, 2020: 13). The core assumption of this argument, of course, is that the 'free market' in the first place is characterized by freedom and voluntarism. Hence, the nexus of contracts firm, and the analogy between markets and firms, is meant to counter the criticism that a modern market economy characterized by large-scale corporations – what Simon called an 'organizational economy' – inherently entails relations of domination, hierarchy, and authority. Any liberal worthy of his name must be against domination and hierarchy for the sake of liberty; hence it is pivotal for the Chicago School theorists to counter this argument through its rhetorical description of the firm.

Formulated in very general terms, Marx' key insight in his analysis of the capitalist system is to point out the great discrepancy between the seemingly voluntary exchange of commodities in the marketplace and the exploitative conditions within the sphere of economic production (Marx, 1976: 178-187). While it might be case, Marx argues, that exchange of commodities take place voluntarily between legally free and equal citizens, the production of these commodities take place under exploitative, hierarchical conditions – that is, markets and sites of production, i.e., business enterprises, function differently. According to Marx, the development of capitalism has 'liberated' the worker in a dual sense: firstly, the worker is a *free* laborer, no longer a legal subject of a master or lord, but secondly, the worker is also 'freed' from any ownership to the means of production, hence relying on selling his labor power in order to survive, i.e., the free worker is dependent on being an employee (Marx, 1976: 874-875). In much contemporary republican political theory, in addition, the labor market is characterized by 'structural domination', insofar as workers have no reasonable alternatives to wage labor and are hence forced to sell their labor and enter an employment relationship (Gourevitch, 2014; Bryan, 2023; Mulvad & Popp-Madsen, 2022). If these arguments about the nature of the labor market and the oppressiveness of wage labor in a market economy are indeed correct, as Marxists and labour republicans argue, the road is open for giving workers more rights and decision-making power, the state more regulatory instruments and even distributing ownership and increasing workers' self-management (Malleson, 2022).

The core of the Chicago School's counter-argument and rhetorical redescription rests, once again one is tempted to say, on the notion of the firm as a nexus of contracts and on the fundamental voluntarism of such contracts. According the Alchian & Demsetz (1972: 777-778) the voluntarily agreed upon employment contract is *symmetrical*, insofar as the employer's threat of firing is equal to the employee's threat of quitting the job. Consequently, no power or authority is exercised in the relation because the employment relation is equal to bilateral exchange in marketplace. "I have no contract to continue to purchase from the grocer and neither the employer nor the employee is bound by any contractual relation to continue their relationship", Alchian & Demsetz argue (1972: 777), and hence the employment relationship is free, voluntary, and symmetrical, and "not some superior authoritarian directive or disciplinary power" (Alchian & Demsetz, 1972: 778). Jensen & Meckling build directly on this defense of the corporation as a symmetrical, power-free relation of contracts, insofar as they point out that "Alchian and Demsetz (1972) object to the notion that activities within the firm are governed by authority, and correctly emphasize the role of contracts as a vehicle for voluntary exchange" (1976: 310). Fama also highlights the symmetrical nature of the different roles or 'inputs' constituting a firm, and merely regards "management as a type of labor but with a special role", namely the seemingly neutral and merely technical role of "coordinating the activities of inputs and carrying out the contracts agreed among inputs, all of which can be characterized as 'decision making'" (1980: 290). Decision-making by management within a firm is simply to carry out the contracts that all production inputs, including labor power, have voluntarily agreed to. Hence, for Fama, building "the firm is viewed as a set of contracts among factors of production, with each factor motivated by its self-interest … the firm is viewed as a *team* whose members act from self-interest" (1980: 289, italics added). In this 'team', team members might have different roles and duties (and earn different wages and work under different conditions), but each member have agreed voluntarily to carry out the assigned duties. What seems to be center of the argument is that once a contract has been entered and as long as it can be exited again voluntarily, then authority or power cannot exist. In her discussion of the theory of firm, political philosopher Elizabeth Anderson points the peculiarity of this argument. Take for example the marriage contract. This contract, like the employment contract, is entered voluntarily by two legally free and equal individuals and can be exited again at any time. Does this mean that no authority or power exists *within* the marriage relation? The ability to exit a contractual relation (by quitting one's job for example) hardly nullifies the potential exercise of power within this relation. Or as Anderson argues, "this is like saying that Mussolini was not a dictator, because Italians could emigrate" (2017: 55). Moreover, the entire social contract tradition epitomized by political thinkers such Thomas Hobbes, John Lock and Jean-Jacques Rousseau is a meditation on how political power and authority can emerge on the basis of individual, voluntary consent. Moreover, it might be a stretch to argue that the 'power' of the employer and employee is symmetrical, as an employee cannot fire the manager, but only quit the job.

The Nexus of Contract Corporation Against the Welfare State: Limited Government and The Free Market

Agency theory and nexus of contracts thinking entails not only a theory of the internal structure of the modern firm, i.e., a theory of corporate governance, but also a broader theory of limited government, free market economics and the business corporation's role herein. This theory entails two conceptual steps – or rhetorical redescriptions – namely, firstly, the redescription of the corporation as a 'private' or 'internal' market, which I reconstructed above, and secondly, the argument that individual, rational utility maximization leads to optimal resource allocation on an aggregate level. Taken together, these two redescriptions form the basis of the Chicago School's general *laissez-faire* position and its critique of the welfare state and state regulation of economic life: insofar as the business corporation is a market, and insofar as markets allocate resources efficiently, any state intervention and regulation in the operation of business enterprises not only violate the fundamental freedom of the contracting parties but also jeopardizes aggregate economic growth.

Theoretically, these conclusions are based on certain microeconomic assumptions about individuals as rational, utility maximizers most forcefully made by Chicago School economist George Stigler. As a 20th century update of classical utilitarianism, according to Stigler, the discipline of economics is "a stupendous palace erected upon the granite of self-interest" (1971: 265), and the analytical instruments of neoclassical economics can be extended to virtually all aspects of social life, because all human behavior includes choice-making[6]. As individuals are utility maximizers, and as exchange is voluntary and assumed only to take place to the mutual benefit of all exchanging parties, on an aggregate level, individual utility maximization also maximizes society's economic growth (Hunt & Lautzenheiser, 2011: 483-484). Importantly, the opposite also holds for the Chicago School theorists: Any limitation of an individual's choice set (by the state for example) hinders utility maximization and hence creates a less than optimal aggregate resource allocation. In *Capitalism and Freedom* (1962), Milton Friedman succinctly summarizes this blend of methodological individualism, rational utility maximization, and contractual voluntarism:

[6] For one critical engagement with this argument, see Foucault (2008): 267-290.

> "A working model of a society organized through voluntary exchange is a *free private enterprise economy* – what we have been calling competitive capitalism. In its simplest form, such a society consists of a number of independent households – a collection of Robinson Crusoes, as it were. Each household uses the resources it controls to produce goods and services that it exchanges for goods and services produced by other households, on terms mutually acceptable to the two parties to the bargain" (2020: 17).

Accordingly, Friedman and other Chicago School theorists argued for the elimination of taxes on corporations, graduated income tax, free public education, social security, and minimum wage law among other things (Friedman, 2020: 42-44), as the only role of government was to be the enforcement of property rights, contract laws and military spending. Whereas the Chicago School's rhetorical redescription of the firm as a nexus of contracts explored in the preceding sections is essentially an argument for freedom, for not *limiting* the individual freedom for the contracting parties, this part of rhetorical redescription concerns the relation between a free enterprise economy and economic growth. Whereas most of the theoretical arguments are advanced through microeconomic reasoning, the political consequences are in way no hidden. In Jensen & Meckling's polemical article 'Can the Corporation Survive?' published in 1978 during the Jimmy Carter presidency, the persistent challenge of stagflation, a profound energy crisis and an incipient economic recession, the two creators of agency theory speculate whether the corporation can survive amidst that they take to be a continual growth in the size of government. According to Jensen & Meckling (1978: 2, 3), "the corporate executive's power to make decisions affecting owners of his firm, employees of the firm and consumers of the firm's products is becoming more constrained every day", with the result that

> "the era of dramatic economic growth is over – not because of new resource or technological constraints; not because of any energy shortage; not because of environmental or ecological disaster; but because government is destroying the system of contract rights, which has been the wellspring of our economic growth".

Hence, the sanctity of the right to contract is not only expressed in its intrinsic relation to freedom, but also in its instrumental relation to economic growth. "Such devices as income taxes, production restrictions (common in agriculture), licensing restrictions preventing entry into various professions and markets and attenuation of property rights caused", Jensen & Meckling argues, "are by far the most important source of reductions in our welfare. In the long run they amount to killing the goose that lays the golden eggs" (1978: 13). As such, the Chicago School's rhetorical redescription of the firm as a nexus of contracts is also an argument for limited government, and laissez-faire economics.

Concluding Remarks

According to the intellectual leader of the Cambridge School of intellectual history, Quentin Skinner, who's analytical approach of rhetorical redescription has been central to this paper, "the principles governing our moral and political life", as well as economic life we might add, "have generally been disputed in a manner more reminiscent of the battlefield than the seminar room", which is why we must "recognize that the pen is a mighty sword" (Skinner, 2002: 7). Conceptual and intellectual struggle, hence, is one key mode of *political* struggle, because such struggles come to determine how we perceive of different institutions and actors, and how we evaluate their legitimacy and their mode of action. As demonstrated in the paper, the Chicago School theory of the firm as a nexus of contracts, and the practices of corporate governance and shareholder management that was develop from these theories, had the direct intention of radically redescribing the business corporation from the legal person or a 'social institution' to a private, economic, and contractual entity outside the orbit of state intervention, public scrutiny, and democratic decision-making. In this endeavor, the pivotal rhetorical redescription – made equally by Alchian & Demsetz, Jensen & Meckling and Fama – is to equate bilateral market transactions with intra-firm relations, hereby arguing that the same individual voluntarism and contractual freedom that characterize exchanges in the market also characterize relations within business enterprises. Consequently, every attempt to regulate the business corporation, and the wider market economy, according to these Chicago School economists, violates the twin core values of liberal capitalism: individual freedom and economic growth. By demonstrating how the Chicago School's theory of the firm was aimed at insulating the business corporation from democratic decision-making and state intervention, the paper contributes a particular strand of research on neo-liberalism, namely the relation between neo-liberalism and democracy – or to be precise, between neo-liberalism and de-democratization. If neo-liberalism is the political and intellectual movement, which for the last 40 years have sought to marketize the state, to argue for the economic efficiency of markets, and demonstrate the social goods stemming from individual self-interest, this paper has demonstrated neo-liberalism's de-democratizing effects at the level of a particular complex of theories – in the 'technical veneer' of economic theories of the firm, so to speak. Moreover, the paper elucidates the 'pre-history' of the contemporary proliferation of *political* theories of the firm within critical management studies, political theory, and organization studies. Considering the paper's analytical approach, we might say that these theories are engaged in *yet another* rhetorical redescription of the business corporation; this time reconceptualizing the enterprise into a 'political' body capable of exercising domination towards employees, structured by internal hierarchy, potentially causing economic inequality and climate degradation, and therefore in need of state regulation and democratic control.

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