

Financialization and market power

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Scope

- ▶ Corporate financialization.
- ▶ U.S. context.
- ▶ Empirical approaches that utilize firm-level data.

Roadmap

1. Stylized facts:

- ▶ The disconnect between profits and investment.
- ▶ Asset composition.
- ▶ Shareholder payouts.

2. Financialization:

- ▶ Demand regimes and neoliberalism.
- ▶ Shareholder value orientation.

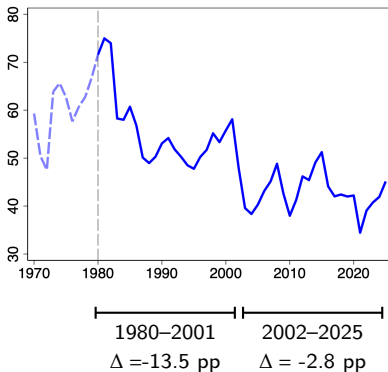
3. Market power:

- ▶ Empirical trends: Markups and concentration.
- ▶ Intangible assets, monopoly rents, and revisiting the investment-profit puzzle.

I. Stylized Facts

The investment-profit puzzle

Capital expenditures relative to operating profits (1970-2025)

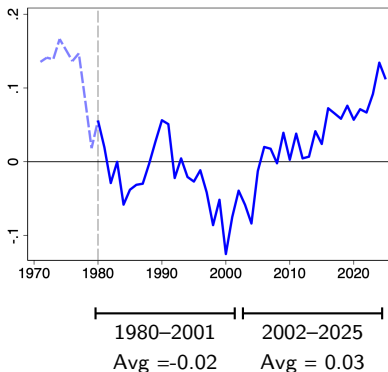


Source: Davis and de Souza (2026).

- Investment out of profits declines, especially during the 1980s and 1990s.

The investment-profit puzzle, revisited

Correlation between profits & capital expenditures



Source: Davis and de Souza (2026).

- ▶ During 1980s & 90s, the profit-investment correlation largely disappeared.
- ▶ Since early 2000s, they have become increasingly aligned, even though aggregate investment remains low relative to profits.

How can investment out of profits remain low while the investment-profit correlation rises?

Stylized example

Economy 1		
Firm	Profits	Invest
A	300	24
B	100	26
C	50	25

- ▶ Aggregate investment/profit ratio:
- ▶ $\text{Corr}(\text{Profits}, \text{Invest})$:

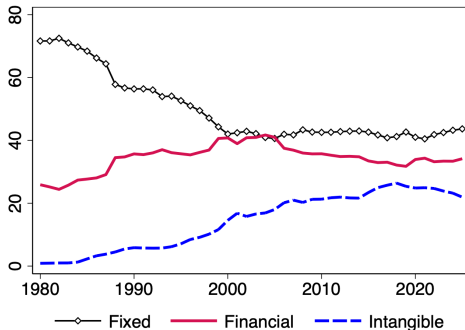
Economy 2		
Firm	Profits	Invest
A	300	45
B	100	20
C	50	10

- ▶ Aggregate investment/profit ratio:
- ▶ $\text{Corr}(\text{Profits}, \text{Invest})$:

- ▶ In this example, investment intensity is unchanged, but investment is reallocated towards high-profit firms.
- ▶ **Takeaway:**

Asset composition

Fixed, financial, and intangible shares of total assets (1980-2025)

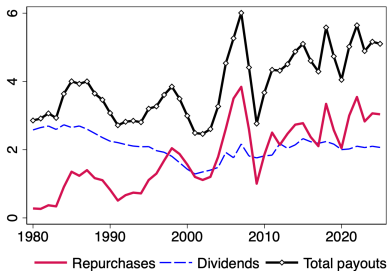


Source: Update of Davis and de Souza (2026)

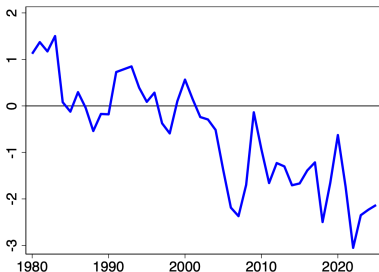
- Note: Intangibles are Compustat balance-sheet intangibles (goodwill and externally acquired intangible assets).

Rising shareholder payouts

Shareholder payouts as a % of assets



Net equity issuance as a % of assets



Source: Update of Davis and McCormack (2021)

- ▶ Shareholder payouts have risen, driven by stock repurchases.
- ▶ The corporate sector shifts from being a net issuer to a net purchaser of equity.

II. Financialization

Financialization-based explanations

Why did firms invest less out of profits while increasing shareholder payouts?

Two families of explanations:

1. Neoliberal restructuring and demand-side constraints.
2. Shareholder value orientation.

Neoliberal restructuring and demand-side constraints

Macroeconomic and institutional changes:

- ▶ Shift in income distribution away from labor.
- ▶ Pullback of the state.
- ▶ Globalization and intensified competition.

Implications?

- ▶ U.S. firms face weaker investment opportunities and search for new sources of profitability.
- ▶ Financial liberalization and higher interest rates increase financial returns:
 - ▶ Perhaps leading firms to move into financial activities ('crowding out')?
 - ▶ Raising investor expectations of returns and reinforcing pressure to prioritize shareholder value.

The shareholder value movement: intellectual and institutional origins

Agency theory:

- ▶ Contends that agency problems between shareholders and managers lead to inferior corporate performance.
- ▶ Challenges the managerial (Chandlerian) corporation.

Institutional developments:

- ▶ Stock-based executive compensation.
- ▶ Active market for corporate control.
- ▶ Growth of institutional investors ('impatient capital').
- ▶ Regulatory changes facilitating repurchases (e.g. Rule 10b-18).

The result? A changing conception of the corporation from "an integrated, coherent combination of illiquid assets assembled to pursue long-term growth and innovation...to a financial conception in which the NFC is seen as a portfolio of liquid subunits" (Crotty, 2003, p. 272).

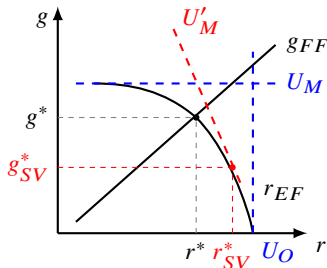
Shareholder value orientation: implications for firm behavior

- ▶ A new corporate governance framework.
 - ▶ From “retain and reinvest” to “downsize and distribute” (Lazonick and O’Sullivan, 2000).
 - ▶ Greater emphasis on shareholder returns and short-term performance.
- ▶ Implications for corporate resource allocation, including:
 - ▶ Higher shareholder payouts, especially repurchases.
 - ▶ Lower fixed capital investment.

Shareholder value orientation and investment

Mechanisms linking shareholder value orientation and slower investment

1. Financial payouts and “crowding out”.
2. Alignment of managerial & shareholder preferences.



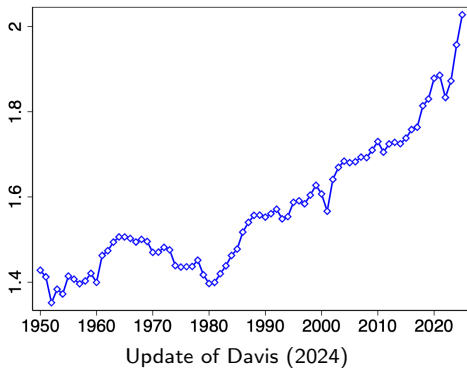
Source: Stockhammer (2004); extending Lavoie (2022).

3. Outsourcing and focus on core competencies.
4. Acquisition-based growth strategies.

III. Market power

Evidence of rising market power: Markups and concentration

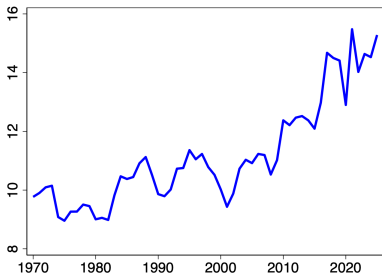
The sales-weighted average markup (1950-2025)



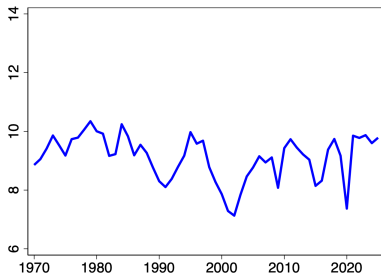
- ▶ The sales-weighted markup (sales/cost of goods sold) rises after 1980.
- ▶ Within-industry concentration (e.g. CR4) rises persistently from the mid-1990s through 2022.

A rising profit margin, but a stable profit rate

Profit margin (profits as a % of sales)



Profit rate (profits as a % of assets)



Source: Davis and de Souza (2026).

- ▶ Firms generate more profits per dollar of sales, but not per dollar of assets.
- ▶ Why? We need to think about what's on the asset side of the balance sheet.

What are intangible assets?

Externally acquired intangibles:

- ▶ Recorded on the balance sheet.
- ▶ Two categories:
 - ▶ Acquired identifiable intangibles (such as brand names, trademarks, patents, or operating rights).
 - ▶ Goodwill (when firms are acquired above book value).
- ▶ Typically appear on the balance sheet after M&A transactions.

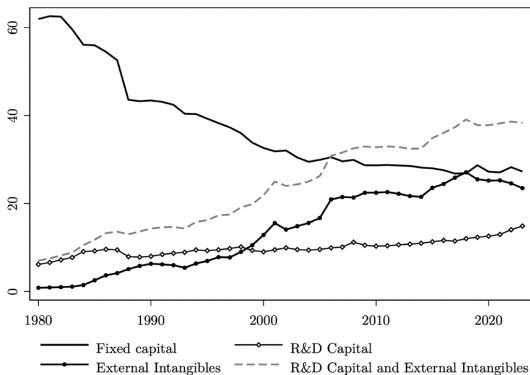
Internally generated intangibles:

- ▶ Generated through firms' own R&D, software development, intellectual property creation.
- ▶ Are not part of Compustat balance-sheet intangibles.
- ▶ R&D is generally expensed rather than capitalized.

Example? Acquired software appears as an intangible, but internally developed software is likely expensed.

Introducing internally generated intangibles

Asset composition inclusive of internally acquired intangibles (R&D capital)



Source: Davis and de Souza (2026)

Intangible assets, rents, and the investment-profit puzzle

Knowledge rents

- ▶ Intangibles reflect knowledge and intellectual property that are difficult for other firms to replicate.
 - ▶ Arise from knowledge enclosures & rise of intellectual monopoly capitalism (Pagano, 2014).
- ▶ Such that firms earn rents from these intangible assets:
 - ▶ Profits rise relative to sales.
 - ▶ Without proportionate increases in fixed capital.

Corporate control rents

- ▶ Firm growth increasingly occurs through ownership changes (i.e. M&As) rather than internal capacity creation (Alfageme, 2025). Acquisitions create balance-sheet intangibles.
- ▶ Such that the acquiring firms earn rents, for instance through increased concentration and control of their markets.
 - ▶ Profits rise relative to sales.
 - ▶ Without proportionate increases in fixed capital (Davis & de Souza, 2026).

Financialization and market power

A common question: Why has the fixed investment share of profits declined?

- ▶ Financialization
 - ▶ Asks how firms use profits.
 - ▶ Emphasizes shareholder value, payouts, and changing corporate objectives.
- ▶ Market power
 - ▶ Asks how firms generate profits.
 - ▶ Emphasizes rents, concentration, knowledge monopolies, and intangible assets.

Open questions?

- ▶ Firm heterogeneity.
- ▶ Private firms.
- ▶ Labor and wages.
- ▶ ...