RALPH NADER RADIO HOUR EP 276 TRANSCRIPT

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

David Feldman: Well, you live long enough, you see everything. I just witnessed Ralph Nader getting a robo-call and being resigned about it.

Steve Skrovan: Oh, he'll get them back, don't worry. We actually did a show on robo-calls if you recall a few months ago.

David Feldman: He just got one 30 seconds ago before we started.

Steve Skrovan: And of course, the man we're speaking about, the man of the hour, Ralph Nader. Hello, Ralph.

Ralph Nader: Hello everybody.

Steve Skrovan: Good show today. The show is actually sort of thematic today. The state of capitalism is our team on today's program. Both of our guests today provide a unique take on the issue. And I've heard Ralph say that when capitalism crashes, socialism is always there to save it. Well our first guest argues for ways that capitalism can save itself. *Washington Post* Business Columnist, Steven Pearlstein, has a new book out entitled very bluntly *Can American Capitalism Survive? Why Greed is not Good, Opportunity Is Not Equal and Fairness Won't Make Us Poor* In that book, he critiques unfettered free market capitalism and how it has undermined not only our democracy, but the very concept of capitalism itself. In the '80s, we were told that "greed is good." Not many people grasped that when filmmaker Oliver Stone wrote those words, which were uttered by the character Gordon Gekko in the movie *Wall Street*, that he was actually trying to satirize the idea. A lot of people took it seriously. And those words reflected the attitude of the Reagan Revolution and the corporate pushback against Roosevelt's New Deal. Well, we'll find out if capitalism and democracy are compatible as Mr. Pearlstein lays out ways we can revive the true spirit of Adam Smith, probably the original and most misunderstood capitalist. Then in the second half of the show, we're going to take a deep dive into a very specific fault in the capitalist system, also one of Ralph's pet peeves, stock buybacks. Regular listeners to the show have heard Ralph rail against corporate management using excess profits to buy back their own stock in order to inflate the company's share price and therefore qualify for bonuses. Well, stock buybacks have no productive value. They don't create jobs. They stifle innovation. They exacerbate income inequality. And go to *Ralph Nader Radio Hour* YouTube Channel to hear Ralph rake Apple over the coals for celebrating its recent trillion-dollar evaluation fueled in part by buying back its own stock. So, joining us today in the second half of the show is an absolute expert on that topic, Economist William Lazonick. He calls the practice "legalized looting." And as we all know, it's not a show unless we check in with our *Corporate Crime Reporter* Russell Mokhiber. But first, let's ask the big question, Can American Capitalism Survive? David?

David Feldman: Steven Pearlstein is an award-winning business and economics columnist for *The Washington Post*. He was awarded the Pulitzer Prize for commentary for columns explaining the global financial crisis. His latest work is *Can American Capitalism Survive?* Welcome to the *Ralph Nader Radio Hour*, Steven Pearlstein.

Steven Pearlstein: I'm honored to be here.

Ralph Nader: Welcome indeed, Steve. Let's get to your wonderful book here. This is a book for you to read, listeners, because it covers a huge range of forces beyond your control and forces that can be within your control and your daily livelihood and quality of life. It's only about 200 pages. I'm amazed how much you got into it. And just to give people an idea of what's in the book, is his five chapters: 1)"Is Greed Good?"; 2)"Not-So-Just Deserts"; 3)"Is Equality of Opportunity Possible or Even Desirable?"; 4)"Fairness and Growth: A False Choice;" and 5) your recommendations titled "Better Capitalism." And I do have to alert people, this is not about your local Ma and Pa store. This is not about small-town retail business. It's not irrelevant to what Steve is writing about. This is about larger corporations. I've always wondered, Steve, that these large corporations that call themselves capitalist, they actually violate some of the basic principles of capitalism. First of all, they strip their owner shareholders of almost any power over the hired hands at the top of the company. You're not supposed to do that in capitalism. If you own something, you should have some reasonable control. Second, is that when they get in trouble, unlike small business going bankrupt obeying the verdict of the market, they go to Washington for bewildering amount of corporate welfare services or crony capitalism. Third, when they want to compete against smaller companies, oftentimes, they don't compete fairly. They use predatory practices; they get government to help them against the smaller firms. So, I think that's why I always like to call it corporate capitalism rather than just capitalism because they really violate the basic principle of capitalism. So let me ask you the first one, "Is Greed Good?" How do you handle that in the book?

Steven Pearlstein: Well, I go back to two of the people who are intellectually associated with that idea, Adam Smith and Charles Darwin. And I look at in the case of Adam Smith, everyone who takes Economics 101 knows the famous line about . . . and I'm not quoting exactly, but it's not out of regard for their customers that the butcher and the baker provide you with your dinner, but out of self-regard, that is out of their own self-interest. And yes, it is true, capitalism is a system that works because everyone pursues his or her own self-interest and, in the process, as if magically, through the intervention of an "invisible hand," not only do we maximize our own individual welfare, but this system maximizes the welfare, the economic welfare of everybody. And it's true. Capitalism has been the thing since the industrial revolution that has brought billions of people out of poverty and it continues to do so. And it is a system based on this sort of self-regard, this selfishness, this self-interestedness, but even Adam Smith understood that there are limits to that. And if you actually read what he wrote rather than just remember that one famous phrase, you'll find out that he actually was a rather keen observer about the economic system and about human motivation, and that we have multiple motivations, and that the system doesn't work, in fact, if everyone pushes that selfishness and greed too far, because it erodes social capital. That is, it erodes the trust that we have in each other that is very necessary, particularly [for] a complex economy, to work. We just don't have enough judges, and prosecutors, and bailiffs, and lawyers if we can't trust each other in our everyday interactions with each other. And if people don't trust the people they're dealing with, then capitalism won't work. And so, we need not only laws, we need norms of behavior that people don't push it to the extreme. Charles Darwin, by the way, is also used as "survival of the fittest," which actually is not a term he ever used, but that's the only way that the species can improve. And we need to allow the survival of the fittest in business even if it is a bit mean and ruthless. Well, if you read Charles Darwin, what Charles Darwin says is there is a reason why our species is at the top of the food chain and it's because human beings know how to cooperate with each other. They know how to trust; they learn how to trust each other. And it is this cooperation and this feeling of selflessness that allows some tribes to actually prevail over other tribes and that is now hardwired into our nature. So that while we do all have a selfish gene, we also all have a cooperative gene. Sometimes they're in conflict with each other and we need to resolve that. But it is not true that by our nature, we are only selfish. We are also generous and cooperative and empathetic.

Ralph Nader: In your second chapter, "Not-So-Just Deserts", which really goes to the core of reader interest, I think, in this book, you mention free market capitalism. In the U.S. most of the benefits of economic growth have been captured by the richest 10%; it has also been used to provide justification for squeezing workers, cheating consumers avoiding taxes and leaving communities in the lurch. As a result, Americans are losing faith that a free market economy is the best system, I'm quoting. Indeed, I'm startled recently and I'm sure Steve and David were by the polls showing that more and more people, especially young people, favor what they think is socialism, like Bernie Sanders-type socialism--Medicare for All and a living wage by law. What points do you make in "Not-So-Just Deserts", second chapter in your book, *Can American Capitalism Survive*?

Steven Pearlstein: So essential to the sort of intellectual argument for this market fundamentalism that we've embraced in the United States over the last 40 years is the idea that what anyone earns in the marketplace--their market income, their salary, their wages, what they earn from their investments--is an accurate and objective reflection of their personal economic contribution. In other words, they earned it. It is their just desert. And if you tamper with that, if you tamper too much with the incentives of capitalism it amounts to taking it from some people who are more productive and giving it to people who are less productive, that's the equivalent of theft in a moral sense. And that is the sort of classic liberal argument, and the classic fundamentalist argument . . . capitalist fundamentalist argument. What I try to point out, I think fairly successfully, is that what any of us earns in the marketplace is, to some extent, a reflection of your economic contribution, but to a considerable extent, also a reflection of the laws and the norms that we have that decide how the pie is divided. And that these laws and norms are not objective, they're very subjective and political. So that if we decide that slavery is no longer legal, well that changes the distribution of income. If we decide that there should be a minimum income, well that changes the distribution of income. If we decide that Stephen Schwarzman at the Blackstone Group of hedge fund shouldn't pay income taxes on what he earns but should only pay capital gains taxes, which is half of that, well then we change the market income. And we do this in all sorts of ways; some of it is laws, some of it is norms. In the old days, Ralph, you remember in most big companies, big companies that did well shared their profits with all their employees, and so the secretaries and the janitors at the old IBM earned more than secretaries and janitors elsewhere. Why? It was because it was a norm in corporations that you shared the success. And you didn't want the income to be too unequal. Well today, we have a different norm than that. What we do today is we outsource the secretaries and the janitors so we don't have to abide by those norms. That changed the distribution of income. So, when people say I earned that, when someone can point to a salary or when a hedge-fund guy can point to a billion-dollar salary or take-home pay and say, I earned that, well, yeah, he earned it under a certain set of laws and norms. And if we wanted to change those laws and norms, maybe he could only earn a half a billion dollars. And so it isn’t objective, and there is no perfectly objective system. That's the fallacy of capitalism, that there could be a perfectly objective one if government would just get out of the way. There is no perfectly objective measure of economic contribution, except in one system, which is called "the jungle." In the jungle where the strongest guy gets everything, that is a perfect reflection, I suppose, of economic contribution and relative value. But if you have any rules, you automatically start to tinker with the distribution of income. And so, the question is not really whether I deserve this, but whether we like the distribution of income, and if we don't like it, which a lot of people don't today, then we might want to change the rules and the norms.

Ralph Nader: And Steve, I'm going to ask what you mean by "pre-distribution." When John Kerry ran for president in 2004, he addressed the business audience in New Jersey and he said right at the beginning, "I am not a redistributionist." And there was a roar of approval from the business audience because they knew what he meant, of course. But let me set the stage for your description of what you mean by pre-distribution as more economic justice. On page 61 of your book, you basically talk about the profits of Apple that came from American engineers developing the technology. You say "The lion's share of the profit from the sale of every iPhone, iPad, and MacBook computer had wound up in the hands of a wholly owned Irish subsidiary of Apple that had few employees, and for tax purposes, was a resident of no country. And this clever gambit saved Apple $9 billion in taxes in 2012 alone," it's quoting from your book. Now, I think that fits right in with your point about pre-distribution. You want to explain?

Steven Pearlstein: Well, it does, because the tax laws, of not just our country, but now of a lot of different countries combined, meant that basically Apple's shareholders got a much bigger profit than they would have if those laws had been different, and I think you and I would agree, had been somewhat fairer, and Apple had paid more money in taxes. Well, what would’ve happened? Well that money in taxes might have been used to provide services that otherwise would not be there for, maybe, for people who are poorer or sicker; it could also have been used for infrastructure. There's lots of ways tax money could be used. But that affected the distribution of income because it meant that the people who were the beneficiaries of what might have been additional government spending, didn't get that, whereas the shareholders of Apple got it instead. And pre-distribution is simply a fancy economist's way of saying, look, if we want an economic system that divides the pie more fairly, we can do it two ways. We can let the market do what it wants under existing rules and then redistribute afterwards, that is tax, rich people more and give it to poor people in some fashion, or in my opinion, the better strategy, is do a minimal amount of redistribution, but do the pre-distribution, that is to change the laws and the norms that determine market incomes before taxes. That's a better way to do it, that's a stabler, and frankly, more politically acceptable way to do it than to have tax rates of 60 and 70 percent that some people like and then redistribute that money to other people. To me, that doesn't feel right and it's not just to me, to a lot of Americans, that doesn't feel right. But if that redistribution is in a sense done beforehand, pre-distribution, then it's a little more hidden and we find it more acceptable, more morally acceptable, more politically acceptable, and I would argue, it's actually more economically preferable as well.

Ralph Nader: Well that gets us into your surprising view to a lot of people that equality of opportunity really is not possible or even desirable.

Steven Pearlstein: Well this is a controversial idea because it has some echoes of things that we don't like. But the fact of the matter is that we now have a lot of very sophisticated social science that shows us . . . and physical science, that is, biology and psychology, that shows us that half the difference in income between any two people that you would pick at random on the street, half the difference in their income is attributable to who their parents were, and that is both a physical thing that is a genetic thing--which traits and capabilities and talents they inherited. But also, it is a reflection of nurture--nature and nurture. That is to say what talents were able to be nurtured and developed in the early years of life because their parents were either wealthier or not wealthier, because their parents held them or didn't, their parents read to them or did not. And that half the difference in income is attributable to that. Well there's nothing we can do about that after the fact, after the first few years of life and after you get your genetic makeup. And as a result of that, the talents that we have are very different, and that results in very different income differences. And so it isn't . . . it will never be true that we all start out at the same starting line in life. If you start out 7'5", you're going to probably be more likely to play for the NBA than I am, okay, and you're going to be able to make a lot more money. Who can we credit that with? Is that the 7'5" person, or my fault, or is it because of something he did? No, he inherited that. And so, there's a limit to how equal opportunity can be. And the only way we could perhaps make opportunity a little more equal is if we took all children away from their parents at birth and send them to state-run schools for their first 15 years of life and gave them all the exact same education, well, I suppose we could make an opportunity more equal, but that's why we don't do that because we don't want to do that and we probably shouldn't do that. And as a result of that, we have to accept the fact that opportunity can never be equal. It's more equal than it used to be 200 years ago; that's certainly true that women have more opportunity, and people who aren't white have more opportunity, and people who are poor have more opportunity than they did 200 years ago, but we'll never make it equal. And there are people who say, look, and these are the market fundamentalists, we shouldn't care about inequality of income. All that matters is equality of opportunity. Well the truth is, we never can have equality of opportunity. And so again, if you're unhappy with the distribution of income, you can't rely solely on making opportunity more equal. You might have to do things like redistribution or pre-distribution.

Ralph Nader: Yeah, as a matter of fact, there's so many examples of this. When we did the study on standardized testing, SAT, the scores of the students correlated with family income. And people said, "What? What do you mean?" And then we said, yeah, I mean, if you grow up in Scarsdale or Belmont, Massachusetts, you don't have sirens and at night, you don't have rats flowing around, you don't have undernutrition, and all kinds of tenant problems from landlords, you're likely to grow up learning how to score higher on these tests. And of course, if you do, then all kinds of opportunity opens to you compared to people, youngsters who started out in dire poverty. But let's get to your recommendations because it leads right in to one of them, which is Universal Basic Income. Can you give us, rather briefly because of time problems Steve, the kind of major recommendations that come out of your many, many years of analysis here?

Steven Pearlstein: Well, you mentioned Universal Basic Income. Mine is not a very radical one. And I don't call it that, I call it "a citizen's dividend." And basically I'm talking about $3,000 per year per person as a dividend to all Americans, a dividend like a company for the bounty that our country and our system not only our natural resources, but our very good, or once was very good, political system and our economic system, we all ought to enjoy that together and we all ought to get the same. Now that sounds like, well gee, that might be expensive, for example, if you have a family of four, that's $12,000. And when you combine that with even today's low-minimum wage, that would put almost everybody who is in a working household above the poverty level, which would be a big pretty good accomplishment. But it's not as much of a UBI as other people want, but it's, I think, a place to start. But here's a thing about UBI. I mean the money doesn't grow on trees; you have to raise it from somebody. And essentially what I propose is that basically you send a check to everybody on July 4th of every year, okay, but then in the tax code, you basically take away with one hand what you get with the other hand for people who have household incomes above 120% of the median or something like that. So that how you pay for that is you tax people who are more successful in the marketplace and provide that safety net for everybody. But I like to put it in terms of a dividend rather than in terms of welfare. And the way I also emphasize that is that in addition to that, I would pair that with three years of required universal service sometime during your lifetime, not necessarily when you're young, it could be any time during your lifetime including retirement. And so, while we both have a right to not live in poverty, we also have an obligation to contribute. And I like to frame it that way because I think it's politically more acceptable and it really enhances the idea that we are responsible for each other and it helps to encourage social capital, which I mentioned at the beginning, that is the trust and the feeling of obligation that we have for each other.

Ralph Nader: You have wonderful examples of national service also. On page 179, you talk about some will want to staff pre-K centers for poor children, or others might want to prefer after-school and summer recreation programs, or mentoring high school dropouts; some might think the highest priority is building low-income housing, blazing hiking trails in national forests. And competing for volunteers, the most effective, and impactful nonprofits are likely to grow while the least effective wither away. You also, of course, call for limiting special-interest money in politics, that's another one. You call for sharing profits--profit sharing with employees. The evidence is overwhelming; the companies that have profit sharing just do better all-around.

Steven Pearlstein: Again, I wouldn't pass a law saying all companies must, but I would change the tax code so that there is a big tax penalty for a company that doesn't have some sort of profit-sharing plan. And by the way, I wouldn't prescribe one plan. There's all sorts of ways to share profits with companies. And let me remind people that when there are no profits, there are no profits to share as well, so employees would do less well when the company does less well, and do well when the company does well. It seems to me that that's pretty basic human resource management. Most of the studies, as you say, show that that's useful. And we have it in about, I don't know, about a third of companies today--big companies a little more than smaller companies. In this respect actually, Ralph, small companies lag behind in profit sharing.

Ralph Nader: Well, they lag behind in profit markups, too, for the most part.

Steven Pearlstein: Yes, they do.

Ralph Nader: Speaking of that, you also favor strong anti-trust enforcement. You call it reducing concentration and restoring competition and you don’t let companies like Google, Facebook, and Amazon off the hook on this as well.

Steven Pearlstein: You know, the biggest source of inequality in recent years, Ralph, is not between people who have a college education and don't. That was always a big gap, but it's not getting any bigger particularly. The biggest gap in income inequality . . . the biggest driver of income inequality is between an engineer at Google and an engineer at some small company in the middle of North Dakota. It's between a human resource official at Facebook and a human resource executive at some company that doesn't earn so much money. So, concentration is concentrating not only profits in a certain company, it's actually concentrating earned income in certain successful companies. And what is the main characteristic of these companies? They have market power, that is this over concentration. They are able to dictate the price rather than simply to take the price from the marketplace. And so anti-trust is now got to be a central feature of any program to make the distribution of income more equitable.

Ralph Nader: They also have a patent monopoly advantages, they have corporate welfare; government R&D built a lot of these major industries from nano-tech to bio-tech to pharmaceutical, not to mention Silicon Valley whose executives admitted it in congressional hearings, said we need more government research for basic research. We don't do basic research; we do applied research like Apple building its iPhone. The one thing I never dreamed corporate capitalism would ever exhibit when I was at law school is that they don't know what to do with their money. But they have generated so much profit from consumer sales and other government benefits, that they have spent in the U.S. alone $7 trillion on stock buybacks, buying back their stock, increasing the metrics for their own executive compensation, and as Steve Skrovan said at the beginning, these stock buybacks don't create jobs. They don't engage in productive enterprise. They don't shore up pension plans that are underfunded for their workers. They don't do research and development and create new services, etcetera. How do you deal with these corporate executives who don't know what to do with their cash other than stock buybacks?

Steven Pearlstein: Well, Ralph, I don't like most stock buybacks, I agree, but you and I might disagree on this a little bit. Let's put aside the question of how much profits companies earn. If they earn it and they don't have a good . . . if they don't find that they have a place where they can invest it and get a good return, then they really should return it to their shareholders. But the first thing I would say is they should return it to their shareholders in the old fashioned way, which is paying a dividend.

Ralph Nader: Right. How about reducing the consumer price of the iPhone?

Steven Pearlstein: Well, they might, but apparently, they don't have to. You see if reducing the price would increase their sales and profits, they would have done that, and that's probably true. But they don't need to in the case of, you just mentioned one, because they don't have to. They have a, sort of, quasi-monopoly or their product is so good, they don't have to do that. Well, fine, but return the profit to the shareholder as a dividend. Why is that important? The reason they use stock buyback is to avoid taxes, Ralph. That's the only reason they do that. So, the first thing would happen, if you pay a dividend, the government will get some taxes on it, and they'll get taxes at earned . . . at the ordinary tax rate, not the capital gains rate, and . . .

Ralph Nader: And people will spend it. Shareholders get more dividends; they'll buy more in the market. The mutual funds and the pension funds will get more money, and they represent millions and millions of investors. Yeah, I'm all for it.

Steven Pearlstein: Or they will re-invest it in a company that does have a better use for it. The argument, and it was not a bad argument, that one of the reasons we don't want companies to retain too much of their profits is they have a tendency, a) to use it to buy other companies, which isn't productive as you know, or they have a tendency to invest it in basically making an empire, in making the company bigger. And doing things that aren't all that profitable when the better use would be to let the market decide what is the best, next best investment rather than let the executives of those companies build empires. So, there's some reason . . . there's a good reason why companies, if they can't figure out something better to do, to give it back to the shareholders. Now you say, well, why don't they give it to their employees? Well, I would say, yes, all companies should share profits with employees, but at a particular point, there still may be too much money left over and you have to deal with the question of why employees don't get paid more through the labor laws rather than try to do it . . . to say well, they should pay their employees more. Well there's a reason why they don't. They obviously don't feel they need to in order to attract and retain the best employees. Now maybe we need to change labor laws so they feel they need to do that because there's a power imbalance. But as a general rule, you don't want to get into telling corporations what they should do with their profits. The government shouldn't because I don't think that'll work out so well.

Ralph Nader: That's where you get into your pre-distribution.

Steven Pearlstein: Yes.

Ralph Nader: Walmart is a good example of what you're talking about. It has $50 billion in stock buybacks in the last 10 years. And until recently, it had a million workers making less today than Walmart workers made in 1968, adjusted for inflation. So the argument is, hey, if you don't want heavy employee turnover, you want more motivated workers like Costco pursues, they pay better; Walmart use some of that money to pay your workers so they can put bread on the table instead of buying back your stock in order to increase the stock value for the Walton family, so . . .

Steven Pearlstein: That's correct and it's not just that. It's not just to be able to have lower turnover and attract more workers, it turns out that in today's world, in a rich country like the United States, some consumers don't like dealing with companies who they know squeeze their workers too much. There are people in the world who won't deal with Walmart because of that. And you know what, there were people in the world who started to boycott Amazon because it wasn't paying its low-level workers enough. And Amazon responded to that by saying we're going to pay a $15 minimum wage. And why did they do that? Well maybe it's because they're nice guys, but I think the real reason they did that was that there were some customers who didn't like dealing with them because they were squeezing their low-end workers. But also, they were finding it was hard to attract high-end talent because a lot of young people today, talented young people, won't go to work for a company that they think treats its employees badly. So, they essentially saw the market- place sending them signals, which is it's better for us overall if we offer this $15 minimum wage. And Amazon did that. And by the way, after Amazon did that, they said, and by the way, we think the government should pass a law that requires everyone to do that.

Ralph Nader: Yeah, it's amazing how it's working now. Social media has some benefits. Consumer feedback very specific to companies, very specific to products, very specific to environmental malfeasance, it's really beginning to have an impact. By the way, I just heard a report that the first year under the Trump's tax law, corporations that are reporting enormous profits, had a reduction in their federal income tax of 26%. And then we wonder why our public works and infrastructure are crumbling and Trump says we don't have money to pay to rebuild America.

Steven Pearlstein: This is one thing, Ralph, that I wish every Democratic presidential candidate would say, which is there's a group of rich countries called the OECD. And among the OECD, there's an average percentage of GDP that corporations and businesses pay in taxes. By the way, you just can't say corporate, you have to say corporations and non-corporate businesses. There's an average of what percentage of the tax of the GDP that businesses pay. And we should say that's going to be our target, too, because we're well below that target. And it's somewhere, percentage of GDP, we should set that and as a percentage of all tax revenue raised. And right now, corporations are not paying their fair share. If you ask them honestly, they'll say we're not paying our fair share and we should set that as a target. We shouldn’t tax our businesses more than other countries, but we shouldn't tax them less either.

Ralph Nader: Steve and David, any comments and questions?

David Feldman: Yes, I have a question about jurisdiction. Other than taxation, what can the federal government do to dictate corporate governance and how does a charter work? Is Walmart chartered in a specific state? So is it up to the state . . . I don't know, maybe its chartered in Arkansas; does Arkansas dictate corporate governance? How does the president or Congress dictate how/whether or not Walmart has to put union workers on their board?

Steven Pearlstein: Well, there are ways that the federal government could do that. For example, in the case of publicly traded companies, the Congress could pass laws related to that. I mean, Congress could do all sorts of things that changes the distribution of income within companies. Tax law is one way; labor law is another way. You asked about jurisdiction. Most big corporations are based in Delaware and Delaware law holds and Delaware law has been the law that has been used to justify the idea that maximizing shareholder value is the only purpose of a corporation. In fact that's a fallacy. Delaware law does not require that, but you would be surprised the percentage of directors and executives and even corporate lawyers who believe that to be the case. And so, Elizabeth Warren, with whom I disagree about a lot, actually has a suggestion that she got, if she knows it or not, from Ralph Nader, which was that the federal government should charter corporations. And there should be federal laws that dictate the purpose of corporations that then perhaps say something to the effect that corporations can be run for any purpose, but that there's no one particular set of stakeholders that should benefit over the others. That would give companies the freedom, if they had a federal charter rather than a Delaware charter, to balance the interests of workers, and consumers, and communities, and the public, and their shareholders rather than feeling as if they had an obligation to put shareholders first.

Ralph Nader: By the way, the federal chartering of large corporations was proposed in the presidential election of 1912 by Conservative William Howard Taft and Progressive Teddy Roosevelt.

Steven Pearlstein: Okay, so it wasn't your idea, Ralph, it was William Howard Taft's? Okay.

Ralph Nader: I just picked it up after a period of ignoring that way of rewriting the contract between the state, meaning the government, and global corporations. Well there's a lot we didn't discuss with Steve Pearlstein, and that's why you should read the book and make it a subject of living room conversations. Every change in our country's history started with a conversation between a few people. We're talking about Steve's recent book published by St Martin's Press called *Can American Capitalism Survive*? And the subtitle is *Why Greed is Not Good, Opportunity is Not Equal, and Fairness Won't Make Us Poor*. Pretty provocative. Thank you very much, Steve Pearlstein. Thank you for all your work and your forthcoming writings as well.

Steven Pearlstein: Thanks, Steve, David, and of course, Ralph. Good to be with you.

Steve Skrovan: We have been speaking with Steven Pearlstein, author of *Can American Capitalism Survive*? We will link to that at ralphnaderradiohour.com. We're going to take a short break. When we come back, we're going to discuss in depth one of Ralph's corporate pet peeves, stock buybacks, and actually how it affected Boeing MAX 8 tragedies. We're going to be doing that with Economist William Lazonick, but first, we're going to head over to the National Press Building and hear from our tireless *Corporate Crime Reporter* Russell Mokhiber, back after this.

Russell Mokhiber: From the National Press Building in Washington, D.C., this is your *Corporate Crime Reporter* “Morning Minute” for Friday, June 21, 2019. I'm Russell Mokhiber. Opioid manufacturer Insys Therapeutics will enter into a deferred prosecution agreement with the Federal Government. An Insys operating subsidiary will plead guilty to five counts of mail fraud, and the company will pay a $2 million fine and 28 million dollars in forfeiture. Insys will also pay $195 million to settle allegations that it violated the False Claims Act. The investigation stemmed from Insys's payment of kickbacks and other unlawful marketing practices in connection with the marketing of Subsys, a fentanyl spray, which is a powerful, but highly addictive opioid pain killer. In 2012, Insys began using "speaker programs" that were actually used as a vehicle to pay bribes and kickbacks to targeted practitioners. For the *Corporate Crime Reporter*, I'm Russell Mokhiber.

Steve Skrovan: Thank you, Russell. When the Republican-led Congress and the Trump Administration cut the corporate tax rate, they argued that it would spur productivity. Instead many of these corporations use the excess profits to buy back their own stock. What's wrong with that? Here to tell us is our next guest. David?

David Feldman: William Lazonick is a professor of economics at the University of Massachusetts Lowell. His article "Profits Without Prosperity: Stock Buybacks Manipulate the Market and Leave Most Americans Worse Off" earned the HBR McKinsey Award for outstanding article in the *Harvard Business Review*. Welcome to the *Ralph Nader Radio Hour*, William Lazonick.

William Lazonick: Hello, it's good to be here.

Ralph Nader: I'm going to read a paragraph from your explosive article that came out in *The Prospect*, a magazine, very recently, connecting Boeing stock buybacks and other investment policies with the decisions that led to the Boeing MAX crashes. Here's the quote, "Our research, based on publicly available information, strongly suggests that the dedication of Boeing’s senior executives to increasing their company profits and stock yield, which also augmented their own compensation, resulted in management decisions that contributed to the two 737 MAX crashes.

While much more information remains to be discovered, the reported evidence, still unfolding almost daily, points to executive culpability in the crashes that took the lives of 346 passengers and crew." And you also say "Since 2013, Boeing's top management embarked on massive distributions to shareholders through dividends and, in far larger sums, stock buybacks." The connection may seem tenuous to people who don't know anywhere near as much as Bill Lazonick knows. Bill, tell us what the connection is. It's really quite clear once you get the evidence.

William Lazonick: Yeah. Okay, so first of all, anybody who's the head of a corporation, say the CEO, CFO, top management, they're going to be worried about decisions they have made that don't work out and ruin their reputations, ruin their careers; lead them to be fired, whatever. And that can happen even if they're not incentivized by stock-based pay. But what you have in the United States is a system under the notion that companies should be run to maximize shareholder value - which is very problematic - that says we incentivize top executives with stock-based pay or pay that large components are related to the stock price. So what we show in this article - in addition to the facts of the case as we know them in the Boeing crashes and in the development of the plane, or the lack of developmental of the plane, the concealing of information, etcetera, that may have contributed to the crashes - is we document the extent to which as we now know it, an unsafe plane was being sold in the thousands; they sold over 5,000 of these 737 MAXs by March of 2019. As these planes were being sold, the executives had every reason to know that they were unsafe. And meanwhile, they were benefiting from having the bestselling plane in the history of a company that's over 100 years old. To the top executive, Muilenburg, it was to the tune of about $2 million per month that he was pulling into his bank account from his various types of executive pay, most of it--as we documented in the article, people can look at the numbers--most of it stock based or related to metrics related to the stock market. So now if that metric actually represented the actual performance of the company, we might still think that that's way too much and I'd say that it is. Because you have a company of tens of thousands of people on which the products it produces depend on their skill and effort or we have, as I just heard at the end of the previous segment, you were talking about the extent to which the government subsidizes corporations; that couldn't be more true than a company like Boeing and its history and including now. So, for these top executives to be reaping all these gains from the stock market is problematic. For Muilenburg, since 2015, became CEO through 2018, it was about $96 million. But in addition, they're doing it because they're basically typing the stock market. And even more than that, and this is where buybacks come in, they're manipulating the stock market. So, the types of stock buybacks they're doing, which are open market repurchases where the broker for the company is going in increasing the demand for stock, which were about $43 billion from 2013 to the first quarter of 2019; that is well over 100% of their profits in addition to very ample dividends. Dividends are about 40% of their profits and Boeing was known as a dividend rock star, so their shareholder dividends - they're doing all these buybacks. And the sole purpose of doing these buybacks is to give an artificial manipulative boost to the company's stock price; they gain directly from that activity.

Ralph Nader: And that affects their management decisions about whether to build the new plane in 2011 or whether to go with the defective 737 Boeing MAX.

William Lazonick: Well, yeah, we need to do a lot more . . . and it should be congressional inquiries into their failure to develop a wholly . . . redesigned, a clean sheet replacement to the

737 NG, which is what they should have done, and actually they did start a project to do that. There needs to be investigations into once they decided to do that, how they concealed the extent to which it was unsafe, and the extent to which they had and even the existence of a software fix to make it seem like it wasn't unsafe, now known as the MCAS, M-C-A-S. So that certainly could have been affected by the way they were being paid. What we do know is that back in around 2005 to 2010 when they had the opportunity and many ways the need to do a clean sheet replacement because of advances in avionics, advances in materials, and that's what they should have done. The estimate of the extra cost of doing that over a re-engineered upgrade to the 737 MAX was $7 billion. Now even between 2004 and 2008, besides paying ample dividends, they did $11 billion in buybacks. Now we can't say necessarily that they still didn't have the money to do the wholly re-designed plane, but they made decisions about allocating resources that, in effect, it was more important to manipulate their stock price than to have a plane for the future, the plane that they should have built at that time. And then once they have all the sales of the planes, they were doing, on average, about $7 billion a year between 2013, and really, they were doing them right up until the second crash in March. In fact, one of the things we show is that on December, I think it was December 17th, 2018, less than two months after the Lion Air crash, with their stock price still soaring, in fact, they were . . . become about 10% of the weight of the Dow Jones, which only has 30 stocks, so it was really . . . everybody was watching Boeing stock because they had all these sales, because they were boosting their stock price, the decision, the board . . . the decision to increase their dividend, this was after . . . less than two months after the first crash, to increase the dividend by 20%, because that's how great they were performing and to authorize the new 20 billion stock-buyback program. So they had done about average 9.1 billion the previous two years, 2017, 2018. I think they would have done at least 12 billion in 2019, if it hadn't been for the crash. So, they did about 2.3 billion, all of it appears before the crash on March 10th. And on March 1st, 2019, their stock price hit an all-time peak, so people were discounting that basically the first crash was just an anomaly as an unworthy plane, as pilot error or something like that, until, of course, the second crash occurred. And it was quite clear because now you have done investigations of the first crash and its causes, people thought it was for the exact same reason and that, of course, led to the grounding of the planes. But, yes, they would've just pursued the strategy of getting the stock price up as much as possible; that's the top priority for the company and they're lining their pockets as a result of doing it.

Ralph Nader: And here's the sequence, listeners, Boeing was known as a superb engineering company until its managers and executives decided to turn it into basically an investment-priority company with higher stock values and higher compensation for the executives. So here's the consequence for airline travelers, that when a company makes big profits and doesn't reinvest them in updated and superior aircraft and goes with an old fuselage with overloaded engines--a fuselage based on 1960 technology, it's not good for air travel and air travel safety as the next of kin have realized in the Indonesian-Ethiopian crashes so tragically. And here is the most important thing listeners can remember from Bill's study, and I'm going to quote. "Between the first quarter of 2013 and the first quarter of 2019, Boeing spent $43 billion on buybacks and that was equal (listen to this) to 104% of profits." If you put the dividends of Boeing to shareholders and the stock buybacks, the stock buybacks mean bigger in dollars, Bill, together, it exceeds the corporate profits. So of course, they're not going to reinvest in a clean-sheet, new aircraft, and they're going to go with the hoaked-up Boeing 737 MAX." Am I reading your article correctly?

William Lazonick: Yeah, yeah. So, they're making allocating decisions, which are putting . . . and as you stated it - I mean you could sum it up - they're putting boosting the stock price way ahead of passenger safety. And there is no doubt that if you run an aircraft manufacturing company that the fundamental purpose of that company is to produce a safe plane. It's not to make profits. If you produce a safe plane, you should be able to make profits. And in Boeing's case, it was easy to make profits because there's only two in the industry. And as you said, Boeing has a long history of engineering capability, it can do whatever engineering it wanted given available technology and even advancing technology, given the people that Boeing can hire, the types of planes it could build, so it's not a question even of is there any uncertainty that if it builds the safest plane possible, the most advanced plane possible, the most fuel-efficient plane possible, is it going to make profits? Of course, it's going to make profits. But those profits then should be reinvested in a company, and actually a big chunk of it, is not just Boeing, all companies should be paying us as taxpayers back for all the money that we spent on infrastructure and knowledge and subsidies that support these companies once they start making all these profits. And of course, under the notion that companies should be run to maximize shareholder value, and again it's not Boeing, this is an American disease. And that's not what companies are doing. So, what's going on with Boeing is going on in virtually every large company in the United States. This is pot of gold that is there because of the success of the company, which has actually zero to do with the public shareholders.

Ralph Nader: And that's why as your research demonstrates, about $7 trillion in the last 10 years have been blown away with stock buybacks. That money coming from consumers and government programs, which doesn't create any new jobs, as you pointed out in your many articles. Do you think you're going to be able to testify before the House or the Senate on the continuing Boeing 737 MAX crash investigations, Bill?

William Lazonick: Sure. If I'm asked to, I will. Yes, certainly. And so far as my knowledge of the industry, I might say that my co-author Mustafa Erdem Sakinç, who is a Professor of Economics in Paris, he did his PhD thesis at University of Bordeaux two years ago on comparing Airbus and Boeing, and their business models, and all the various types of strategy on really this question of the tension between innovation and financialization. And one of the things, of course, as I said, we know that this is in a lot of the articles I've written, have shown that this is a problem for the U.S. corporate economy as a whole and for us as a whole as U.S. citizens. But it also is very important to know the details of each case to see what choices were made and what choices weren't made to see the damage that this obsession with shareholder value has done particularly when you can move the company, not just by paying dividends, which is the traditional way of getting a yield to shareholders, but in addition and on top of that, massive amounts of stock buybacks.

Ralph Nader: And, I might add, it led Dennis Muilenburg to have a board of directors that's a rubber stamp. There's nobody on the Boeing board of directors who has any experience with commercial aviation. Caroline Kennedy is on the board, former ambassador to Japan. She might be better placed on the board of the ACLU on the kind of work he did before she was on the board of Boeing. Nikki Haley, who was governor of South Carolina and facilitated Boeing's opening of a heavily subsidized nonunion manufacturing plant in South Carolina, has just been appointed to the board. And the question we're asking is, what did Dennis Muilenburg tell the board and when about the Boeing 737 MAX. And if they kept the board in the dark, there's a problem with the SEC on that. And if they told the board of directors all the misleading stuff that they told the public and the FAA and the airlines and the pilot unions, then the board is in serious complicity. So, you see one thing leads to another when you move from an engineering company to an investment stock-value company.

William Lazonick: Yes, certainly. And the fact is, we know quite a bit, as you quoted, when we published this article May 31st, I think it's still the case now; the new facts are coming out almost daily about this situation. The planes are still grounded. We don't know what's going to happen to the company. But the fact is that we need to find a lot more and a lot more is only going to be discovered if you have a serious congressional inquiry into this, which delves into, which really asks the hard questions--who knew what, when. And I think that all the evidence points to that it will not look good for Boeing's stock executives.

Ralph Nader: And I might quote your conclusion from a long analytic article in *The Prospect*, which was called "Make Passengers Safer? Boeing Just Made Shareholders Richer." And your conclusion is, "For this failure, Boeing's senior executives should be fired and the many millions they awarded themselves clawed back. The Boeing board should be replaced by directors who are able and willing to serve the public interest for safe, fuel-efficient and cost-effective aircraft." For the record, Boeing directors are paid over $300,000 each for attending a few meetings and leafing through some briefing books--over $300,000 each per year! Thank you very much, Bill Lazonick, who has done the greatest work in the country on this grotesque mutation of corporate capitalism where they're piling up profits, don't know what to do with it other than to enrich their own compensation through stock buybacks that don't create any jobs, don't do any research and development, don't lower the prices of their products, don't shore up they're underfunded pension funds, etcetera, etcetera. The latest grotesque mutation of giant global capitalism, not knowing what to do with the massive profits that they've piled up, other than to distort investment priorities and enrich themselves at the top of the corporation. Thank you very much, Bill.

William Lazonick: Yeah, well, thank you for the work that you continue to do as well. Thanks.

Ralph Nader: You're welcome.

Steve Skrovan: We have speaking with Economist William Lazonick. We'll link to his work at ralphnaderradiohour.com. I want to thank our guests again, Steven Pearlstein and William Lazonick. For those of you listening on the radio, that's our show. For you podcast listeners, stay tuned for some bonus material we call the Wrap Up. A transcript to this show will appear on the *Ralph Nader Radio Hour* website soon after the episode is posted.

David Feldman: Subscribe to us on our *Ralph Nader Radio Hour* YouTube channel. And for Ralph's weekly column, it's free, go to nader.org. For more from Russell Mokhiber, go to corporatecrimereporter.com.

Steve Skrovan: And Ralph has got two new books out, the fable, *How the Rats Re-Formed the Congress*. To acquire a copy of that, go to ratsreformedcongress.org, and *To the Ramparts*: *How Bush and Obama Paved the Way for the Trump Presidency, and Why It Isn't Too Late to Reverse Course*. We will link to that also.

David Feldman: The producers of the *Ralph Nader Radio Hour* are Jimmy Lee Wirt and Matthew Marran. Our executive producer is Alan Minsky.

Steve Skrovan: Our theme music "Stand up, Rise Up" was written and performed by Kemp Harris. Our proofreader is Elisabeth Solomon.

David Feldman: Join us next week on the *Ralph Nader Radio Hour* when we welcome back Ellen Brown with her new book *Banking on the People*: *Democratizing Money in the Digital Age*. Thank you, Ralph.

Ralph Nader: Thank you, everybody. And if you're a high school teacher out there and you want your students to get interested in Congress, let me recommend *How the Rats Reformed the Congress*.