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# Progressive Value Creation or Predatory Value Extraction? Reforming US Corporate Governance to Support Stable and Equitable Growth

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## ***Abstract***

Lack of stable and remunerative employment opportunity results in socioeconomic precarity. A nation can mitigate socioeconomic precarity when the investment triad of household units, government agencies, and business corporations develop and utilize its productive capabilities. Within the investment triad, this paper focuses on business corporations as innovate enterprises that, through strategy, organization, and finance, generate the higher quality, lower-cost products that enable higher living standards. For post-World War II United States, I argue that, based on retain-and-reinvest resource allocation and career-with-one-company employment, major business corporations, through progressive value creation, enabled a substantial portion of the labor force to overcome socioeconomic precarity. I then summarize how, especially from the 1980s, corporate financialization, characterized by transitions from progressive value creation to predatory value extraction, increased socioeconomic precarity for less-educated members of the US labor force. The paper closes with a corporate-governance policy agenda for substantially reducing socioeconomic precarity in the United States.

**Keywords:** corporate financialization, socioeconomic precarity, investment triad, progressive value creation, predatory value extraction, theory of innovative enterprise

## CORPORATE RESOURCE ALLOCATION AND THE INVESTMENT TRIAD

Life is precarious. For one thing, accidents happen. Most of the precarity that people face day-to-day and over their lifetimes, even in a rich nation such as the United States, is not, however, because of accidents. Rather, *socioeconomic precarity* derives from the failure of social institutions and organizations to support the development and utilization of the productive capabilities that members of the labor force require to have the chance of securing stable employment and adequate incomes over the course of their working lives. The United States is the world's largest economy, yet socioeconomic precarity is widespread in the form of employment instability, income inequity, and, for many members of the labor force with no more than a high-school education, downward socioeconomic mobility.

The resource-allocation strategies of the nation's business corporations are the prime determinants of whether, over the course of their careers, members of the US labor force overcome socioeconomic precarity or succumb to it. In focusing on corporate resource-allocation strategies, I am rejecting the conventional (neoclassical) view that, in an ideal world, markets efficiently allocate resources to their best alternative uses, so that government intervention in the economy to mitigate socioeconomic precarity should only occur when markets are "imperfect" or when markets "fail." I label this misguided perspective the "myth of the market economy" (Lazonick 1991; 2003).

Our society relies on organizations, not markets, to invest in the productive capabilities, embodied in humans as well as machines, that can enable us to secure stable employment and equitable income with rising living standards over the course of our careers. Markets in labor, machines, land, and money are outcomes of organizations that develop and utilize productive capabilities. Public policies that aim to overcome socioeconomic precarity should support organizational success and reduce organizational failure.

*The investment triad* is the name that I give to the three distinct types of organizations—household units, government agencies, and business corporations—that interact to develop and utilize the economy's productive capabilities (Lazonick 2021b).

- *Household units* invest in the education of the young with a view to providing them with the knowledge that they will need to function as productive adults, who may then use the income from productive employment to have families of their own. They also invest in the nation's housing stock, including maintaining its quality over time
- *Government agencies* support investments in productive capabilities by household units by providing schooling that households, each acting on its own, could not organize or afford. They also invest in physical infrastructure that communities of households as well as business corporations require to carry out their productive activities.
- *Business corporations* make use of the knowledge and infrastructure provided by government agencies and the human capabilities provided by household units as foundations for making

further investments in human capabilities and physical capacity that can generate goods and services that these business corporations can sell on product markets.

To overcome socioeconomic precarity, a society needs household units that function as supportive families, government agencies that function as developmental states, and business corporations that function as innovative enterprises. The success of the investment triad results in employment stability, income equity, and upward socioeconomic mobility, permitted by the widespread augmentation of the productive capabilities of the labor force.

Of critical importance to the success of the investment triad are the resource-allocation strategies of business corporations. In 2021, of 151.8 million people in the US civilian labor force, firms of all sizes provided employment to 128.3 million, or 84.6 percent. Within the business sector, corporations with 500 or more employees in the United States accounted for just 0.31 percent of all firms but, averaging 3,525 employees per firm, 54.1 percent of all employees and 61.0 percent of all payrolls. Among the largest business corporations, just 517 firms with 20,000 or more employees (averaging 61,244 employees) had 24.7 percent of all US business-sector employees and 26.6 percent of payrolls (US Census Bureau 2023).

The resource-allocation decisions of these large business corporations have a preponderant influence on productivity growth, employment stability, and income equity in the economy. Productive business corporations can provide adults in household units with career-long employment that, with adequate wages and benefits, can enable them to support their families. Through formal training and on-the-job experience, productive business corporations invest in the knowledge and skills of people whom they employ. These corporations then have incentives to retain the people in whose productive capabilities they have invested. They generally do so through pay increases and promotions to jobs that require superior functional capability and greater hierarchical responsibility.

Indeed, it is primarily through pay increases and promotions for valued employees in stable employment relations in productive enterprises that households' living standards increase over time. It is through the employment relations of productive enterprises, not labor-market supply and demand, that a society can build the thriving middle class that is the manifestation of stable and equitable growth—or what I call “sustainable prosperity” (Lazonick 2009).

Ultimately, the ability of household units and government agencies to afford investments in productive capabilities requires the *utilization* of the knowledge and skills that have been developed through these investments. For the utilization and further development of productive capabilities, we rely primarily on employment by business corporations that, to survive, must produce and sell competitive products at prices that, given operating costs, generate profits.

It is quite common among those concerned with socioeconomic precarity to malign corporate profits as the source of employment instability, income inequity, and productive fragility, often attributing high profits to corporate monopoly or monopsony. Corporate profits and corporate size may, however, be the solution to socioeconomic precarity rather than its cause. As I explain

in this paper, invoking the “theory of innovative enterprise” (TIE) and the historical record, whether the business corporation supports or undermines socioeconomic precarity is a question of how a particular business corporation makes its profits and how it allocates them over time. Specifically, corporate resource allocation may result in *progressive value creation* (PVC), which reduces socioeconomic precarity, or it may result in *predatory value extraction* (PVE), which increases it.

As an analytical approach, TIE focuses on the sources of *value creation* and their relation to *value extraction*. A *value-creating* corporation that makes profits by investing in the capabilities of its labor force, providing stable employment, and rewarding employees equitably is a qualitatively different place to work than a *value-extracting* corporation that makes profits by intensifying work, laying off workers, and suppressing wages. A corporation that uses its profits to upgrade the capabilities, security, and pay of its labor force engages in PVC, whereas a corporation that prioritizes the allocation of its profits to shareholders in the form of cash dividends and stock buybacks engages in PVE.

PVC depends on a *retain-and-reinvest* corporate resource-allocation regime: from year to year, the corporation retains a substantial portion of its profits to upgrade the socioeconomic condition of its labor force. PVE depends on a *downsize-and-distribute* resource-allocation regime: from year to year, the corporation downsizes its labor force and distributes corporate cash to shareholders (Lazonick 2015b). TIE analyzes the social conditions under which, by investing in innovation, a business corporation can afford, and even profit, from engaging in PVC.

TIE also permits the analysis of the social conditions under which a business corporation transitions from retain-and-reinvest to downsize-and-distribute, highlighting an intermediate resource-allocation regime that I call “dominate-and-distribute”: the corporation dominates its industry by means of an innovation strategy, often expanding the size of its labor force, but prioritizes distributions to shareholders. The empirical evidence suggests that over time dominate-and-distribute tends to debilitate the innovative capabilities of the corporation, with its resource-allocation regime devolving to downsize-and-distribute, exacerbating socioeconomic precarity (Lazonick 2023b).

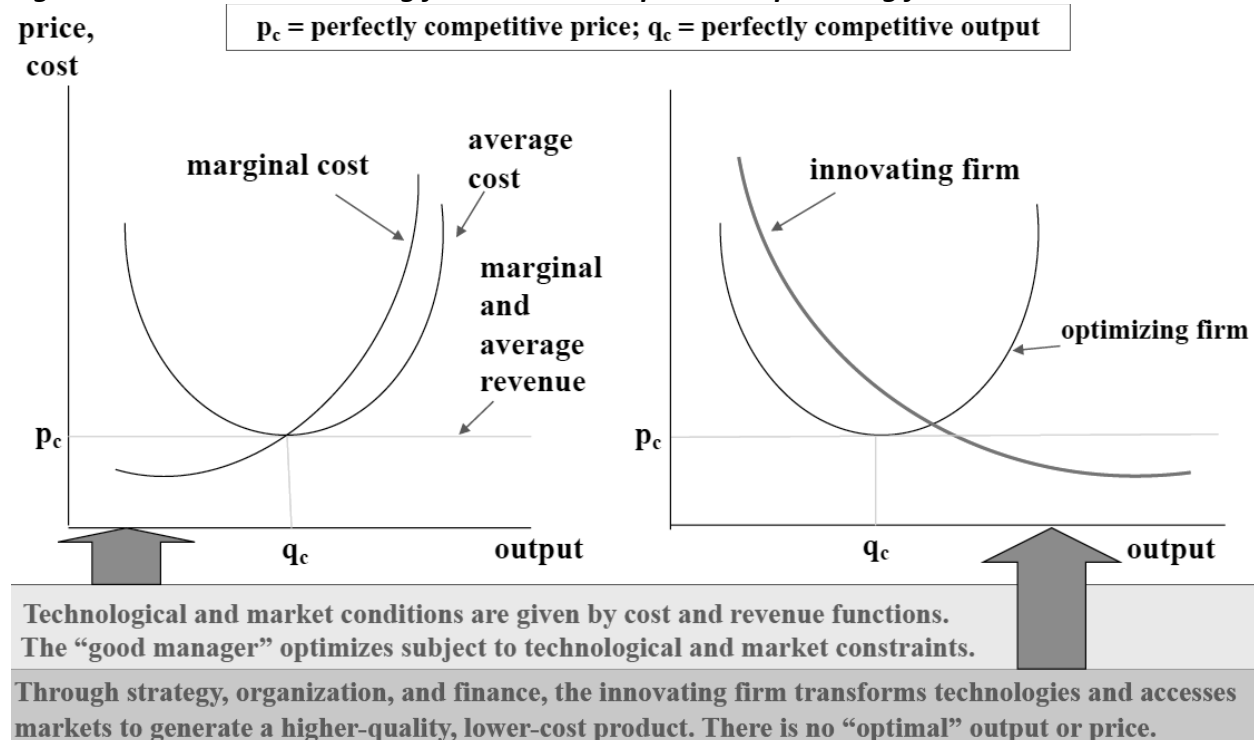
In this paper, I outline the TIE as an analytical framework for discerning the social conditions related to corporate resource allocation that support PVC and those that enable PVE. Then, I review the promise of PVC in the post-World War II decades in the United States for achieving stable and equitable economic growth, based on the corporate employment norm of a career-with-one-company (CWOC). I then explain how from the 1980s to the present, major US business corporations—through the combination of rationalization, marketization, globalization, and financialization—transformed their resource-allocation strategies from PVC to PVE. Finally, I briefly sketch a corporate-governance policy agenda for shifting US-based business corporations from PVE to PVC.

## INNOVATIVE ENTERPRISE AS A POTENTIAL SOLUTION TO SOCIOECONOMIC PRECARITY

What determines the productivity of the firm? And what determines the relation between contributions to value created by different types of participants within the firm—most notably employees and shareholders—and the value that these participants can extract from the firm—for example, workers’ wages and shareholders’ dividends? Based on the study of the business corporation in different times, places, and industries, TIE provides an analytical framework for answering these questions (Lazonick 2019a).

As illustrated in Figure 1, TIE stands in stark contrast to the “theory of the optimizing firm” that is fundamental to the Neoclassical theory of the market economy. As anyone who has taken an introductory course in economics has been taught, the existence of an equilibrium price and output in an industry occurs when a downward-sloping demand curve intersects an upward-sloping supply curve. The sensible intuition behind the downward-sloping demand curve is that, as a product is offered at lower prices, the population of actual and potential buyers will want to purchase larger quantities of the product. The much less sensible—and, as I show elsewhere (Lazonick 2022), possibly nonsensical—intuition behind the upward-sloping supply curve is that firms that supply the product incur increasing cost as they seek to provide larger quantities of the product to the market.

**Figure 1. How the innovating firm can outcompete the optimizing firm**



Source: Lazonick (2019a)

Underpinning the upward-sloping supply curve is a theory of the firm that seeks to compete by maximizing profit subject to technological and market conditions that its manager takes as *given constraints* on the firm's economic activity. Indeed, the theory assumes that *all firms* that compete in an industry optimize subject to the same externally determined technological and market constraints. Hence, market forces, not business corporations, determine the allocation of the economy's resources.

At the level of the individual firm, an upward-sloping marginal-cost curve exists when an increase in average variable cost more than outweighs a decrease in average fixed cost, as depicted in the U-shaped cost curve in Figure 1. The upward-sloping marginal-cost curve constrains the firm to maximize profit at the point at which marginal revenue equals marginal cost. The aggregation of the identical marginal-cost curves of all the firms in the industry yields the upward-sloping industry supply curve.

The ideological attraction of the theory of the optimizing firm is that it is market forces that, given exogenous technology, determine the firm's output and cost. The problem is that if the optimizing firm actually prevailed in the allocation of the economy's resources we would be living in poverty (Lazonick 2016; 2023a; 2024). The activities of the firm would provide no solution to socioeconomic precarity and, indeed, would exacerbate it. The theory of the optimizing firm is a theory of the unproductive firm—one that fails to invest in innovation (Lazonick 2019a).

In contrast to the optimizing firm of Neoclassical economic theory, TIE posits that, by transforming the technological and market conditions that it faces for the sake of generating a product that is higher quality and lower cost than that of its competitors, the innovating firm can structure a downward-sloping supply curve (Lazonick 2019a). If the innovating firm succeeds in generating a higher-quality, lower-cost product than had been available—the economic definition of an innovative outcome—it gains competitive advantage over its less innovative competitors, thus creating a superior standard of economic efficiency than that which had existed previously. Thus, as shown in Figure 1, the innovating firm outcompetes the optimizing firm idealized by Neoclassical theory.

The upward-sloping supply curve that characterizes the theory of the optimizing firm ignores two fundamental and interrelated characteristics of products that determine the cost of transforming inputs into outputs that can be sold on the market. The first characteristic is *product quality*. In most industries, firms seek to compete on a product market by developing products that are higher quality than those of their rivals. The second characteristic is *scale economies*. In most goods-producing industries, firms compete on a product market by spreading the fixed cost of developing, manufacturing, and delivering the product over larger quantities of sold output, thus lowering the unit cost of the product. The high fixed cost of expenditures on plant and equipment makes scale economies of importance in mass-production industries such as automobiles, steel, and semiconductor fabrication. Scale economies are also significant in research and development (R&D)-intensive industries—ones in which investment in human capabilities are essential—such as pharmaceuticals, microelectronics, and clean energy (see, e.g., Hopkins and Li 2016; Tulum and Lazonick 2018; Carpenter and Lazonick 2023).

For accounting purposes, R&D expenditures are generally treated as current costs because a company cannot own the “human assets” which embody the organizational learning that R&D spending may enable. From an economic perspective, however, R&D outlays represent a fixed cost that can be spread over many units of sold output within and across accounting periods. Firms also invest in human capabilities in activities such as purchasing, manufacturing, marketing, and administration that require organizational learning to which R&D accounting does not apply, but which represent expenditures in one accounting period on productive capabilities that, provided the learning organization remains intact, can be utilized in future accounting periods. These expenditures on the development of human capabilities represent fixed-cost investments which, by generating a higher-quality product and gaining a larger extent of the product market, enable the innovating firm to achieve a lower unit cost of output.

In TIE, product quality and scale economies interact because the generation of a higher-quality product can enable the innovating firm to gain a larger extent of the market than its competitors. If it can expand output without compromising product quality, the innovating firm can transform the high fixed cost of generating the higher-quality product into the low unit cost of its sold output (see the right-hand side of Figure 1). Within the firm, “economies of scope” are a type of scale economies that result from utilizing the same fixed-cost investments, including human capabilities, across different products.

Investment in human capabilities can enable the firm to generate, as part of the investment triad, the higher-quality, lower-cost products that can raise standards of living, and hence, potentially, overcome socioeconomic precarity. The theory of the optimizing firm treats labor as a commodity, units of which are added and subtracted from employment in responses to changes in the externally determined forces of supply and demand. The assumption that labor is an interchangeable commodity in effect accepts socioeconomic precarity as inherent in the operation and performance of the firm. The “optimizing” firm is an un-innovative firm that, in failing to invest in human capabilities, condemns the economy to poverty; hence, I have called the Neoclassical theory of the firm “sweatshop economics” (Lazonick 2016).

TIE, in sharp contrast, provides a *potential* solution to socioeconomic precarity through the creation of new sources of value that do not depend on the intensification of work effort or the suppression of wages (see Lazonick 1990). This potential can become an actuality that alleviates socioeconomic precarity if the firm allocates a portion of the value created stably and equitably to members of the labor force who contribute to the creation of that value.

TIE focuses on three “social conditions of innovative enterprise” related to the firm’s strategy, organization, and finance, which are rooted in the *uncertain*, *collective*, and *cumulative* characteristics of the innovation process. The firm needs *strategy* to confront uncertainty, *organization* to engage in collective learning, and *finance* to sustain cumulative learning. In the implementation of these three generic business activities, *strategic control*, *organizational integration*, and *financial commitment* are social conditions that can enable the corporation to manage the uncertain, collective, and cumulative character of the innovation process.

- **Strategic control:** For innovation to occur in the face of technological, market, and competitive uncertainties, executives who control corporate resource allocation must have the abilities and incentives to make strategic investments in innovation. Their abilities depend on their knowledge of how strategic investments in new productive capabilities can enhance the corporation's existing capabilities. Their incentives depend on alignment of their personal interests with the corporation's purpose of generating innovative products.
- **Organizational integration:** Implementation of an innovation strategy requires integration of people working in a complex division of labor into collective and cumulative learning processes. Work satisfaction, promotion, remuneration, and benefits are important instruments in a reward system that motivates and empowers employees to engage in collective learning over a sustained period of time.
- **Financial commitment:** For collective learning to accumulate over time, the sustained commitment of "patient capital" must keep the learning organization intact. For a young company that, because it is a "start-up," has not yet been able to turn a profit, various forms of "venture capital" can provide financial commitment. For a going concern that has achieved sustained profitability, retained earnings—leveraged, if need be, by debt issues—are the foundation of financial commitment.

The uncertainty of an innovation strategy is embodied in the fixed-cost investments required to develop the productive capabilities that may, if the strategy is successful, result in a higher-quality product. Fixed cost derives from both the size and the duration of the innovation strategy. If the size of investment in physical capital tends to increase the fixed cost of an innovation strategy, so too does the duration of the investment in human capabilities required for an organization to engage in the collective and cumulative—or organizational—learning that, by transforming technologies and accessing markets, can result in innovative products.

#### **MITIGATION OF SOCIOECONOMIC PRECARIETY BY THE CAREER-WITH-ONE-COMPANY NORM**

It is theoretically possible—although by no means inevitable—for the gains of an innovative enterprise to permit, simultaneously, higher pay, more stable employment, and better work conditions for its workers; a stronger balance sheet for the firm; more secure financial yield for creditors; higher dividends and stock prices for shareholders; more tax revenues for governments; and higher-quality products at lower prices for consumers. To some extent, what is theoretically possible has been, in certain times and places, historical reality, enabling the growth of an upwardly mobile middle class based on corporate employment, with socioeconomic precarity dramatically reduced.

A prime example of this phenomenon, rooted in a retain-and-reinvest resource-allocation regime, was the employment experience of workers at major business corporations in the United States in the immediate post-World War II decades. White-collar workers, an increasing

proportion of whom had obtained college educations (often heavily subsidized by tuition-free public universities and grants under the GI Bill), could realistically expect a career with one company (CWOC). Organizational learning occurred largely through on-the-job experience as over time employees moved around and up the corporate bureaucracy, often from positions in which they honed functional specialties to those in which they exercised more hierarchical responsibilities. Besides company-funded health insurance, their CWOC status was manifested by company-funded nonportable defined-benefit pensions, which heavily rewarded years of service with the company (Lazonick 2015a). In 1956, *Fortune* editor William H. Whyte advertised the emergence of the CWOC norm for white-collar employees in his best-selling book, *The Organization Man*—a white, Anglo-Saxon, Protestant male to whom the large-scale business corporation with its collectivist orientation provided identity and security.

For blue-collar workers, CWOC status was often accessed through the seniority provisions of union contracts, which dictated that in the case of redundancies those workers first hired would be last fired. When a company laid off blue-collar workers, it was typically a temporary response to a business downturn, with the unemployed workers collecting state insurance benefits with supplemental payments from the union's coffers to make them whole. Collective bargaining also won blue-collar workers company-funded health insurance and defined-benefit pensions. Many large corporations that wanted to avoid unionization granted their blue-collar workers job security, pay, and benefits which mirrored the gains of union contracts at other companies.

In historical perspective, we can understand the emergence and consolidation what I have called the Old Economy business model (OEBM) (see Table 1) in terms of the social conditions of innovative enterprise—strategic control, organizational integration, and financial commitment—that are integral to TIE. In the first decades of the 20th century, the culmination of the “managerial revolution in American business,” as the historian Alfred Chandler (1977) called it, placed professional salaried managers in positions of strategic control. The CEO selected the members of the board of directors, often serving as the board chairman, hence essentially employing himself.

Typically rising through the ranks of the corporation's white-collar employees, these senior executives had generalist abilities to make decisions concerning investments in specific processes and products that could build on the corporation's accumulated capabilities. In *The Theory of the Growth of the Firm*, Edith Penrose (1959) captured this characteristic of the innovative enterprise as the redeployment of personnel who had helped build one line of business, using their experience to enable the corporation to grow by moving into new lines of business involving related technologies and products. In *Strategy and Structure*, Chandler (1962) documented this evolution of the multiproduct, multidivisional business corporation.

Incentivizing senior executives in positions of strategic control were opportunities to run the corporations at which they had spent their careers. With salaries, bonuses, perquisites, and pensions, they were well paid, with, for the most part, their remuneration tied to the reward structure of the corporate bureaucracy as a whole. An exception was, from 1950 to 1976, stock-option grants to senior executives, designed as a tax dodge to enable them to pay the low capital

gains tax rate (25 percent during most of this period) on their stock-based compensation rather than the far higher ordinary tax rate (as much as 91 percent on top bracket income) (Hopkins and Lazonick 2016).

**Table 1. Strategy, organization, and finance: Old Economy business model (OEBM) and New Economy business model (NEBM) compared**

	OEBM	NEBM
<b>Strategy, product</b>	Growth by building on internal capabilities; business expansion into new product markets based on related technologies; geographic expansion to access national product markets.	New firm entry into specialized markets; sale of branded components to system integrators; accumulation of new capabilities by acquiring young technology firms.
<b>Strategy, process</b>	Corporate R&D labs; development and patenting of proprietary technologies; vertical integration of the value chain, at home and abroad.	Cross-licensing of technology based on open systems; vertical specialization of the value chain; outsourcing and off-shoring.
<b>Finance</b>	Venture finance from personal savings, family, and business associates; NYSE listing; payment of steady dividends; growth finance from retentions leveraged with bond issues.	Organized venture capital; NASDAQ listing; low or no dividends; growth finance from retentions plus stock as acquisition currency; stock buybacks to support stock price.
<b>Organization</b>	Secure employment: career with one company; salaried/hourly employees; unions; defined-benefit pensions; employer-funded medical insurance in employment and retirement.	Insecure employment: interfirm mobility of labor; broad-based stock options; non-union; defined-contribution pensions; employee bears greater burden of medical insurance.

Source: Lazonick (2009, 17).

The growth of the business corporation enabled it to provide workers with a CWOC, which served as the key instrument of organizational integration. Adhering to the CWOC norm for both white-collar and blue-collar employees, the corporation shared the gains of innovation with them in the form of employment stability, higher pay, superior benefits, and, for the more ambitious and capable, promotion to upper-level positions that required more creativity and responsibility. By fostering collective learning, organizational integration gave the corporation an innovation advantage as it moved into new lines of business that built on its accumulated technological and market expertise.

To sustain, the growth of the corporation, those who exercised strategic control adopted a retain-and-reinvest resource-allocation regime, typically paying out about half of profits as dividends (which they were loath to cut) while reinvesting the remainder in expansion of physical capacity and augmentation of human capabilities. Shareholders, who were mainly individuals rather than institutions in the immediate post-war decades, tended to be content with a steady stream of dividends, passively accepting managerial control over corporate resource allocation. If the company needed to make extraordinary investments, it prudently leveraged its retained earnings with long-term bond issues, on which, because of the company's accumulated capabilities and financial solidity, it paid favorable interest rates.

OEBM enabled the rise of the United States to global industrial leadership during the first six decades of the 20th century, as, through investment in innovation, a relatively small number of business corporations in a wide range of industries grew to employ tens of thousands, or even hundreds of thousands, of people (Lazonick 2004). As a result, the post-World War II decades witnessed the emergence and growth of an upwardly mobile blue-collar and white-collar middle class, with CWOC employment of white males as its foundation. By the 1960s and 1970s, aided by the civil-rights movement, low levels of immigration, and strong demand for blue-collar workers in mass-production industries, significant numbers of Blacks also began to gain access to well-paid and stable unionized employment (Lazonick et al. 2025). Around 1970, inequality in the distribution of income was at its lowest level during the 20th century.

### **FROM PROGRESSIVE VALUE CREATION TO PREDATORY VALUE EXTRACTION**

From the 1980s, however, upward socioeconomic mobility based on PVC would give way to downward mobility perpetrated by PVE, undermining the employment opportunities available to members of the US labor force with no more than a high-school education (Lazonick et al. 2025). Legitimized by the ideology that, for the sake of economic efficiency, a company should be run to “maximize shareholder value” (MSV), growing numbers of major US business corporations have transitioned over the past four decades from retain-and-reinvest to dominate-distribute, many of which have ultimately engaged in downsize-and-distribute. The most obvious manifestation of corporate financialization has been, and remains, the practice of open-market share repurchases, aka stock buybacks.

In November 1982, with the adoption of Rule 10b-18, the Securities and Exchange Commission (SEC) in effect legalized the use of open-market repurchases to manipulate a company’s stock price (Lazonick and Jacobson 2022). The 216 companies that were included in the S&P 500 Index in January 2020 and continuously listed on either the New York Stock Exchange or NASDAQ from 1981 through 2019 distributed 49.7 percent of net income as dividends and 4.4 percent as buybacks in 1981–1983. But, armed with the SEC’s Rule 10b-18 “license to loot,” the same 216 companies spent 49.6 percent of net income as dividends and 62.2 percent as buybacks in 2017–2019—which means that, in addition to distributing 100 percent of net income, companies allocated cash to dividends and buybacks by, for example, taking on debt, using capital consumption allowances, divesting assets, and/or downsizing the labor force (Lazonick et al. 2020). The 478 corporations in the S&P 500 Index in January 2023 that were listed on a stock market from 2013 through 2022 distributed \$4.5 trillion in dividends over the decade, equal to 40.4 percent of net income, and another \$6.4 trillion in buybacks, equal to 57.4 percent of net income.

The purpose of almost all these buybacks has been to give manipulative boosts to stock prices. The results of these distributions to shareholders have been extreme income inequality, the erosion of middle-class employment opportunities, and loss of US competitiveness in critical technologies (Lazonick 2023b). As manifested by downward socioeconomic mobility for the less well-educated members of the US labor force, over the past four decades socioeconomic

precarity has increased, while rendering both US democracy and US geopolitics more precarious as well.

Why did this transition from PVC to PVE occur? Not surprisingly, the basic answer is that financial markets, and especially the stock market, came to play dominant roles in determining the resource-allocation decisions of US business corporations. My research has addressed this question systematically and contextually by considering transformations in the social conditions of innovative enterprise—strategic control, organizational integration, and financial commitment—in the dominant US corporate business model as it transitioned from PVC to PVE (see Lazonick 2023b).

The transformation process began with the conglomerate movement of the 1960s, in which, based on the false ideology that a good manager could manage anything, business corporations became financial entities to be bought, amalgamated, and sold, without regard to connectedness among the conglomerate divisions in terms of technologies and markets. By the beginning of the 1970s, the conglomerate movement was collapsing, leaving behind high-risk debt that became known as “junk bonds.” By the mid-1980s, corporate raiders were making use of the junk-bond market to take over large firms, from which they sought to make money by laying off employees, selling off divisions, and distributing cash to shareholders (i.e., themselves) (Lazonick 2004).

From the 1990s, these raiders had become “hedge-fund activists” who, by getting Congress and the SEC to change laws and regulations in their favor, gained the power to seize strategic control over a publicly listed corporation with holdings of less than one percent of its outstanding shares. Hedge funds have found stock buybacks by the largest corporations to be a very potent means of realizing gains by timing the sale of the corporate shares that they have acquired on the stock market (Lazonick and Shin 2020, chapters 6–7).

Meanwhile, from the 1970s, US Old Economy corporations faced new sources of foreign competition, first from Japanese corporations and later from South Korean corporations, in a range of industries—including automobiles, consumer electronics, electrical equipment, steel, machine tools, and memory chips—in which US corporations had previously been world leaders. Instead of doubling down on retain-and-reinvest to confront these competitive challenges, many large US corporations began to engage in downsize-and-distribute, not only paying dividends but also executing buybacks as they focused on increasing their stock yields.

Also from the 1970s, Old Economy corporations faced the rise of companies based on what I have called the “New Economy business model” (NEBM) (see Table 1 above), which relied far more heavily on the stock market than OEBM to induce venture capital to fund new firms as well as to provide a currency both to compensate employees using stock-based pay and to acquire other firms (Lazonick 2018). Many New Economy companies such as Apple, Cisco, Intel, Microsoft, and Oracle engaged in retain-and-reinvest to grow very large, employing mainly college-educated white-collar personnel, with broad-based stock-option plans constituting a substantial portion of their compensation (sometimes dwarfing their salaried pay). As they grew large, these companies began to engage in buybacks to offset dilution from broad-based stock-option plans and

acquisitions, but subsequently the buybacks were far in excess of those needed to offset dilution and instead served the purpose of supercharging stock prices.

Many senior executives (as well as venture capitalists) at New Economy companies got very rich when their startups made it to an initial public offering or were acquired by an already established firm. Senior executives of the publicly listed New Economy companies also raked in millions or tens of millions of dollars in stock-based pay when their company's stock price surged, be it because of innovation, speculation, or manipulation. In a process that we might call "contagious compensation," senior executives of Old Economy companies took notice in the 1980s, demanding that their boards grant them similarly copious stock-based pay (Hopkins and Lazonick 2016; Lazonick 2019b).

Changes in regulations and norms helped senior executives of both Old Economy and New Economy companies enrich themselves from stock options and stock awards, their realized gains augmented by their abuse of their positions of strategic control to allocate corporate cash to stock buybacks. Indeed, as a group, they were proactive in shaping the regulations on stock-based pay to swell their own bank accounts. In May 1991, as a consequence of lobbying by corporate executives, the SEC reinterpreted a rule that prevented corporate insiders from realizing "short-swing profits" from stock options until six months after the options were exercised, thus exposing senior executives to the risk that the company's stock price would fall before they were permitted to realize gains from selling the acquired shares. The SEC declared that henceforth the six-month waiting period would be from the option grant date, not the exercise date. Since it takes at least one year for options to vest after the grant date, the previous prohibition against short-swing profits was rendered moot (Hopkins and Lazonick 2016; Lazonick 2019b).

In 1991, executive compensation consultant Graef Crystal published his best-selling book, *In Search of Excess; The Overcompensation of American Executives*, which showed how CEOs, who sat on each other's boards, would ratchet up their own pay by hiring compensation consultants who would always advise that the client CEO should be placed no lower than the 75th percentile of his peers when the company's board approved the CEO's pay package. Meanwhile, cheerleading the campaign for higher CEO pay were Neoclassical agency theorists who argued that, in the name of MSV, stock-based pay would incentivize senior executives to boost their companies' stock prices. And what better way to do so than allocating massive sums of corporate cash to stock buybacks (Lazonick 2017; Lazonick and Tulum 2024)?

From 2006 through 2023, the mean total direct compensation of the 500 highest-paid CEOs in each year ranged from a low of \$13.2 million in 2009 (during the financial crisis), of which 58 percent was realized gains from stock options and stock awards, to a high of \$35.9 million in 2021 (during the pandemic), of which 83 percent was from options and awards. Incentivized by their stock-based pay to distribute corporate cash to shareholders, senior corporate executives have an interest in engaging in predatory practices such as price gouging customers, scrimping on quality controls, and laying off workers so that the company can record more profits out of which more dividends and buybacks can be distributed.

In robbing corporate treasuries, senior corporate executives have not been acting alone. As Jang-Sup Shin and I explain in our book *Predatory Value Extraction*, since the 1980s the looting of the US business corporation in the name of MSV has been carried out by a “disinvestment triad” of senior corporate executives as value-extracting insiders, asset managers as value-extracting enablers, and hedge-fund activists as value-extracting outsiders (Lazonick and Shin 2020).

Over the same decades, many of the same “market forces” have resulted in the disappearance of the CWOC norm as an employment relation in major US business corporations. For Old Economy companies that in the post-World War II decades adhered to the CWOC norm, the transformation from retain-and-reinvest to downsize-and-distribute entailed three structural changes in employment relations, which I summarize as “rationalization,” “marketization,” and “globalization” (Lazonick 2009; 2015; Lazonick et al. 2025). From the early 1980s, *rationalization*, characterized by plant closings, terminated the jobs of high school-educated blue-collar workers, most of them well-paid union members. From the early 1990s, *marketization*, characterized by the end of the CWOC norm, placed in jeopardy the job security of middle-aged white-collar workers, many of them college educated. From the early 2000s, *globalization*, characterized by the accelerated movement of even advanced employment opportunities offshore to lower-wage nations, especially China and India, left all members of the US labor force vulnerable to displacement, whatever their educational credentials and work experience.

Initially, structural changes in employment through rationalization, marketization, and globalization were business responses to changes in technologies, markets, and competition. During the onset of the rationalization phase in the early 1980s, plant closings as well as cost-cutting by offshoring component manufacture were reactions to the superior productive capabilities of Japanese competitors in consumer-durable and related capital-goods industries in which US companies employed large numbers of unionized blue-collar workers. In effect, Japanese corporations perfected OEPM through the organizational integration of shop-floor workers with engineers and managers, revealing that the organizational segmentation of shop-floor workers from the management structure was the Achilles heel of US mass production (Lazonick 1998; 2007). Particularly hard hit by rationalization in the 1980s were African Americans who, having moved into unionized blue-collar jobs in the 1960s and 1970s, tended to be last hired, first fired (Lazonick et al. 2025). Nevertheless, over the decades increasing numbers of white blue-collar workers also suffered permanent loss of unionized jobs and joined the ranks of the downwardly mobile, with dire economic and political consequences.

During the onset of the marketization phase in the early 1990s, the erosion of the CWOC norm among white-collar workers was a response to the dramatic technological shift from proprietary systems to open systems, integral to the microelectronics revolution. This period favored younger workers with the latest computer skills—which were acquired through higher education and transferable across companies—over older workers with many years of firm-specific experience. The NEPM relied on open systems and the interfirm mobility of labor, with workers often induced to move from one company to another by the offer of stock-based pay. An important turning point in the marketization of employment relations was Old Economy IBM’s

transition to the NEBM in the early 1990s, which entailed ridding itself of its vaunted system of lifelong employment, downsizing its labor force from 383,220 at the end of 1989 to 219,839 at the end of 1994. Over the following decade or so, almost every major Old Economy company followed suit as the CWOC norm disappeared (Lazonick 2009).

During the onset of the globalization phase in the early 2000s, the sharp acceleration in the offshoring of high-end jobs was a response to the emergence in developing nations such as China and India of large supplies of highly educated but lower-wage workers, who could perform increasingly sophisticated activities that had previously been carried out in the United States. Repeating the prior success of Japan in indigenous innovation, by which a business corporation transfers technology from a more advanced nation and then emerges as a global leader through collective and cumulative learning, companies in nations such as South Korea, Taiwan, and China began to outcompete US corporations in a range of critical technologies such as communications equipment, semiconductor fabrication, clean energy, and electric vehicles (Lazonick 2009; Lazonick and Hopkins 2021; Carpenter and Lazonick 2023; Hopkins and Lazonick 2023; Lazonick and Li 2023).

Once US corporations had obliterated CWOC, they often pursued rationalization, marketization, and globalization to cut current costs rather than to reposition their organizations to produce a new generation of innovative products. Corporate profits ceased to provide funds for reinvesting in the growth of the firm and instead became “free cash flow” that could be distributed to shareholders. Defining superior corporate performance as ever-higher quarterly earnings per share, companies turned to massive stock buybacks to “manage” their own corporations’ stock prices. The transition from PVC to PVE was the result.

### **CORPORATE GOVERNANCE FOR THE COMMON GOOD?**

Let me close this paper with a brief outline of policy remedies to overcome socioeconomic precarity and restore sustainable prosperity. Broadly speaking, the remedies require resurrection of the investment triad at the societal level and retain-and-reinvest resource-allocation at the corporate level. The success of the investment triad in mitigating socioeconomic precarity requires the interaction of the supportive family, the developmental state, and the innovative enterprise. The policy agenda must be holistic, and the range of specific policy measures relevant to the adjectives “supportive, developmental, and innovative” is vast.

As for resurrecting a retain-and-reinvest resource-allocation regime, in recent work referencing the experience of the United States, I have laid out a five-pronged reform agenda, which might be labeled “corporate governance for the common good” (Lazonick 2023a; 2023b).

- First, ban stock buybacks done as open-market repurchases. As I put it in the subtitle of my article “Profits Without Prosperity,” published in *Harvard Business Review*, “Stock buybacks manipulate the market and leave most Americans worse off” (Lazonick 2014).

- Second, reward senior corporate executives for PVC, not PVE. Senior executives should possess the abilities to implement innovative investment strategies, and they should be incentivized to retain-and-reinvest for the benefit of all contributors to corporate value creation.
- Third, fix the tax system so that it encourages PVC, not PVE. Corporate tax policy should be guided by the theory of innovative enterprise, balancing the need for profitable corporations to pay taxes—to help fund the investment triad on which they depend—with the potential socioeconomic benefits of using tax credits to subsidize corporate investments in innovative goods and services.
- Fourth, restore collective and cumulative careers. In 21st century global competition, the OEBM’s defunct CWOC norm needs to be replaced by socioeconomic policies that support lifelong learning by members of the labor force (across business, government, and civil-society organizations) over the course of careers in which a duration of half a century is no longer unusual.
- Fifth, place representatives of workers and taxpayers on corporate boards. As I explain elsewhere (Lazonick 2021a), it is households as workers and taxpayers, not public shareholders, who make risky investments in the innovative enterprise and who therefore should oversee the implementation of those investments and the allocation of value gains to stakeholders when those investments succeed.

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