<u>The price of value extraction</u>

The state of modern capitalism is questionable. The rich get richer and the poor get poorer. Apple's maximisation of shareholder value is instrumental in creating this imbalance, putting pressure on other stakeholders such as workers, suppliers and the community. In this essay, I will start of by illustrating how our society went from the strategy of "retain and reinvest" to "downsize and distribute". I will show how this resulted in Apple adapting a policy of stock buybacks through the work of William Lazonick, this approach rewards shareholders not other US stakeholders. Furthermore, I will underline that shareholders are not the only stakeholders taking risks, with the help of Mariana Mazzucato's research. Using the findings of Peter Nolan, I will shed light on a broader segment of stakeholders in Apple's global supply chain, specifically in China. I will then investigate Smith's concerns about the division of labour, in light of Apple's manufacturer Foxconn. I will analyse the consequences of Apple's maximization of shareholder value and reflect upon its repercussions for stakeholders in particularly the US and China. To conclude, I will accentuate the importance of value creation, as opposed to value extraction.

In the 1930s managerialism was prominent. The idea that you were managing the company for the people that were in it. It was common to think that attracting the best employees and often keeping them for life, would create the best products. Companies were intertwined with its communities. Many even firms created defined pension plans for their employees. Henry Ford for example, increasing average pay from $2.25 to 5$, so his employees could the cars they were selling, is the prime example of managerialism. The strategy of "retain and reinvest" was essential, investing profits back into the company and minimal pay-outs to shareholders. However, this period was soon coming to an end.

In the 1970s, the notion that managerialism was abused and perverted came into play. In addition to this, you had the rise of Milton Friedman, a free marketer. He believed that the social responsibility of a company is to increase its profits. He also believed that managers were agents of the individuals who own the corporation. Apple was founded in 1976 by Steve Jobs and Steve Wozniack in the US and soon followed the inevitable pattern of Friedman's policy by, “cutting the fat”, asset reconstruction, selling off “non-core business” to upgrade their asset portfolio. Former communist planned economies were opening its boarders to trade, and Apple started manufacturing their products more and more overseas. This would eventually land a partnership with the Taiwanese company “Foxconn” based in China. The strategy of” downsize and distribute” became key, focusing on paying dividends to shareholders and cutting off parts of the company that were not making adequate profits. By the turn of the century, managerialism was a thing of the past and companies including Apple were focusing on maximizing shareholder value.

The effect of maximizing shareholder value is that corporate profitability is not translating into wide-spread economic growth among stakeholders, such as workers, taxpayers and the community. They drive up stockprices short-term but long-term undermine growth, income equality and job stability. Lazonick believes the allocation of corporate profits into stock buybacks deserves much of the blame. In the same way, Mazzucato believes that buybacks are not giving the state it’s reward and is hurting the economy and social classes. She believes that much of Apple’s success comes from government funded research, the state and taxpayers therefore deserve return on their risk. She explains how the technology in Apple products is and has been funded by the US government including Siri and the Internet by DARPA. Her main point being that the government does not merely fix market failures but actively creates markets. Both Lazonick and Mazzucato argue there are other stakeholders at play in the US who are being overlooked by the major corporations.

By focusing on downside and distribute, value is being extracted not created. Not all buybacks are bad, tender offers also exist, but open market repurchases undermined shared prosperity. For example, when Charles Icahn bought Apple shares from another shareholder, it did not contribute to Apple’s growth or prosperity for its stakeholders. So, it does not make sense when Apple calls its buyback schemes “Capital Return Program”, when with shareholders like Icahn no capital was given in the first place. Lazonick explains. Icahn sold the shares and gained 2 billion dollars, essentially only extracting value from Apple and its shareholders not investing in its long-term future. On the other hand, Mazzucato reveals, the government created value in Apple with an equity investment amounting to approximately $500.000 prior to its IPO in 1980. This illustrates how, value creators are losing out to the value extractors, however from a global perspective there are even more stakeholders to be considered.

Apple has dramatically increased its profits through outsourcing. Nolan explains how large firms like Apple are system integrators and with their HQ in high-income countries build global production systems. The large firm is the sphere over which conscious coordination of recourse allocation takes place and has now enormously grown in size, including new stakeholders such as factory workers and foreign states and communities. Apple continues to maximize shareholder value, even globally, as earnings from outsourcing are not deployed into re-invest and productive renewal but instead distributed to shareholders. As Apple aggressively pursues shareholder profit, the cascade effect forms. Nolan explains that intense pressure is put upon the supply chain in order to minimize costs and stimulate technical progress. Hence industrial concentration is increased as only a small number of firms can compete with this pressure, Apple's main manufacturer Foxconn and its stakeholders most notably remains standing. However, being the main manufacturer of a system integrator like Apple comes at a cost.

Apple employs the division of labour in its global production system. Factory workers at Foxconn in China find themselves at the bottom of the new division of labour and under the intense pressure of the cascade effect. Adam Smith explains that the division of labour, increases dexterity, saves time and improves automation, which in Apple's case has led to maximising shareholder value. On the other hand, he tells us how this comes at cost of the great body of people being confined to simple operations, frequently one or two. Smith fears that this kills invention, courage and cultivates stupidity. We can see the correlation to Foxconn when Nolan tells us how a factory worker describes themselves as "merely a speck of dust". This is further underlined, when Smith compares a street porter to a philosopher and says they are the same in terms of natural ability. The CEO of Apple, Tim Cook can be seen as the philosopher and the Chinese factory worker as the street porter. However, Smith sees that the division of labour fragments people and selectively nurtures abilities. Tim Cook has benefited of the new division of labour, but can he help balance the scales?

Apple adopted a retain and reinvest policy under Steve Jobs, according to Lazonick and Mazzucato. Lazonick further attacks Apple current state after Job's departure as, merely adding improvements to existing technologies. This is backed up by Muzzzocato's findings of Apple declining R&D ratios compared to sales. In addition to her research of Apple utilizing previously government funded technology, the ClickWheel function on the iPod for example. Lazonick believes a CEO's job is to find new investment opportunities instead wasting recourses on open market buybacks. It is therefore fair to question if Tim Cook is doing his job? Would Adam Smith would class him as a true philosopher? Adam Smith mentions that a real philosopher created the *fire engine* and the improvements after this are made by inferior artists. Perhaps Steve Jobs' focus on reinvestment and research and innovation a mark of a real philosopher and maybe this is a direction other leaders should follow.

The consequences of solely focusing on maximising shareholder value are being realised. The Business Roundtable, consisting of top CEO's in the US signed document stating that they share a fundamental commitment to all stakeholders. This is most definitely a step in the right direction, however, needs to be backed up by action. Productivity and wages have parted ways for too long, companies need to start sharing the profit. Lazonick tells us that trillions of dollars that could be spent on innovation and job creation has been spent on stock price manipulation instead. MSV has affected stakeholders in the US and China through, wages barely rising, decreasing job stability, lower social mobility. In addition to public services being starved, frequent cutbacks and increased tax on ordinary citizens. In the US taxpayers are not reaping rewards for investing in technology used in companies like Apple. In China labour rights are being violated, such as work hours, workplace abuse and conditions all in the name of profits. It is time to find a solution to the prevalent problem of maximising shareholder value.

To conclude, maximising shareholder value has had devastating effects on society but also helped further advance our communities. It has caused an extreme growth in wealth among the developed countries, GDP has risen and technological developments have advanced. Apple says it's the biggest taxpayer in the US, contributing to its community. The U.S government has benefited from the insights Apple products provide, as they have become a form of arms of defence. Chinese migrant workers enjoy a higher salary than they would in rural areas and the Chinese market simultaneously grows stronger. However, this only paints part of the picture. The stock market manipulation buybacks create could eventually lead to the bubble bursting, ordinary citizens in the US and China will pay when the market crashes. The benefits of maximising shareholder value often come at the unethical cost of people at the bottom of the division of labour, despite creating universal opulence.

In line with Lazonick and Mazzucato, I believe that the government should step in as corporations and the stock market are vital for the economy. As Lazonick suggests putting an end to open-market buybacks and stock-based pay is key. In light of Muzzucato's research on how much corporations benefit on government funded research; I also believe taxes should be raised for the relevant firms. Regardless of political alliances leaders like Bernie Sanders and Jeremy Corbyn have paved the way for corporate greed to be questioned. I have also come to understand that through Nolan's work that system integrators are the driving force of much of society. Despite the flaws of the division of labour, I share Smith's view of educating the masses. I do not claim to have found a patch, but recognize the idea introduced by Sayer, stating the importance of rotating the roles of the people in the division of labour. I believe our duty as a society, whether we be streetporter or philosopher, is to favour value creation over value extraction.