Good Company: Economic Policy after Shareholder Primacy. By Lenore Palladino. University of Chicago Press, 2024. Pp. viii, 170. $115.00, cloth; $30.00, paper; $29.99, e-book. ISBN 978–0–226–83648–5, cloth; 978–0–226–83650–8, pbk.; 978–0–226–83649–2, e-book. (*JEL* D22, G32, G34, J54, K22, O31)

Contemporary debates over corporate purpose typically pit shareholder value against stakeholder welfare. In *Good Company: Economic Policy after Shareholder Primacy*, Lenore Palladino advances a more ambitious thesis. She contends that the American embrace of shareholder primacy—the normative view that business corporations should be managed primarily or exclusively to maximize returns to shareholders—since the 1980s has done more than generate harmful externalities or concentrate wealth. It has actively shrunk the economic pie by hollowing out the productive capacity of the firm.

Part 1 articulates the book's central positive claim: that contemporary American corporations are fundamentally distorted by an ideology equating managerial success with maximizing share prices. Drawing heavily on William Lazonick's theory of the innovative enterprise, Palladino argues that genuine innovation depends on cumulative learning processes that flourish only when firms dedicate retained earnings to developing capabilities over time. Shareholder primacy disrupts this vital process. Under pressure to deliver short-term financial results, corporate leaders redirect capital from productive investment to stock buybacks. This pattern, she contends, extends beyond public corporations to the private equity sector, where leveraged buyouts often saddle acquired firms with debt while extracting value rather than building productive capacity. Palladino characterizes these practices not as the return of surplus capital but as tools of financial engineering that drain resources from innovation and inflate share prices. The decline of General Electric (GE) is presented as the paradigmatic case of a once-innovative enterprise undone by this relentless focus on its stock.

Part 2 presents a suite of policy reforms designed to reorient corporations toward long-term innovation. These proposals rest on three pillars: (i) curtailing financial extraction by banning or strictly limiting stock buybacks and overhauling executive pay; (ii) adopting stakeholder-oriented corporate governance rules by mandating worker board representation and redefining fiduciary duties toward serving the corporation as a whole and its multiple stakeholders; and (iii) reforming external pressures from the financial sector through new public institutions and a financial transaction tax.

Palladino has written a spirited and accessible manifesto that is likely to shape future debates over corporate purpose. Economists should welcome her call to evaluate governance structures based on their effects on innovation capacity, not merely on equity prices or distributive outcomes. Even readers skeptical of codetermination will find value in her dissection of stock repurchase practices, and in her reminder that legal institutions, not technological inevitability, shape corporate behavior.

That said, the book's most sweeping claims are its least persuasive. A central fulcrum of *Good Company* is its critique of the standard rationale for shareholder primacy. On the canonical account, the reason we generally bundle together residual financial claims and control rights is because the holder of the residual claims has a direct financial interest in ensuring the corporation is successful enough to satisfy all of its other contractual obligations, including to its suppliers and customers. By focusing managerial attention on increasing the value of residual claims, this approach is thought to align incentives toward maximizing total firm value. A primary reason that equity investors are thought to often be the efficient holders of this bundle of ownership rights is that they tend to have relatively uniform interests among themselves (Hansmann 1996). The resulting clarity of purpose makes management more accountable than multi-stakeholder models where directors must balance competing interests.

Palladino briefly acknowledges some of this standard reasoning but offers a rebuttal based largely on somewhat different terms. She argues that the theory is built on flawed premises that the corporation is merely a "nexus of contracts" among various participants and that shareholders stand apart as the most critical contributors to corporate success. In fact, Palladino argues, "the corporation owns itself and is a real entity, not just a nexus of contracts; and shareholders contribute the least, not the most, to corporate production" (p. 26). But this reframing misses the mark. The standard justification for shareholder control does not depend on the relative magnitude of shareholders' contributions. Nor does her assertion that "the corporation owns itself" provide an affirmative reason for reallocating control rights. More relevantly, she argues that (i) other classes of stakeholders also bear risk, and (ii) shareholders are not homogenous. Both of these observations are true, but neither is inconsistent with the logic of shareholder primacy. That logic requires only that shareholders be the *most* suitable locus of control, not that they are the only stakeholders who bear risk or that their interests are perfectly aligned.

The book's empirical case for adopting a more stakeholder-oriented governance model to boost innovation is also underdeveloped. At the micro level, the book does not sufficiently engage with key identification challenges. For example, GE's stock buybacks and declining research and development expenditures are presented as causally linked, but mature firms with ample cash and limited growth prospects may rationally do both. At the macro level, the argument leans heavily on European experience, particularly the German model of codetermination,[1] which the author cites approvingly. But while European corporations may be more stakeholder oriented than American ones, it is difficult to argue they are more innovative. Indeed, the recent Draghi report cited European companies' "innovation gap" vis-à-vis US companies as the most important challenge facing European competitiveness (European Commission 2025). A fair reading is that US innovation performance likely owes something to the depth of its equity markets and to shareholder governance that supplies high risk capital and tolerates early failure—most notably through venture capital and the monitoring of certain long horizon institutional owners. The empirical literature offers support for this view: Venture capital financing is associated with higher patenting at the industry level and greater institutional ownership has been linked to more cite weighted innovation in public firms (Kortum and Lerner 2000; Aghion, Van Reenen, and Zingales 2013).

In sum, Palladino's effort to reframe the corporate purpose debate by arguing that stakeholder-oriented governance will also be more innovative is both timely and provocative. However, by largely sidestepping the most compelling consequentialist defenses of shareholder primacy and lacking a rigorous empirical foundation, the book does not ultimately persuade the reader that its proposed reforms would bolster, rather than undermine, the productive capacity it aims to restore.

References

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[1] Under the German codetermination system, workers elect between one-third and one-half of supervisory board members in large firms, with these representatives participating in strategic decisions about investment, plant closures, and corporate restructuring.

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