

Inquiring Minds topic – September 14, 2018

Al Kaplan, Moderator

CORPORATE RESPONSIBILITY?

This article from the WSJ is most pertinent, especially in view of the Supreme Court 2010 ruling essentially establishing "personhood" of the corporate entity.

In view of the ruling and the article, many questions rise, such as

1. do you feel the Supreme Court might change it's rulings in view of this possible legislation, and interpretations?

2 Do you agree with the apparent projected law's interpretation that a corporation has primary responsibility to the public at which it is directing it's activities rather than to the shareholders, which are the entities responsible for its financial existence.??

3. Does the concept of "shareholder value maximization" justify the apparent disparity regarding the wages of the workers in a corporate entity?

4. If the disparity above is of concern, should Senator Warren's ACCOUNTABLE CAPITALISM ACT be enacted to change the concept of Corporate responsibility???

<https://www.wsj.com/articles/companies-shouldnt-be-accountable-only-to-shareholders-1534287687>

Companies Shouldn't Be Accountable Only to Shareholders

My new bill would require corporations to answer to employees and other stakeholders as well.

[Elizabeth Warren](#) Aug. 14, 2018 7:01 p.m. ET

American corporations exist only because the American people grant them charters. Those charters confer valuable privileges—such as limited legal liability for their owners—that enable businesses to turn a profit. What do Americans get in return? What are the obligations of corporate citizenship in the U.S.?

For much of U.S. history, the answers were clear. Corporations sought to succeed in the marketplace, but they also recognized their obligations to employees, customers and the community. As recently as 1981, the Business Roundtable—which represents large U.S. companies—stated that corporations “have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy.” This approach worked. American companies and workers thrived.

Late in the 20th century, the dynamic changed. Building on work by conservative economist Milton Friedman, a new theory emerged that corporate directors had only one obligation: to maximize shareholder returns. By 1997 the Business Roundtable declared that the “principal objective of a business enterprise is to generate economic returns to its owners.”

That shift has had a tremendous effect on the economy. In the early 1980s, large American companies sent less than half their earnings to shareholders, spending the rest on their employees and other priorities. But between 2007 and 2016, large American companies dedicated 93% of their earnings to shareholders. Because the wealthiest 10% of U.S. households own 84% of American-held shares, the obsession with maximizing shareholder returns effectively means

America's biggest companies have dedicated themselves to making the rich even richer.

In the four decades after World War II, shareholders on net contributed more than \$250 billion to U.S. companies. But since 1985 they have extracted almost \$7 trillion. That's trillions of dollars in profits that might otherwise have been reinvested in the workers who helped produce them.

Before "shareholder value maximization" ideology took hold, wages and productivity grew at roughly the same rate. But since the early 1980s, real wages have stagnated even as productivity has continued to rise. Workers aren't getting what they've earned.

Companies also are setting themselves up to fail. Retained earnings were once the foundation for long-term investments. But from 1990 to 2015, nonfinancial U.S. companies invested trillions less than projected, funneling earnings to shareholders instead. This underinvestment handcuffs U.S. enterprise and bestows an advantage on foreign competitors.

The problem may get worse, because executives have a strong financial incentive to prioritize shareholder returns. Before 1980, top CEOs were rarely compensated in equity. Today it accounts for 62% of their pay. Many executives receive additional company shares as a reward for producing short-term share-price increases. This feedback loop has sent CEO pay skyrocketing. The average CEO of a big company now makes 361 times what the average worker makes, up from 42 times in 1980.

Corporate charters, which define the structure and obligations of U.S. companies, are an obvious tool for addressing these skewed incentives. But companies are chartered at the state level. Most states don't want to demand more of companies, lest they incorporate elsewhere.

That's where my bill comes in. The Accountable Capitalism Act restores the idea that giant American corporations should look out for American interests. Corporations with more than \$1 billion in annual revenue would be required to get a federal corporate charter. The new charter requires corporate directors to consider the interests of all major corporate stakeholders—not only shareholders—in company

decisions. Shareholders could sue if they believed directors weren't fulfilling those obligations.

This approach follows the “benefit corporation” model, which gives businesses fiduciary responsibilities beyond their shareholders. Thirty-four states already authorize benefit corporations. And successful companies such as Patagonia and Kickstarter have embraced this role.

My bill also would give workers a stronger voice in corporate decision-making at large companies. Employees would elect at least 40% of directors. At least 75% of directors and shareholders would need to approve before a corporation could make any political expenditures. To address self-serving financial incentives in corporate management, directors and officers would not be allowed to sell company shares within five years of receiving them—or within three years of a company stock buyback.

For the past 30 years we have put the American stamp of approval on giant corporations, even as they have ignored the interests of all but a tiny slice of Americans. We should insist on a new deal.

Ms. Warren, a Democrat, is a U.S. senator from Massachusetts.