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From Shared Prosperity to Shareholder Supremacy: The Moral Reordering of Capitalism

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Abstract
This paper examines the transformation of capitalism's moral and institutional order from the Fordist era of shared prosperity to the contemporary regime of shareholder value. This paper argues that capitalism has always been a moral economy-an order organized by ideas of what is fair, virtuous, and necessary. Fordism linked productivity to collective welfare, sustaining capitalism's legitimacy through stability and inclusion. Shareholder capitalism, by contrast, constructs a new moral economy that sanctifies efficiency, competitiveness, and shareholder return as supreme virtues. Empirical examples-from layoffs at GE to the normalization of buybacks and executive pay-illustrate how these practices enact this moral order. Against the claim that capitalism evolves as a scientific system, the paper contends that each phase redefines the moral language through which accumulation is justified.

Keywords: Moral economy, Fordism, Shareholder Capitalism, Albert Hirschman

Introduction

From Fordism to Shareholder Capitalism

In the mid-twentieth century, the growth paradigm in American capitalist society is often referred to as Fordism. This system revolved around mass production and mass consumption, supported by established bargaining practices and increasing real wages [2].A key idea behind Fordism was the understanding that productivity improvements couldn't last without a corresponding rise in demand. High wages weren't seen as something to cut back on; they were viewed as a way to stabilize markets. Henry Ford famously expressed this belief by stating that workers should "have a better life and be able to afford the product that they built." This principle was put into action with the introduction of the $5-a-day wage in 1914. It was the capitalist consensus to expand the consumer base, lower employee turnover, and create a cycle where increased productivity led to higher wages, which in turn fueled mass consumption. On a broader scale, this wage-driven model supported the post-war "Golden Age of Capitalism," marked by reinvestment, stable contracts, and widespread prosperity [2]. Of course, the process of primitive accumulation and the consequent impoverishment was still at the root of this process, capitalism in this period was more humane compared to the gilded age of robber barons. However, by the late 1970s, this system began to face serious challenges. Oil shocks, stagflation and declining profitability toppled the Fordist balance. And this crisis was used to nudge Capitalism into a completely new direction. The focus gradually shifted from wage earners to consumers, and to a shift in capitalism that favored shareholders over employees.. Milton Friedman's 1970 piece in The New York Times Magazine solidified this change in perspective, asserting that the "social responsibility of business is to increase its profits," placing investor returns above other corporate responsibilities. In the previous moral economy, layoffs in private companies were seen as signs of poor management and were viewed negatively. In contrast, under the shareholder primacy model, layoffs, plant closures, and workforce reductions were reinterpreted as smart moves to achieve financial goals and please the markets. Theoretical frameworks like agency theory [3] provided the academic backing for this shift, while corporate practices adapted accordingly.

Jensen & Meckling argue that firms exist as networks of contracts where conflicts of interest between managers, shareholders, and creditors generate agency costs. Ownership structure, monitoring, and capital structure evolve to minimize these costs, shaping how firms behave and are organized. Cost-cutting in the Jensen–Meckling framework is a tool for aligning managerial behaviour with owners' interests by reducing waste and perks (agency costs). Agency theory, as laid out by Jensen and Meckling in 1976, provided the academic backbone for a significant shift in corporate practices-from a focus on "retain and reinvest" to a more aggressive "downsize and distribute" approach, as noted by Lazonick and O'Sullivan [4]. Fligstein and Shin [5] highlight that this shift towards prioritizing shareholder value was marked by a series of mergers, stock buybacks, and workforce cuts across various U.S. industries. This transformation in capitalism didn't just introduce a new governance model; it also changed how we measure managerial success, moving away from long-term stability to a focus on generating quick returns for shareholders.

Sociological Implications of Shareholder Capitalism

Shareholder primacy has redefined corporate success for corporations. This principle of maximizing shareholder value reformulated and reorganized the daily operations of businesses. Fligstein points out that markets aren't just places for transactions; they're "fields" shaped by rules and cultural norms that dictate what actions are considered legitimate. The paradigm shift on how layoffs and downsizing were viewed didn't happen by chance; it was solidified through various calculative tools that turned the abstract idea of shareholder value into specific managerial goals. Fligstein and Goldstein [6] demonstrate that the adoption of shareholder value in American companies was facilitated by new performance metrics-especially financial ratios like earnings-per-share (EPS), return on equity (ROE), and economic value added (EVA). Once these measures were in place, they held managers accountable by making the expectations of financial markets clear and enforceable within the company. Strategies that boosted these metrics-like downsizing, outsourcing, or stock buybacks-were celebrated as signs of effective management, while approaches that focused on long-term stability or job security began to lose their value. Chiapello [7] points out that we shouldn't think of accounting devices as just neutral measurement tools; instead, they act as performative instruments that actively shape the realities they describe. By turning profitability into a calculable ratio, accounting standards have woven financial logics into the fabric of organizational routines, making shareholder value seem like an objective truth rather than a debatable ideological shift. This way, the abstract ideas put forth by Friedman and others became part of everyday corporate governance, ingrained through accounting categories, quarterly reports, and communications with investors. The normative shift in capitalism favoring shareholders became entrenched through the institutionalization of financial metrics. It was these devices-technical on the surface but sociological in their impact-that set the stage for the new employment landscape.

Employment, Precarity, and the New Norm of Flexibility: General Electric

During the Fordist era, corporate performance was gauged by productivity growth and stable market share. Labor was viewed as an asset. Wage increases and job security kept consumption levels high, while layoffs were seen as a sign of mismanagement. However, once Earnings Per Share (EPS) and Return on Equity (ROE) took center stage, the perception of labor shifted dramatically. Workers were no longer seen as integral to growth but rather as costs to be trimmed when necessary. Between 1980 and 1995, Fortune 500 companies eliminated over 4 million jobs, even as profits and stock prices soared.

Jack Welch at General Electric is perhaps the most notable example of this trend. Under his leadership, GE's stock soared, its market value ballooned, and Welch was hailed as the ultimate "manager of the century." But in his recent book *The Man Who Broke Capitalism*, journalist David Gelles [8] asks us to take a second look. Welch was an architect of a corporate culture that prized short-term profits over long-term health. Welch's playbook was simple but brutal: slash costs, cut jobs, close factories, and do whatever it takes to make the quarterly numbers look good. He wasn't shy about lay-offs; in fact, he earned the nickname "Neutron Jack," after the neutron bomb that kills people but leaves buildings standing. Factories remained, but the workers who gave them life were discarded. This approach resulted in over 100,000 job losses, all while GE consistently boosted its EPS and led the way in stock buybacks. Layoffs, which were once viewed as a sign of weakness, became celebrated as a hallmark of effective management..The ripple effects were enormous. Other corporations copied the Welch formula, chasing quarterly earnings at the expense of employees, customers, and even long-term innovation. The corporate world shifted from building sustainable businesses to chasing stock prices. The result, Gelles suggests, is the fragile, unequal economy we live with today-where wealth is concentrated at the top, job security is rare, and the social contract between companies and workers has been shredded.

For example, During COVID-19, India's stock markets rebounded sharply even while massive layoffs were occurring-this suggests that maximizing shareholder value became the dominant priority. According to CMIE data, India lost 17.7 million salaried jobs in April 2020, rising to a total of 18.9 million by July. [9] Meanwhile, indices such as the Sensex and Nifty, after dramatic falls in March 2020, had major recoveries. It's likely that many firms preserved profit margins primarily by cutting staff. This disconnect-job losses vs. surging stock prices-underscores how markets are primarily driven by investors' expectations of future earnings rather than current economic hardship of its stakeholders.

Inequality as a Structural Outcome

The redefinition of managerial performance around stock prices marked a profound restructuring of capitalism. Under Fordism, firms were judged by their ability to expand output, secure stable employment, and sustain long-term growth. In the shareholder era, legitimacy came to rest on investor returns. Stock options, equity-linked bonuses, and performance-based pay forged a direct alignment between managers and shareholders, embedding financial logics at the core of corporate governance. This was not merely a change in management practice but a reorganization of the institutional architecture of capitalism itself. Shareholder capitalism is best understood as a sub-variant of financial capitalism, where accumulation increasingly occurs through financial channels rather than through productive expansion.

The distributive consequences of this shift were dramatic. As Piketty [10] observes, when $r > g$, where r denotes return on capital and g denotes overall growth, wealth obstructively concentrates in the hands of capital owners. In the United States, this dynamic was intensified by financialized corporate strategies: stock buybacks, rising dividends, and soaring executive pay. Between 1978 and 2018, CEO compensation rose by more than 900%, while average worker pay grew by just 12% (EPI 2019). Since the SEC's 1982 decision to legalize large-scale buybacks, trillions of dollars have flowed to shareholders-far outstripping wage growth (Lazonick 2014). Prosperity thus shifted from a wage-led model rooted in mass consumption to an asset-led model rooted in capital ownership.

This trajectory, however, unfolded unevenly across regions. In Europe, coordinated market economies [11] and robust welfare states [12] cushioned some of the pressures of financial capitalism. Strong unions, co-determination, and re-distributive policies slowed the rise of inequality even as shareholder logic spread. In Latin America, by contrast, financial liberalization and structural adjustment in the 1980s dismantled protective labor institutions. Shareholder value and privatization were embraced rapidly, but weak welfare states and entrenched inequality produced volatile outcomes: high returns for elites alongside persistent informality and precarity [13]. Asia displayed greater variation. Japan and South Korea retained elements of coordinated capitalism-lifetime employment in core firms, state-led industrial policy-even as financialization deepened. Post-crisis Southeast Asia, however, adopted Anglo-American shareholder norms under IMF guidance, producing dual labor markets in which formal stability coexisted with mass precarious employment [14].

These divergences underscore that shareholder capitalism does not produce identical outcomes everywhere. Instead, it interacts with existing institutional arrangements, yielding uneven geographies of inequality. Yet the general tendency is unmistakable: where financial capitalism prevails, prosperity shifts toward asset holders, while wage-dependent workers face growing insecurity.

The Moral and Institutional Order of Capitalism

The move from Fordism to shareholder capitalism wasn't just a matter of new policies or management techniques-it was a shift in the moral ground of capitalism itself. As historian E.P. Thompson [15] argued, every economy carries hidden assumptions about what feels fair, legitimate, or necessary. Fordism was built on the belief that the fortunes of workers and firms were tied together: stable jobs, rising wages, and mass consumption weren't only economic strategies but moral promises, linking individual well-being with collective prosperity.

Shareholder capitalism, by contrast, rewrote those promises, engendering new moral impetus. In this framework, the highest duties of managers are not to safeguard jobs or raise wages but to maximize efficiency, sharpen competitiveness, and deliver shareholder returns-even if that comes at the cost of worker security. Albert Hirschman's history of capitalism [16] helps make sense of this moral shift. In *The Passions and the Interests* (1977), he showed how early defenders of capitalism tried to justify its rise. At the time, people feared the dangers of unchecked passions-ambition, envy, pride, aggression. Commerce was presented as the remedy: by channeling passions into the steadier pursuit of interests, capitalism promised moderation and predictability. Unlike passions, interests could be calculated and sustained over time, making them safer for society. Hirschman's point was that this was never just an economic argument-it was a moral one. Capitalism was legitimated as a system that could tame human impulses and serve the greater social good by promoting order and stability.

Fordism carried echoes of this promise. Its model of stable jobs, rising wages, and mass consumption tied individual prosperity to collective well-being. But shareholder capitalism has reshaped that legacy. When corporations like GE or IBM present layoffs and restructuring as signs of efficiency, the meaning of "interest" has narrowed to the benefit of shareholders alone. The moral origins Hirschman traced-capitalism's claim to deliver stability and social benefit-have given way to a new moral code, one that legitimates insecurity and inequality under the banner of shareholder value.

Conclusion

The shift from Fordism to shareholder capitalism is often described as a story of economic change or financial innovation. However, it is more fundamentally a story about changing moral and institutional orders. Fordism was not just about technology or organization; it relied on a moral belief that linked productivity to social welfare. It gave workers a feeling of belonging in prosperity, which helped maintain the legitimacy of capitalism. Shareholder capitalism arose in the wake of that compromise, promising flexibility, efficiency, and global competitiveness. However, it replaced the moral ideal of shared prosperity with a focus on abstract performance, measured by returns to capital.

Albert Hirschman reminds us that capitalism's original legitimacy came from its promise to manage passions-to make self-interest socially productive. Radhakamal Mukherjee's institutional theory highlights that this promise depended on a balance between economic, political, and moral institutions. The shareholder model limits both claims. It shifts the "interest" that used to benefit society into a principle that serves shareholders only and disrupts the institutional balance that connected private gain with public stability. It does not eliminate morality; it changes it. Its moral economy praises efficiency, competition, and shareholder return as virtues while viewing security, equality, and welfare as inefficiencies. The patterns mentioned earlier-mass layoffs at GE and IBM, rising CEO pay, and the shift of trillions into buybacks-are not just signs of financialization; they are rituals of this new moral order. They reinforce the idea that value is created when shareholder returns increase, even if wages stagnate or jobs vanish. In this way, inequality is not an unintended result of shareholder capitalism but one of its moral outcomes, justified by its own ethical reasoning.

Although advocates of ever-changing capitalism often depict it as a scientific system-driven by neutral principles of efficiency, data, and market discipline-it is essentially a moral organizing principle of society. Each phase of capitalism claims it is rationally necessary, yet each also has its own moral framework: Fordism's ethic of collective prosperity and shareholder capitalism's ethic of financial virtue. What changes are not just the methods of accumulation but also the moral languages that justify it.

The key question for sociology is not just how capitalism evolves but how it justifies itself during that evolution. If Fordism once connected workers and firms through a shared vision of prosperity, shareholder capitalism now ties them to a narrower view of financial virtue. The challenge ahead is not to bring back an old moral economy but to envision a new one-one that can balance efficiency with justice and accumulation with collective well-being.

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