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[Review of the book *Sustainable Prosperity in the New Economy? Business Organization and High-Tech Employment in the United States*]

**Abstract**

[Excerpt] Best known as a business and economic historian, William (Bill) Lazonick may often escape the view of academics in human resource studies, organizational behavior, and labor relations. This is a mistake. Lazonick's new book, *Sustainable Prosperity in the New Economy?*, is a must-read for scholars and students in these fields. He has chosen to study an important problem in the real world, has marshaled detailed empirical evidence to support his argument, and has used this evidence to critique conventional theory in economics and management.

**Keywords**

human resource studies, organizational behavior, labor relations, economics, prosperity

**Disciplines**

Human Resources Management | Labor Relations | Organizational Behavior and Theory

**Comments**

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*Sustainable Prosperity in the New Economy? Business Organization and High-Tech Employment in the United States.* By William Lazonick. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2009. 357 pp. ISBN 978-0-88099-350-0, \$25 (paper).

Best known as a business and economic historian, William (Bill) Lazonick may often escape the view of academics in human resource studies, organizational behavior, and labor relations. This is a mistake. Lazonick's new book, *Sustainable Prosperity in the New Economy?*, is a must-read for scholars and students in these fields. He has chosen to study an important problem in the real world, has marshaled detailed empirical evidence to support his argument, and has used this evidence to critique conventional theory in economics and management.

Lazonick focuses on labor and the prospects for sustainable productive enterprises that will support the U.S. economy. The central labor problem he addresses is the dramatic rise in job instability and inequality in recent decades—the highest since the last great depression. This change, he argues, is driven by a central business problem: a shift in corporate strategies away from investment in productive innovations towards investment in financial engineering. That is, Lazonick locates the problems of sustainable enterprise and employment squarely at the level of firms, organizations, and the decisions that real people make—not at some abstract level of market liberalization and globalization.

Lazonick's important contribution to the literature is to make the link between changes in capital strategies and operational and employment strategies. His analysis is particularly timely as we observe the behavior of firms in the current post-recession period. U.S. corporate profits have reached historic highs, corporations are sitting on trillions in cash that they will not invest in productive activities, and unemployment—which inched downward in 2009 and 2010 with help of government stimulus packages—had risen again, to 9.1% by mid-2011.

What accounts for this paradox? According to Lazonick, under the "old economy" business model, the success of investors, managers, and workers was linked together; but in the new economy model, these actors' welfare is decoupled. Chapters Two and Three develop these arguments. The critical difference between the two models is in how capitalists make money. In the "old economy," also referred to as managerial capitalism, firms made money by using retained

earnings, or profits, to invest in new technologies and to expand into new product and geographic markets. Shareholders were rewarded with steady dividend payouts. This investment logic had important organizational and employment implications. Firms built internal capability by developing and patenting their own technologies, vertically integrating supply chains, and depending importantly on firm-specific skills, guaranteed through HR practices that tied employees to the firm. These included organizational careers with progressive pay increases, defined-benefit pension plans, medical insurance for active and retired employees, and often, union representation for workers.

In the industrial relations literature, this model was described by Peter Doeringer and Michael Piore as an internal labor market, designed to induce long-term employment relations. In the strategic HR management literature, this model is the basis for Jay Barney's resource-based theory of the firm. Successful firms develop a sustainable competitive advantage by drawing on valuable and rare resources and developing firm-specific human capital and organizational routines that are difficult to replicate. In the organizational performance literature, this model has been defined as the high involvement or high commitment approach to HR and employment relations. Firms invest in the skills and training of the workforce, organize work to allow employees to use those skills effectively, and provide rewards and employment stability that induce long-term commitment to the firm.

These theories now appear irrelevant to corporate actors who embrace the new economy business model, as outlined by Lazonick. In this model, spearheaded by Silicon Valley firms backed by Venture Capital, firms rely much more on buying and selling assets to gain or shed capabilities and innovate. They modularize production across subcontractors in a global supply chain and treat labor as interchangeable modules. Because firm-specific skills are not viewed as central to making money, employment contracts are insecure, short term, and non-union. Employers don't need to pay for defined benefit pensions to induce long-term relations; moreover, employees bear higher costs for insurance and absorb many of the market risks of doing business.

New economy information and communications technology (ICT) firms used this model in the 1980s and 1990s to invest their retained earnings and foster innovation. They were successful. In the 2000s, however, they came under increasing pressure from Wall Street to deliver higher stock returns. They, along with U.S. corporations

more generally, began using retained earnings to buy back their own stock, which enriches the earnings of shareholders as well as top management, whose pay is tied closely to the price of company stock. This shift from "retain and invest" to "distribute" earnings threatens to undermine innovation and sustainable enterprise.

This is the book's critical argument. It is not just the shift from an "old" to "new" operations and employment model that matters, but the shift in how capital is deployed. Here, Lazonick argues that U.S. firms in general are increasingly driven by financial calculations to maximize shareholder value, decoupling investment strategies from productive strategies and undermining innovative capacity. Increasingly, investors and managers are no longer performing their job in the real economy—they are not building sustainable enterprises. Instead of re-investing earnings in innovations to compete in a knowledge-based economy, they are using capital to buy back stock, enrich themselves, and use the gains to buy and sell other businesses.

What's the evidence for this narrative? Here, Lazonick builds on his two decades of research on the history of the American corporation and the market for corporate control. He then grounds his analysis in new research on the specifics of the ICT industry, which has been at the forefront of creating the new economy business model. His methodology is instructive for students in HR, organization studies, and labor relations. By adopting an industry lens, he grounds his evidence in the specifics of how the development of new technologies intersects with new product markets, business strategies, and new demands on labor markets. His command of industry breadth is complemented by in-depth case studies in Chapter Three. In it, he illustrates how the new economy model spread from Silicon Valley to old economy firms—successfully in the cases of IBM and HP, unsuccessfully at Lucent Technologies. In the current parlance of organizational behavior and HR, he adopts a multi-level analysis of the intersection between the changing regulatory environment, markets, organizations, and economic actors.

Examining the transformation of employment relations more deeply in Chapter Four, Lazonick traces the shift in long-term employment and pension systems in the top 20 new economy ICT companies, followed by detailed case studies of IBM and the traditionally unionized telecommunications services firms. These stories of the disintegration of long-term labor relations are juxtaposed against the globalization of high-tech labor markets in Chapter Five. Although organized labor

has never been popular among college-educated professional and technical workers, or the ICT industry more generally, the need for employment protection became evident to these workers as they began to compete with high-tech workers in Asia by the late 1990s. Linking the actions of public policy makers and corporate actors, Lazonick shows how the two worked together to produce the transformation of global high-tech markets. Asian government investments in infrastructure and primary, secondary, and tertiary education created the conditions for foreign investors to capitalize on skilled, cheap labor. U.S. corporations imported skilled labor to compete with U.S. workers via the politically contentious H-1B and L-1 visa programs; and they provided the capital for ICT factories and Research and Development (R&D) labs in Asia, which in turn employed highly-trained ICT workers returning from U.S. Science and Engineering graduate programs. At the same time, U.S. educational institutions were deteriorating.

How does this analysis of the ICT industry relate to Lazonick's initial question about sustainable prosperity? He notes in Chapter Six, for example, that globalization in and of itself need not threaten the ability of U.S. corporations to compete. But the United States is not making the kind of investments needed to create sustainable economic development. Changes in U.S. tax codes and financial deregulation have supported capital strategies that focus on shareholder wealth accumulation. Increasingly, these strategies rely less on investments in innovation in productive enterprises, and more on stock market speculation and repurchases of corporations' own stock. Lazonick has spearheaded research on this last point in particular; and in this chapter, the empirical evidence on overall trends and specific company examples is overwhelming. To illustrate, for the period 2000–2007, 19 of the top 50 Standard and Poor (S&P) 500 Corporations distributed more cash to shareholders through stock buybacks than they generated in net after-tax income. Moreover, the leading ICT corporations—such as Microsoft, Cisco, Intel, Oracle, Texas Instruments, IBM, HP, and Dell—had stock repurchase payouts that exceeded their investments in R&D in the 2000s (p. 233). These actions, Lazonick argues, are key to understanding the massive redistribution of wealth in the United States in recent decades.

Returning to the lessons for organizational behavior, HR, and industrial relations, Lazonick's last chapter is instructive. Here, he links his research on U.S. corporations and the ICT industry to a series of policy proposals designed to address the problem of sustainable prosperity. Lazonick

does not glorify the old order or advocate its return. He notes instead the need for greater federal investment in education and reform of labor and employment laws, and in particular calls for new policies to regulate corporate governance and the stock market to eliminate speculation and manipulation.

Unfortunately, the Dodd-Frank Bill, passed after the publication of Lazonick's book, does little to address the power of financial capital and the kind of stock price manipulation that he painstakingly documents. Even if this piece of legislation had risen to the demands of its occasion, it would have only marked the beginning of the reregulation process, a first step toward meeting the breadth and depth of the new economy challenge that Lazonick documents so thoroughly. As his study makes clear, creating a new sustainable economy will take the kind of sustained political activism and political will that was necessary to build the old economy model in the first place.

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### **Globalization, Employment, and Labor Standards**

*Solidarity Transformed: Labor Responses to Globalization and Crisis in Latin America.* By Mark S. Anner. Ithaca: Cornell University Press, 2011. 213 pp. ISBN 978-0-801-47673-0, \$17.46 (paper).

The combination of intensified global competitive pressure, the withdrawal of the state from economic and regulatory roles, and new models of workplace restructuring have eroded traditional forms of union power, such as centralized collective bargaining, strikes, and support from traditionally labor-friendly political parties. As a result, labor unions have been forced to search for new survival strategies. How have they responded to this new and almost wholly unfriendly landscape? In *Solidarity Transformed*, Mark Anner examines this question by comparing union strategies in the apparel industry in El Salvador and Honduras and in the auto industry in Brazil and Argentina.

Although global market competition and work restructuring have affected all unions, they have not all responded to these challenges in the same way. What explains the variation in labor's responses to similar global pressures? Why have some unions pursued international solidarity