RALPH NADER RADIO HOUR EPISODE 482 TRANSCRIPT

Steve Skrovan: Welcome to the *Ralph Nader Radio Hour*. My name is Steve Skrovan, along with my co-host, David Feldman. Hello, David.

David Feldman: Good morning.

Steve Skrovan: And of course, the man of the hour, Ralph Nader. Hello, Ralph.

Ralph Nader: Hello, everybody. The solution to the problem we're discussing today, massive stock buybacks by major corporations, is through Congress, which means get a copy of the *Capitol Hill Citizen*@capitolhillcitizen.com, and read it so you can become a Capitol Hill citizen and recover Congress from the grip of the corporatists.

Steve Skrovan: That's right, Ralph. Last week we spoke to *Wall Street Journal* reporter Gretchen Morgenson about private equity pirates, those plunderers who take over companies, saddle them with debt, cut the workforce, then sell off the pieces of the company for their own profit. This week we jump back into the Wall Street muck with William Lazonick, Professor Emeritus of Economics at the University of Massachusetts Lowell. Professor Lazonick is an expert on the corporate strategies behind maximizing shareholder value in the form of stock buybacks, which he calls essentially a "license to loot." How can we confront predatory value extraction and put in place social institutions that support sustainable prosperity? We look forward to the whole hour with Professor Lazonick on that.

And as always, we'll check in with our corporate crime reporter, Russell Mokhiber. But first, let's board another Wall Street pirate ship. David?

David Feldman: William Lazonick is Professor Emeritus of Economics at the University of Massachusetts Lowell. His recent works include *Predatory Value Extraction: How the Looting of the Business Corporation Became the US Norm* and *How Sustainable Prosperity Can Be Restored*, and the forthcoming book, *Investing in Innovation: Confronting Predatory Value Extraction in the U.S. Corporation*.

Welcome back to the *Ralph Nader Radio Hour*, Professor William Lazonick

William Lazonick: Well, great. It's good to be here again.

Ralph Nader: Welcome back, Bill. We want to tap into your enormous knowledge on stock buybacks, involving trillions of dollars in the last decade by large corporations like Apple. And you wrote the groundbreaking article on stock buybacks for the *Harvard Business Review*, which created the field of inquiry that we're now going to discuss. People should know that until 1982, under Ronald Reagan, predictably, stock buybacks were considered, with very few exceptions by the U.S. Securities Exchange Commission as stock manipulation and prohibited. It would be considered stock price manipulation by the offices of the corporation. After 1982, it was open sesame. There were no limits, no conditions for stock buybacks. And huge amounts of your money, people, are going into these unproductive stock buybacks, as Bill will point out in some detail.

But before you think this is some abstract corporate maneuver, when Apple Corporation, which sells you all those iPhones and computers, announced a few days ago that they had so much money in profits that they were going to buy back $90 billion of their stock in the coming year; that's with a B. That is more than the combined regulatory budgets for two years of all the budget starved health and safety agencies of the U.S. government. When Tim Cook, the CEO, announced that, it was basically a message to you because that's your money. That's the excess that you paid for overpriced computers and iPhones by Apple. They didn't know what to do with it. They didn't know how to invest it, whether to invest it. They didn't want to apply it to their pension funds, workers' salaries, environmental recycling. They decided to buy back their stock. This is where you come in, Bill Lazonick. Tell us about stock buybacks and their motivation.

William Lazonick: Okay, I'll start with what you mentioned, the rule by the SEC in 1982. It's called Rule 10b-18, which was adopted under the radar in November 1982, and it basically said that companies could do a massive amount of buybacks without being charged with manipulation. In fact, it's a safe harbor. There are some rules about it, but they're so generous in terms of the amount of buybacks that you can do on any trading day that it's basically a license to loot. Apple, which I'll get to in more detail later, is by far the largest repurchaser of stock. So, depending on when you look at the measure of how much it could do to stay within the safe harbor—about a year ago/I haven't looked at it recently—it was about four and a half billion daily, day after day after day, manipulating the stock market. Many companies, like Microsoft and Oracle are big repurchasers; Cisco's stock market manipulation is hundreds of millions daily, day after day after day. We also don't know the exact days on which buybacks are being done. There's just SEC rulings that try to have more disclosure, but they don't go that far to actually tell us when buybacks are being done. Ultimately, it's not really an issue of disclosure, it's an issue of allowing corporate executives to allocate resources in this way, which is basically looting the company. I call Rule 10b-18 a license to loot.

Before its passage in 1982, stock buybacks were not inherently illegal. But the SEC was struggling with trying to figure out what kind of rule they should have in order to put a limit on them. And they had some previous proposals—I won't go into the details—that were somewhat more stringent, but still would have been quite expansive if it had been adopted. And the one that was adopted was even more expansive, more permissive. In fact, they didn't even have a public comment period on Rule 10b-18, because they said things that have been proposed before had been more restrictive to business, so no need to have a public comment. Everybody would agree with this, which is a kind of weird way to look at it.

It also was a result of the lawyers like Stanley Sporkin, who was at the SEC being replaced in terms of the regulation at the SEC by economists and people from Wall Street, and particularly at that point, Chicago economists. So it directly came out of Chicago economics (markets best allocate resources in an economy and minimal, or even no, government intervention is best for economic prosperity). It's all part and parcel of the rise of trading on Wall Street, derivatives, lots of other things, including private equity, which you talked about before with Gretchen Morgenson (Episode 482). It's all part of the same deregulation process.

Ralph Nader: The impact on America, listeners, is these stock buybacks represent massive disinvestment by these companies in productive outlets around the country. Here's a stunning example. It stunned me when I heard about it. Bill, if you add up the profits for the leading stock buy companies—the stock buybacks and their dividends—often their entire net income is allocated to stock buybacks and dividends. Or even more than their entire income, sometimes they go into debt to buy back the stock!

William Lazonick: That's right.

Ralph Nader: Tell us about the disinvestment you've written about and the definite consequences on workers, productivity, and innovation. Lay it out.

William Lazonick: The companies that do most of the buybacks are actually companies that have in the past have been successful, like Apple, Cisco, and others that have huge profits. So unlike what Gretchen Morgenson wrote about private equity and companies that don't have a lot of profits and squeeze more out, these often do, and they are often as, in the case of Apple, Cisco, Intel, many other companies, in areas which are critical technologies, not just important for employment, which they are. Traditionally a publicly listed company would have shareholders who just buy and sell shares on the market. I don't call them investors because they do not invest in companies. They just buy and sell shares on the market and for their savings, as a yield on their savings, if the company can afford it, they can get a dividend.

Dividends are not uncommon. Shares are not guaranteed. They're also not legally required, but they're the practice to have even dividends, but they are not guaranteed. In fact, over time, companies like to maintain, don't like to cut the dividend. So shareholders who are holding shares for a yield on their stock can get a dividend.

So if those dividends are too high, the earnings out of which dividends will be paid will eventually disappear, because the company will not be using a portion of its profits to reinvest in the company. And the foundation of reinvestment in a company that has been successful/that has profits, is reinvesting those profits. And in fact, many of the companies, like Apple, Intel, others, for a long period of time in their history, before they start doing buybacks, didn't even pay dividends. They just reinvested, or what I call re-attained and reinvested their money. And that's how they got to be where they are.

But at some point, people said, hey, there's a big pot of gold there, let's go after it. And this has been enabled by the SEC and by the rules of the game. What happens is different in different industries, different companies. But one industry we focused on is the pharmaceutical industry. Pharmaceutical companies have long argued since the 1980s, that they need high drug prices because that gives them the extra profit so they can accelerate innovation. And we get more drug innovation, which is good. They had a successful drug so they use their capabilities to invest in more successful drugs.

There would be a certain logic to that if that's what they actually do. But they don't. The American companies, in particular Pfizer, Merck, and Johnson & Johnson tend to use a huge proportion of their profits, not just for dividends, but on top of dividends, for buybacks. Over periods of time, say a decade you often find some companies, like Merck and Pfizer, have done not just 100% of their profits on dividends of buybacks, but 200%. So essentially what they're doing is taking on debt. They're actually downsizing the labor force. I call this "downsize-and-distribute." They're downsizing their labor force and distributing more to shareholders. There's investment in research and development (R&D), but there's not the commitment to developing the new drugs that they need to make. And, in fact, they tend not to be innovative. They end up using their high stock price to acquire other companies and then milking dry those companies which have lucrative drugs on the market. So that's how it works in that sector.

Of course, Ralph, we talked a lot about Boeing. And Boeing spent $43 billion on buybacks between January 2013 and the first week of March of 2019, before the second Boeing 737 MAX crash, just pumping up its stock price. In fact, its stock price hit a record on March 1, 2019. We know what happened after that, unfortunately. But that was a case of a company doing what other companies were doing, using buybacks to pump up its stock price.

Ralph Nader: Some of our listeners may want to know the answer to this question. Corporate executives say the reason for stock buybacks is that it will increase the value of the shares because they're withdrawing the supply of shares by buying them back, and there are fewer shares, and the price is supposed to go up. Of course, the executives benefit when the value of their stock options go up. But the record isn't that clear. Apple has spent over $450 billion on stock buybacks, but its stock appreciation preceded that. Most of its stock appreciation hasn't done all that spectacularly in the last five years. In terms of stock, what does the record show, Bill?

William Lazonick: There have been studies that show they do not pay off over the long run. But that's actually not my concern because I don't want the stock market to be the source of income for people who are making it from buybacks in any case. And what it does mean is that the reason it doesn't pay off is that ultimately those companies do not invest in new rounds of innovation or treat their workers well. So they don't get the same productivity out of their workers that they could. And in fact, they are putting people at the top of the company who actually have just an interest in getting the stock price up and often don't have the incentive, and even the ability to invest in innovation, which is not an easy thing to do.

There are basically four ways that the stock price gets pumped up. I call it the buyback process, when companies do buybacks. Ralph, you mentioned that Apple announced it was going to buy $90 billion of its shares. You'll see in the statement that it doesn't have to buy those shares. It's just announcing to the public that the board has authorized executives anytime they wish, any particular days without us even knowing it, doing three billion or four billion or whatever they're going to do. But they have the authorization to do that.

When that authorization is announced, the stock price usually gets a bump. Some studies have shown 2% or 3%. Then when they actually do the buybacks, as a second step by the laws of supply and demand, they're going into the market. They're creating a demand for the stock that wasn't there, and that helps to pump up the stock price. The third part of the process is that people watching the stock price, even if they don't know that they're doing buybacks, start seeing

Apple stock price rising. And so there's speculation on that momentum. And then an additional increase in the stock price occurs through that speculation.

Then finally, when the quarterly report comes out or the annual report, and they report how much buybacks they did, and they report their earnings per share, the earnings per share are going to be higher even if their earnings are not higher, sometimes even if their earnings are lower, and you're going to get an additional bump to the stock price. Now, that will not last. And in fact what happens—and this is what happened with Apple—once you start getting on this kind of vicious circle of trying to pump up your stock price and keep your stock price up with buybacks, you have to do more and more and more. Because if you do less, you're announcing you're going to do less, the stock price will go down. There are three things that drive stock prices, two of which I mentioned in the buyback process, speculation and manipulation. So people speculate that stocks are higher, but people actually manipulate them to go higher. They can do this with buybacks. They can also do it with various kinds of rumors and things like this. But the most important thing that drives stock price is where everybody can potentially gain, which is innovation. And that's how these companies got to be where they are. So what gets sacrificed is innovation. Now, if you want, I can talk a bit about Apple as a particular case because we know what Apple sells. And I have all kinds of Apple products in their ecosystem here. Right in front of me, I have an iPad, iPhone, a watch, and a computer. So I'm happy with the Apple products. Probably paid more than I needed to pay in terms of some normal profit they would make, but that's not the issue.

But now they have those profits, the question is, what are they going to do with them? Well, I wrote an open letter to Tim Cook in *Harvard Business Review* in October of 2014 when Carl Icahn, was making a run in Apple. He had bought $3.6 billion of Apple shares on the market. Not one cent went to Apple, but he started demanding that Apple do $150 billion worth of buybacks.

And I, first of all, wrote a critique of this that basically said that because Apple was calling its program, which does buybacks and dividends, its capital return program, I sked, return capital to whom? The only time Apple ever went to the public stock market to get money was in its initial public offering (IPO) in 1980 when it got $97 million. Anybody who's held the stock since then, if there is anybody, would not want to see them doing buybacks and giving it away to those people who just bought the stock last year and want to sell it - which is what Icahn did.

Ralph Nader: It's quite clear that Apple has a transactional monopolistic position. In spite of Samsung, they haven't really created much in the last 10, 15 years. They're still lunching off Steve Jobs' innovations. I know some people attribute the success to ~~are saying~~ stock buybacks Let me run you through a quick series of questions. Apple goes in and it buys its own stock, and it does so presumably in the open stock market that people use. They then get, let's say, a million shares back on a particular purchase. The first quick question is where does that go? Where do those shares go when Apple executives buy them back?

William Lazonick: In Apple's case, they retire them. Companies can choose, although it's subject sometimes to various state laws, to either put those shares in its treasury and then perhaps reissue them at some point, or they can choose to retire them. Apple retires them. There's really not much of a difference because as long as they're within their authorization, they can issue new shares to give to employees. I've calculated for Apple that since it started doing stock buybacks in 2013—by the way, between 1985 and 1997, when Steve Jobs was not at Apple, they did all kinds of buybacks and dividends and almost drove themselves into bankruptcy. Jobs came back and turned Apple around with the iPhone, the iPod, the iPhone Bluetooth headset, etc. and that's how, as you said, they got to where they are.

Ralph Nader: When you say they retire, what does that mean? They've paid millions and millions of dollars for this stock.

William Lazonick: They canceled those shares. That's all.

Ralph Nader: What do the shareholders have to say about this? That's real money and you're saying they just burn it?

William Lazonick: Okay, so what do the shareholders have to say? First of all, the shareholders need to be educated. But because Apple keeps making money, and Apple in 2012 started paying dividends again, so if I was a shareholder in Apple (I'm not) I would not want them to do buybacks. I would want them to actually invest, keep the money in Apple and put it in… there's a lot of people who argue, that money goes through the markets and goes into new companies, etc, but, that's a bunch of garbage. It goes actually to the people at the top. I would argue it's one of the most important sources of income inequality and the power of the private equity, their money is basically going to the top.

If Apple just kept that money and ran itself as a bank, that money would go through the economy, so they would be allocating it to various types of securities and they could take a portion of that money and put it into new businesses. By the way, the $592 billion that they've done since October of 2012, fiscal 2013, would go through the economy; they would just be allocating it to various types of securities and they could take a portion of that money and put it into new businesses. That's one of the things that is surprising about Apple, because there are people on Apple's board who have knowledge of critical businesses to which Apple could allocate some of that money. The longest serving board member at Apple is a guy named Arthur Levinson, who was the CEO and chairman of Genentech for a long time. Now he's the head of Calico, which is Alphabet's unlisted biopharma company.

Now, Genentech was protected by the stock market because it's owned by Roche, partially and then wholly over the last 15 years, the Swiss company, which is not financialized and doesn't do buybacks. But here he is sitting on the board and he doesn't say a word about how Apple could have invested some of that money in related industries that he knows about, like diagnostics and software for the pharmaceutical industry.

The second longest serving board member who's even more egregious is Al Gore. He's been there since 2003. We know why he's there, because he didn't become president, but he's been there since 2003. In 2006, his Oscar-winning movie, *An Inconvenient Truth*, came out,. But in that movie Gore is sitting there saying nothing while they did $590 billion of buybacks. So why isn't he saying that Apple should put some of this money into companies that are investing in clean energy, new technologies?

One of the things that Apple—I mentioned Intel—that Apple could have invested in once its iPhone took off after its launch in 2007 and then was clearly a huge success by 2010, and a suggestion was made to them in an article by an industrial journalist that they should build a fab, they should fabricate their own chips. They didn't do that.

One reason why the Taiwanese company, TSMC, is so powerful and why Samsung Electronics is also so powerful as chip fabricators, is because they use Samsung and then TSMC to fabricate the high-end chips for all the Apple phones. That actually has geopolitical implications. To give you an idea of the magnitude of buybacks relative to what's needed to invest in a fab, in 2021, because of all the chip wars that were going on, TSMC and Samsung made commitments to build fabs in the United States, and TSMC entirely to produce chips for Apple in the United States.

And the announcement of their investment, which would go on over many, many years for those state-of-the-art highest end fabs, was $27 billion. In that one year, Apple's buybacks were three times that amount, just to manipulate its stock price. These magnitudes are mindblowing. And now Apple is off the charts on this; that's what's happening.

Ralph Nader: There's something crazy about here. We're talking with Bill Lazonick who broke the whole field open of stock buybacks in his now famous article in the *Harvard Business Review*. Let me laser in on something. Let's say today Apple buys back a billion dollars of its stock and then tomorrow retires it. Now, it's paid a billion dollars of shareholder money. When it retires it, it burns it. That could be called larceny in other contexts. What is the situation with the SEC on this kind of thing? And what about the fiduciary duty of the governors of Apple to preserve the value of its shareholder stock? This retirement bit needs more attention. Can you give us some light on that?

William Lazonick: Yeah, well, in my view, even if they kept the stock in its treasury, it's basically just manipulating the market. It would just sit in the treasury…

Ralph Nader: Yeah, but they can always use it for stock options.

William Lazonick: That really doesn't make a difference because they just issue new shares within their authorization. Because they do; I have the calculations. Since they've been doing buybacks, they've issued mainly for stock based pay, about 1.5 trillion shares. And they bought back about 10.6 trillion; that's about seven times as much. The amount they bought back in 2022 was $569 million or half…

Ralph Nader: Yeah, but Bill, go back to my point. When you buy back shares and you put them in its treasury, they're still alive, so they can be used for stock options or whatever. But when you retire a billion dollars' worth of stock buybacks, you're in effect burning the money. There's nothing left.

William Lazonick: Yeah, but you burn the money anyway. Yeah, you could go sell those shares on the market, but you could issue new shares to sell on the market. No, I don't think that's really what the issue is. The issue is much more allowing companies to do buybacks. And this Rule 10b-18 adopted in 1982 was never vetted in Congress. There is now actually proposed legislation from Senator Tammy Baldwin, which has been around since 2018. It' was also introduced in the House a few times called the Reward Work Act that would rescind Rule 10b-18.

If you just recognize that 41 years ago the SEC made a very stupid decision. Rather than to call buybacks what they in fact are, manipulation to give companies this license to loot, you would just reverse that decision and that's what it calls for. Then the SEC would have to grapple with the issue of whether companies could do buybacks, how much they can do, and at what point it's manipulation. But basically they've gotten around that and it's become so normalized that everybody not only accepts the manipulation but cheerleads it.

Ralph Nader: What we're talking about is an increasing size of our economy where companies are making money from money, and not making money from producing innovative products or simply producing productive assets for the benefit of the people and their livelihoods. That's what we're talking about and that's what you've written about. We've been talking with Bill Lazonick, who was an Emeritus Professor of Economics at the University of Massachusetts, and now is with the Institute for New Economic Thinking. Tell us some of this new economic thinking.

William Lazonick: That's a whole other story because basically a lot of this is enabled by bad economics. And most of economics that has been taught for decades is just bad economics, because it's what I call the myth of the market economy. We love markets. We love to be able to buy things, change jobs, etc. But markets do not drive the economy; organizations drive the economy. And they can drive the economy up or down. And you knew that very well when you launched your own career in this area by going after General Motors.

And in fact, the ideology that enables buybacks, that makes a lot of people, including economists, say everything is just fine, the money is just going into the economy. This is what I call the myth of the market economy; the way in which we get capital formation in the economy is just by money zipping around. But it doesn't work that way. The money has to stop somewhere. It has to employ people in sophisticated industries. It has to employ people for decades, even in non-sophisticated industries. If people are going to have a decent standard of living, they can't be changing jobs every year. People need stable employment. And one of the ways corporations can operate to do more good than harm, is by giving people stable employment. People can learn within these organizations, and that's where the innovation comes from. I would not argue that the profits ~~that organizations~~ are shareholders' money, because the value is created by the people employed, in that the value is also created by a lot of the tax money that we pay that goes through government agencies for infrastructure and developing human capabilities through the education system, etc. So there's a lot of claims on profits that could be made that aren't being made by workers and taxpayers that are now just through the ideology that comes out of economics—neoclassical economics, mainstream economics, the economics of Larry Summers, to name one, but it's also the economics of Paul Krugman and

Joseph Stiglitz—is basically one in which the markets are just imperfect. But it's not that the markets are imperfect, it's that the organizations that have all this power, and in some ways have to have the power in order to employ people and make these investments, are abusing that power. And that's what I go after, the abuse of power. And so I also show the good side of that, which is how these organizations actually get built up over time, and how they can create stable employment, higher incomes, and a win-win situation where shareholders typically gain as well. And that's when innovation is driving their growth, because they tend to employ people more, people are doing the learning, they keep them, they generate the productivity out of which they can get paid. It's a virtuous circle rather than a vicious circle. And so I look at how you go from one to the other. And buybacks are a big part of going from innovation to financialization, from retaining and investing to downsize-and-distribute from more trend towards somewhat more equality to more income inequality.

Ralph Nader: And your case study on Cisco Systems, when it started, broke new ground, was a world leader, then it started doing stock buybacks and it retarded itself. So now it's a very humdrum company, not known for much innovation. Can you summarize the history here of Cisco and how it immolated itself?

William Lazonick: It was started by some people worked at Stanford in 1984 who and got some venture backing in 1987 and then went public in 1990 with about 250 people. That was before that, and it was doing internet working. It was before the internet was commercialized in 1993, when the government invested in the internet and commercialized it. Cisco was positioned to take advantage of that opportunity. And it did better than a lot of other companies that were doing networking, trying to network computers because it had written software for all the different protocols. So it was the most successful in doing this. And then it grew very rapidly in the 1990s, from 250 people in 1990 to about 35,000 people a decade later, and in March of 2000 had the highest market capitalization in the world. At that point, there had been a huge amount of innovation and then speculation on top of that, driving up its stock price. But then the internet boom turned to bust. Cisco did not lose that much revenue because the enterprise networking stayed stable. It was more the service providers who lost revenue, but stock price within about a year and a half went down to about 15% of its peak.

So at that point, right after 911, when the stock markets were open, Cisco came in and started buying back its stock. And it's never stopped since then. So it spent about 100% of its profits since about October 2002 to the present, buying back its stock. And then I think you demanded that they pay some dividends at some point, Ralph, about a decade ago. And they started paying dividends, which is what they legitimately pay. But they do vastly more buybacks than dividends.

And now they're twice as big as they were when they started doing buybacks, because that whole industry has grown. But they're not an innovative company. One of the companies that was inside Cisco from about 2008, which then was outside Cisco in 2011, is Zoom, the medium we're talking on right now. A guy named Eric Yuan, who was working for Cisco Webex, took 40 engineers and started another company because he couldn't do the innovation inside Cisco. And there are lots of other stories about this. And so what it is that becomes the problem, is not just the fact that they're spending all this money on buybacks because they still have lots of profits, but that they have a guy named John Chambers who was the CEO when they grew very quickly in the late '90s, and he did it by actually not doing any manufacturing within Cisco, and also by outsourcing the distribution of the boxes to what's called value added resellers. Once they got into the 2000s, if they were going, and they had the capability to do this, go into higher value added products for service providers, much higher quality equipment that requires lots more engineers working after the sales, etc., and in sales, then they would have had to move to a different structure. They would have had to actually manufacture a lot of their own products. But rather than do that, once they started doing buybacks, they didn't solve those structural problems of becoming a major provider of service equipment to the global economy. So they could have moved either within Cisco or setting up a subsidiary company into this higher quality equipment.

Meanwhile, companies that tried to emulate Cisco, particularly Canadian Lucent and Nortel—it's Canadian but had a big footprint in the U.S.—destroyed themselves trying to do that. So the result is that the United States does not have leading capabilities anymore in 5G internet of things in high level equipment. The company that Cisco could have been is Huawei, the Chinese company, which by the way, is not really controlled by the Chinese government any more than U.S. companies are controlled by the U.S. government. Huawei, is a company that is not listed on the stock market, but it reinvested and developed the highest quality equipment in the world.

Other companies that are competing with Cisco are Ericsson, which was never very financialized, was always reinvesting. Nokia, the Finnish company which has a different story has infrastructure equipment from Siemens, that it's selling on the market. But United States is out of this because of Cisco. So you have a company that nobody sees Cisco as being innovative. It makes lots of money. It has about 85,000 employees, and about $55 billion worth of revenues. But it's not doing things that it could have done. And it was one of the few companies that was positioned to lead the United States into being a leader in infrastructure equipment for the mobile revolution, radio base stations, etc. This is repeated in other industries, in the semiconductors, in pharmaceuticals, in aviation. It's likely to be repeated in electric vehicles. China is getting way ahead now in electric vehicles, partly because they also had the good sense to allow Tesla to invest in China, the first wholly owned foreign auto company to be able to invest in China. Tesla is going to end up exporting way more of its cars from China than it does from the United States.

Ralph Nader: That's why you called your article *Cisco Systems from Innovation to Financialization*. That's what happened to Boeing. It went from engineering to financialization. Pumping up its stock price, it began to distort the entire orientation of the company's purpose. And you can see it in the stagnation of Boeing's airplanes and its disregard for safety practices—the crashes in Indonesia and Ethiopia. And you can see it in the Cisco situation, and literally everywhere. And that's one reason why these foreign countries are eating our lunch. They haven't yet fallen prey to looking at their companies and saying, what we're most interested in is the stock price, and the way to do it is through buybacks.

William Lazonick: And I should just point out that it's not because the United States does not have the capability to do these things; the capability is in the wrong hands. And it's being wasted and destroyed. So it's not simply the amount of money that's making people rich. But those people who are getting rich are actually getting rich by helping to destroy the industrial base of the United States, including the middle class.

Ralph Nader: That's the central point of your research. Steve?

Steve Skrovan: Professor Lazonick, I wanted to ask you about that Rule 10b-18, do you see—and maybe this is also a question for Ralph—any political will? Is there any chance that this could be changed? Because it seems like there's tremendous power behind it not being changed.

William Lazonick: Well, here's the problem. Like any addiction, there would be huge withdrawal symptoms, and the withdrawal symptom might be the crash of the stock market. So Ralph mentioned this article I published in 2014 in *Harvard Business Review*, “Profits Without Prosperity: How Stock Buybacks Manipulate the Market, and Leave Most Americans Worse Off”, which is basically the message. A big fan of that article was Joe Biden, and I met with him a couple of times in 2015 when he was vice president, and he was talking about the problem of buybacks. And he wrote an op-ed in the *Wall Street Journal* in September of 2016 about this problem, it's ~~a~~ relation to executive pay and saying that we have to start investing—these companies have to invest in. And he talked about it during his campaign. He went somewhat silent about it after he became president. And I think that's probably, I don't know this for sure, but it's probably because his advisor said, hey, you better hold on this stuff because you don't want to be the president that is seen as being responsible for crashing the stock market. And so, unfortunately, buybacks have been at record levels under Biden. They were about, for S&P 500 companies, about $800 billion in 2018 after the Trump tax cuts. And everybody knew that the companies were going to use that money to do buybacks, except the Democrats were largely saying that's a bad thing. I think partly influenced by the work that I had done. They had what they called the hashtag #GOPTaxScam, led by Schumer, who hates buybacks, and by the way, has said they should be abolished. And they were saying that that's what's going to be done with this money. The other side was just saying, oh, that's great. It's going to pump up the stock market.

But in 2021, first year of the Biden presidency, there was about $860 billion, so about $60 billion more by those companies. And this past year, over $900 billion. And it looks like it could even go over a trillion in one year by S&P 500 companies. That's an average of $2 billion per company. There is a knowledge of the problem, and people have spoken out against the problem, but I don't even know if it's a matter of political will. It's a matter of how you move from here to there.

Steve Skrovan: But that's what I was going to ask, is there a prescription for weaning us off buybacks so the withdrawal doesn't crash the market.

William Lazonick: That is very difficult to say. The way in which, if you want to call it, legislation against buybacks has gone is now there's a 1% tax on buybacks. And everybody who benefits from buybacks is laughing all the way to the bank. They don't care about the 1%. And in fact, it had been proposed, and I thought not very wisely, by Sherrod Brown and Ron Wyden in September of 2021 is 2%. The Conservative forces in the Biden administration, and I like a lot of what they're trying to do with the economy, but in this case, they reduced that to 1%. It was sitting there in their framework at 1%. And then in the Inflation Reduction Act, when they wanted to get rid of—I heard this mentioned at the end when you're talking to Gretchen Morgenson—the carried interest on the capital gains is something Democrats have been going after for a long time; she insisted that to get her vote for the Inflation Reduction Act, they take that out and they put the 1% in. So the 1% tax is actually Kyrsten Sinema's tax on it. Biden, finally, in his State of the Union address said they want to quadruple this to 4%. Well, it's actually only doubling it from 2% to 4%. I argue in this book called *Investing in Innovation* that's coming out that they maybe should make it 40%, 50% and then any company that has buybacks should have a banner on its website obligatory buybacks destroy the Middle Class. And they're toxic, basically. And so how do you get rid of it? I think you could put much more stringent limits on them. More of the disclosure, which the SEC has moved toward now, should be done to move further in that. So yeah, there could be a gradual shift away from buybacks.

The other way of doing it, but it has to be done very consistently, is in the context of industrial policy, which has now come back. So one of the reasons that I wrote this article on Intel on semiconductors a couple of years ago was because of the CHIPS Act, which is now called the CHIPS and Science Act with its $52 billion in subsidies for companies that invest in semiconductor fabrication where I said, that's fine, but the fact is that the companies, including Apple and Intel and others, lobbying for this legislation, had done about 20 times that amount, or about $900 billion over the last 10 years of buybacks—Apple doing a big lot of them, Intel doing a lot of them—so why should we let them do that while we give them a subsidy? In fact, out of the U.S. Department of Commerce, there now is a guardrail, one of a number of things that if companies are going to get any of these subsidies, they can't do buyback. How much they enforce it and whether companies will find their way around that is another question. So there are ways of targeting certain industry, pharmaceutical industry. Now there is the Inflation Reduction Act, and there is authorization for Medicare to negotiate some drug prices. I think part of those negotiations is buyback stop. You don't do buybacks if you're a drug company, because that's not what you say you need the profits for. So let's have a discussion of how much profits you need to actually invest in innovation, and let's make sure that you do that.

So that's one way of doing it on a sectoral basis that I think could work. And in fact, a lot of the big buybacks are done by companies that are very profitable in pharma, in tech, according to the banks, is another area where you could do this through regulation. You could hit a lot of any critically important industries. For example, in aviation, you could say, you have to do innovation; you can’t do buybacks.

Ralph Nader: What would you estimate the total amount of stock buybacks since 1982? Or whatever base you want to start with. Let's do the last decade.

William Lazonick: That's probably about 8 trillion over the last decade.

Ralph Nader: About $8 trillion that could have gone into very productive investment in communities throughout the country. Now, I had a very savvy corporate lawyer once tell me, and he was a shareholder defender as well "Whenever I hear a corporation buying back its stock, I think that corporation is mismanaged." When I asked what he meant, he said, "Because they have more money than they know how to productively invest or want to. They have more money than they're willing to increase their workers' salaries, improve the equity of their pension funds, or to engage in innovation. And if managers don't know what to do with that money, they're mismanaging the company by putting the money into stock buybacks."

Now, the larger question of your research is that these giant US companies that grew in the USA on the back of their workers, went to Washington for subsidies or bailouts when they were greedy or in trouble, and had the U.S. Marines defend them around the world—are not only disinvesting on a massive scale in the necessities for a productive economy, they are engaging in the ironic trend that can be called the corporate destruction of capitalism, whose base, in essence, is investment.

William Lazonick: I agree with everything you just said. Yeah. Including what this person told you. That's right. And I've often said that when executives say that's all we can do with our money is buybacks, they're not doing the jobs. In fact, it's very rare you'll hear an executive actually put it that way. It's usually said by economist apologists on behalf of the executives or some Wall Street people who say that. But the truth is they're not doing their jobs. The purpose of the corporation is to produce products that are high quality that we can afford. And to do that, you need to have people who engage in learning processes and know how to get the materials, produce the products, sell the products, and you need productivity coming out of your workforce and that's what you invest in. You provide them with the machineries or they help to develop the machinery that helps you get those innovative products. That's the purpose of the corporation.

Ralph Nader: So the corollary of our exchange here is that while these corporate bosses insist on massive domination of our political economy—from Washington to Wall Street—they're not delivering for the economy, for the workers, for the people who are trying to make it through on every day and protect their families and their descendants. In behaving this way, they have reached an historic level of conflict of interest with their own companies because what they're pursuing is dramatic self-interest and self-enrichment through the stock options. And they don't really care, like the heads of Cisco, that their self-enrichment as corporate executives and the policies that nourish that are basically in conflict with the best interests of the corporation that they're heading.

William Lazonick: To take it further, which is even scarier, not only do they not care, they don't know. They've drunk this shareholder value ideology so deeply, they've imbibed in it to such an extent that they really believe it. And that's how they got to be where they are, by the way. Unless laws/regulations mandate not doing that, it will continue. The kind of people who end up in these positions are in their ability zone and their incentive to pump up the stock price, in essence, their economic performance, is what they believe in and are rewarded for.

And of course, even when after five years, a company that's just done huge buybacks now no longer has innovative products and its stock price can no longer be sustained, as has happened with the oil companies, they're doing buybacks. But they had to stop doing buybacks. ExxonMobil used to be the biggest repurchaser before Apple, $22 billion a year. Then the oil prices went down so it couldn't do buybacks; it had to stop because it didn't have the money. Now that it's up, they're going to do them. But they'll just keep doing this and they'll put people at the top whose job it is to just pump up the stock price, pay them lavishly for it, and everybody will say, oh, that's great because that's what the economy is all about—stock market, price performance—stock market performance.

Ralph Nader: On a more perilous scale here to follow up what we're conversing about is that in their dominant power, these giant corporations becoming fewer and bigger by the decade are leaving our country defenseless. They are not defending our country and preparing our country for pandemics. The drug companies are just interested in more profits and the hospital chains.

William Lazonick: Absolutely.

Ralph Nader: They're basically leaving us defenseless by pushing a war machine in empire. They are diverting public budgets overseas to destroy other countries that don't present a threat to us, and they're not preparing the country, and they're not defending the people of this country.

Bill, this all comes down to the conundrum of democracy. If in the final analysis, a country is saved by its people, not by its rulers, how can we develop an educational process with citizens all over the country? And we can start with the 1% of interested citizens in order to develop an informed public constituency to begin anticipating and feeding back the concerns of present day Americans and their prosterity.

William Lazonick: Yeah, well, you mentioned the book that I have coming out, part of which shows the need to start governing the corporations, not just the stock buybacks, and put managers in to run these corporations who understand what we're talking about, and who understand the need to invest. And that's why I called it *Investing In Innovation*. Change the tax code, but also to invest in the careers of people. People need productive jobs. And in an advanced economy to be in the middle-class, you need to be productive. You need to have productive jobs over four or five decades of your life and enough to support you in retirement. That's a huge challenge. But it can be done if you invest and you go back to education.

It's not by accident that we have all these student loans because precisely at the time when you needed to upgrade the education of the labor force in the 1980s, the United States made it much more expensive to get education not only in terms of what you had to pay for it, but for the extortionate price you had to pay for the loans. And one of the reasons for that, and one of the reasons the United States was able to get away with that is because the Asian economies educated a substantial proportion of their labor forces. Our Immigration Act of 1990 gave United States companies access to Asian labor, which I am not at all opposed to. Globalization of labor is not a problem in my view. It's an opportunity to bring the world together. But in the process, the companies then said, hey, we don't need to worry about the government supporting the education system to have the computer scientists, engineers, etc. We can get everybody we want by people, and often they would be the people from abroad enrolled in graduate programs in the United States. Thus a huge portion of our labor force was neglected.

One of my books, which is on the website of the *Institute for New Economic Thinking.* It consists of five working papers on what happened to African American employment over the last four or five decades on how African Americans were actually as blue collar workers getting into the middle class in the '60s and '70s but then got left behind. And then what happened to blacks happened to whites, and then we ended up with Donald Trump. No surprise we have downward mobility. So this is all of a piece of it. If you don't have upward socioeconomic mobility, you don't have a hopeful middle-class, and people are very vulnerable to demagogues. To get an upward mobile middle class, large corporations in critical industries have to invest in labor force, give people secure employment, enable them to earn for decent standards of living. And corporations can do it if they're not financialized. They can do it if they actually allocate the resources in a way that's investing in innovation and buybacks are just the most obvious antithesis to that. And it's not the only thing I focus on, but when you see the buybacks, you know that there's going to be a lot of other bad behavior. They're going to be suppressing wages to get profits up, to do more distributions to shareholders. They're going to be price gouging to avoid taxes, etc. It's all related to this vicious cycle, basically, of what I call downsize-and-distribute, which feeds the inequality that quite logically results from that.

Ralph Nader: Half of the families in this country are poor. So that's how these corporate capitalist bosses delivered for the American people and they exported millions of jobs to Asia for cheap labor and hollowed out communities yet they're not held accountable. And they're buying and renting politicians. It all comes back to whether we can develop a system of public civic education in community after community with a sense of urgency and focus to control Congress, which is the pivot in terms of turning our country around due to the enormous authority of Congress under the Constitution. And the fact that we all know their names—530 men and women who are using our sovereign power and misexercising it as they assign that power to fewer and fewer giant corporations over the political economy.

So it all comes down to an educated small number of people. All great change in our countries come from a tiny percent of the people representing broader public opinion, knowing what they're talking about, and focusing on the decision making arenas, whether it's the legislature or the courts. Anything you can do, Bill, to clarify the message so that people's eyes don't glaze and they lose their patience for concentration on the most essential futures that are coming at them.

William Lazonick: Yeah, that's a challenge and that's why we do the work. But on the other side, we don't just make these statements, we back it up with really understanding what's going on in these companies. And I think what we need is people in Congress who understand and support the labor movement. A lot of people in states, especially legislators are very sympathetic to the arguments we're making here. But they have to do the work to understand these arguments and figure out how to convey them. It might well be, as you mentioned, just 1% of the people who do this, but that's a lot of people who have to understand what's wrong and have to figure out how to message that in a world where it's very hard to do with so much and so many kinds of messaging going on, yet we got to get this message through.

Ralph Nader: We have to conclude. We're out of time. We've been talking to Bill William Lazonick, former professor at Harvard, Columbia, University of Massachusetts, prolific author and one of the clearest, insightful analysts of the dynamics of power in our political economy. Before we leave, Bill, can you tell people how they can reach you for more information?

William Lazonick: You can just send me an email at william.lazonick@gmail.com. That's the easiest way. And yeah, that's probably just get in touch with me. And as long as it's not too overwhelming, I respond to people.

Ralph Nader: Provide feedback, listeners. I know this could feel overwhelming to you, but remember, we have to reduce all this to the virtues and vices of human beings which haven't changed since time immemorial. We clarify at that basis, then we can build the empirical reality and the public policies for a more just society and world. Thank you very much, Bill.

William Lazonick: Okay, thanks a lot. It's great talking with you.

Steve Skrovan: We've been speaking with William Lazonick. We will link to his work at ralphnaderradiohour.com. Now, before we take our leave, let's check in with our corporate crime reporter, Russell Mokhiber.

Russell Mokhiber: From the National Press Building in Washington, D.C., this is your *Corporate Crime Reporter* "Morning Minute" for Friday, June 2, 2023. I'm Russell Mokhiber.

The record $279 million whistleblower award issued by the U.S. Securities and Exchange (SEC) Commission earlier this month stemmed from a bribery case against telecommunications company Ericsson. That's according to a report in the *Wall Street Journal*. The award from the SEC's cash-for-tips program was related to the $1.1 billion settlement the Swedish company reached with U.S. authorities in 2019 over allegations it conspired to make illegal payments to win business in five countries, in violation of U.S. antibribery laws. The SEC didn't name the enforcement action underlying the award and didn't identify the tipster, in keeping with whistleblower protection rules that prevent the regulator from divulging this information to the public.

For the *Corporate Crime Reporter*, I'm Russell Mokhiber.

Steve Skrovan: Thank you, Russell. Welcome back to the *Ralph Nader Radio Hour*. I'm Steve Skrovan, along with David Feldman and Ralph. And that's our show. I want to thank our guest again, William Lazonick.

For those of you listening on the radio, we're going to cut out right now. For you podcast listeners, stay tuned for some bonus material we call "The Wrap Up." A transcript of this program will appear on the *Ralph Nader Radio Hour* Substack site soon after the episode is posted.

David Feldman: Join us next week on the *Ralph Nader Radio Hour*. Thank you, Ralph.

Ralph Nader: Thank you, everybody. You can see from our discussion in the past hour how important Congress is to a resolution of the consumer dollars that are turned into trillions of dollars of wasteful stock buybacks. So get an issue of the *Capitol Hill Citizen* by going to capitolhillcitizen.com so you can become an active Capitol Hill citizen.