Corporate Governance for Sustainable Prosperity

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Brussels, January 24, 2019

The just economy: performance

Equitable and stable economic growth = "sustainable prosperity"

- **Growth:** real per capita productivity gains that can raise standards of living
- **that is stable:** employment and income not subject to boom and bust, sustained over a working life of four decades, with retirement income for two decades
- **that is equitable:** gains from growth shared fairly among those who contribute to it—*including equitable use of the planet's resources across nations and over generations*

The just economy: process

The Investment Triad:

Sustainable prosperity depends on

investments in productive capabilities

by households, government, and businesses

- **HOUSEHOLDS as "supportive families" invest in the productive capabilities of the labor force**
- **GOVERNMENTS as "developmental states" invest in infrastructure and society's knowledge base**
- **BUSINESSES as "innovative enterprises" invest in value-creating processes and products**

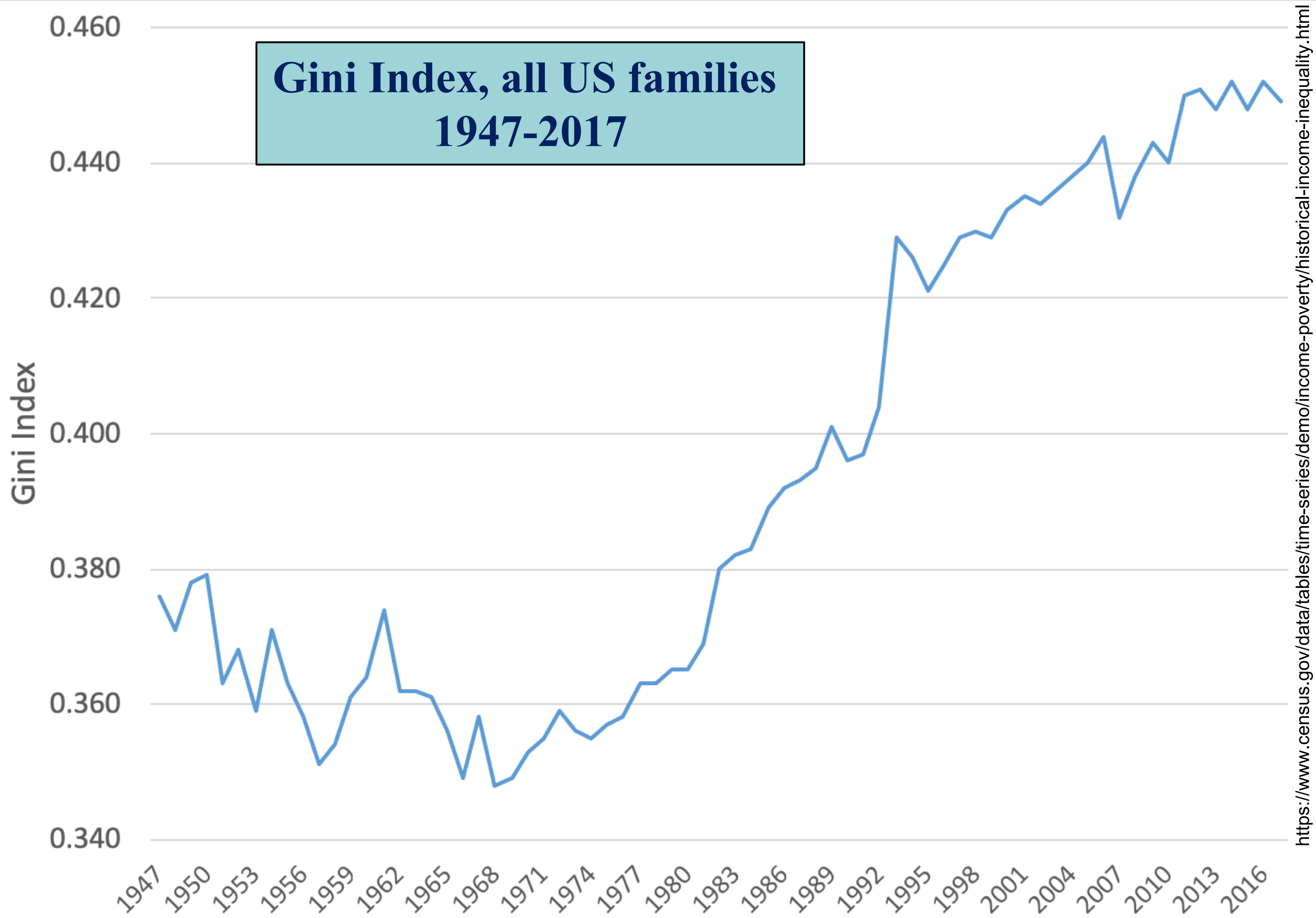
How do these organizations work together to develop and utilize productive capabilities?

(We need a theory of innovative enterprise)

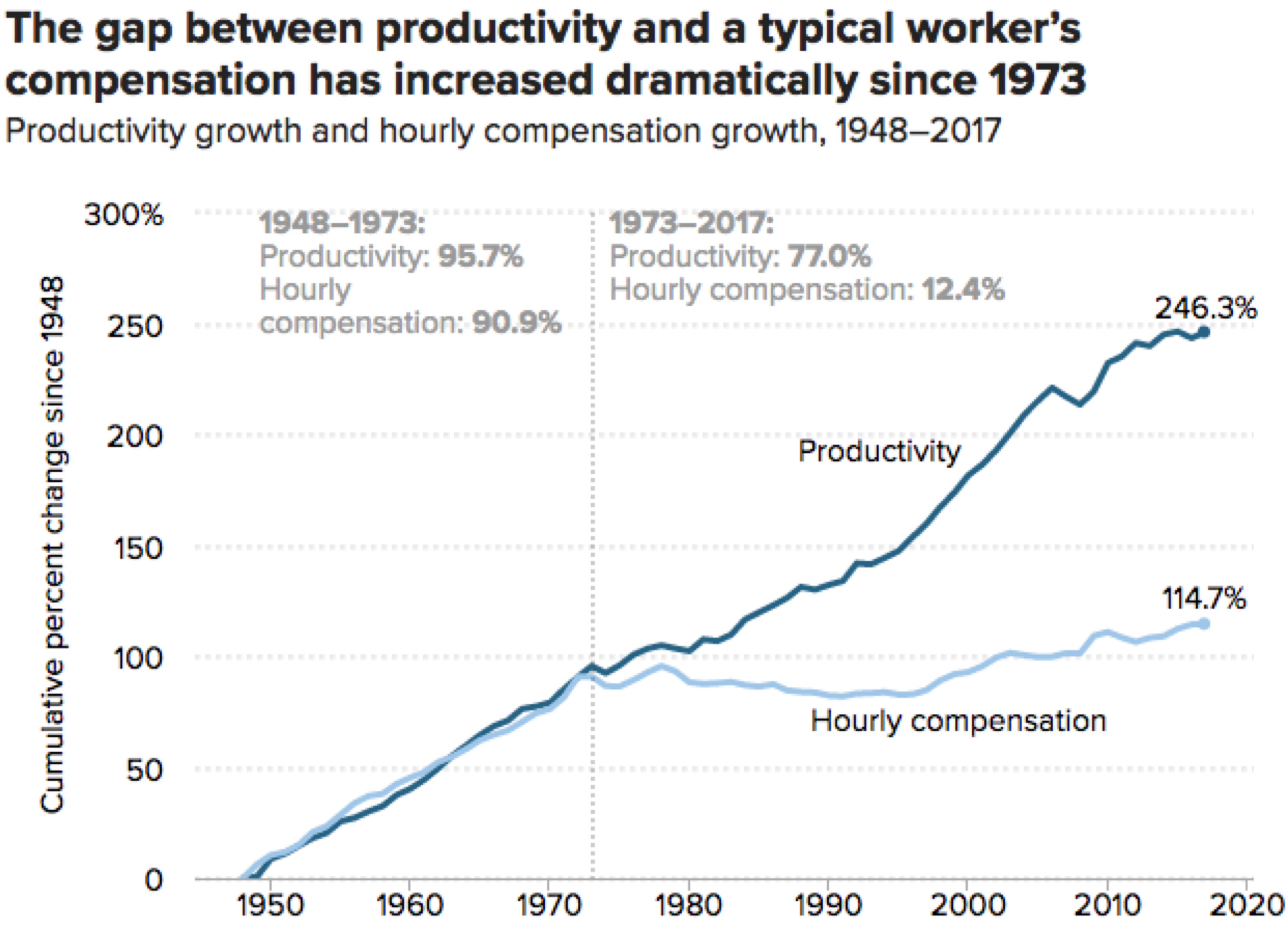
The unjust economy: predatory value extraction (PVE)

- **Investments in infrastructure and knowledge by developmental states make innovative enterprises possible; when these states and enterprises work together, families have incomes to be supportive.**
- **But successful enterprises become repositories of both capabilities and cash, making it possible that "predatory value extractors" will find ways to extract value from these enterprises far in excess of their contributions to the value-creating processes.**
- **The results of predatory value extraction (PVE) are extreme income inequity and employment instability—with the USA the world PVE leader.**

Extreme economic inequality since the late 1970s

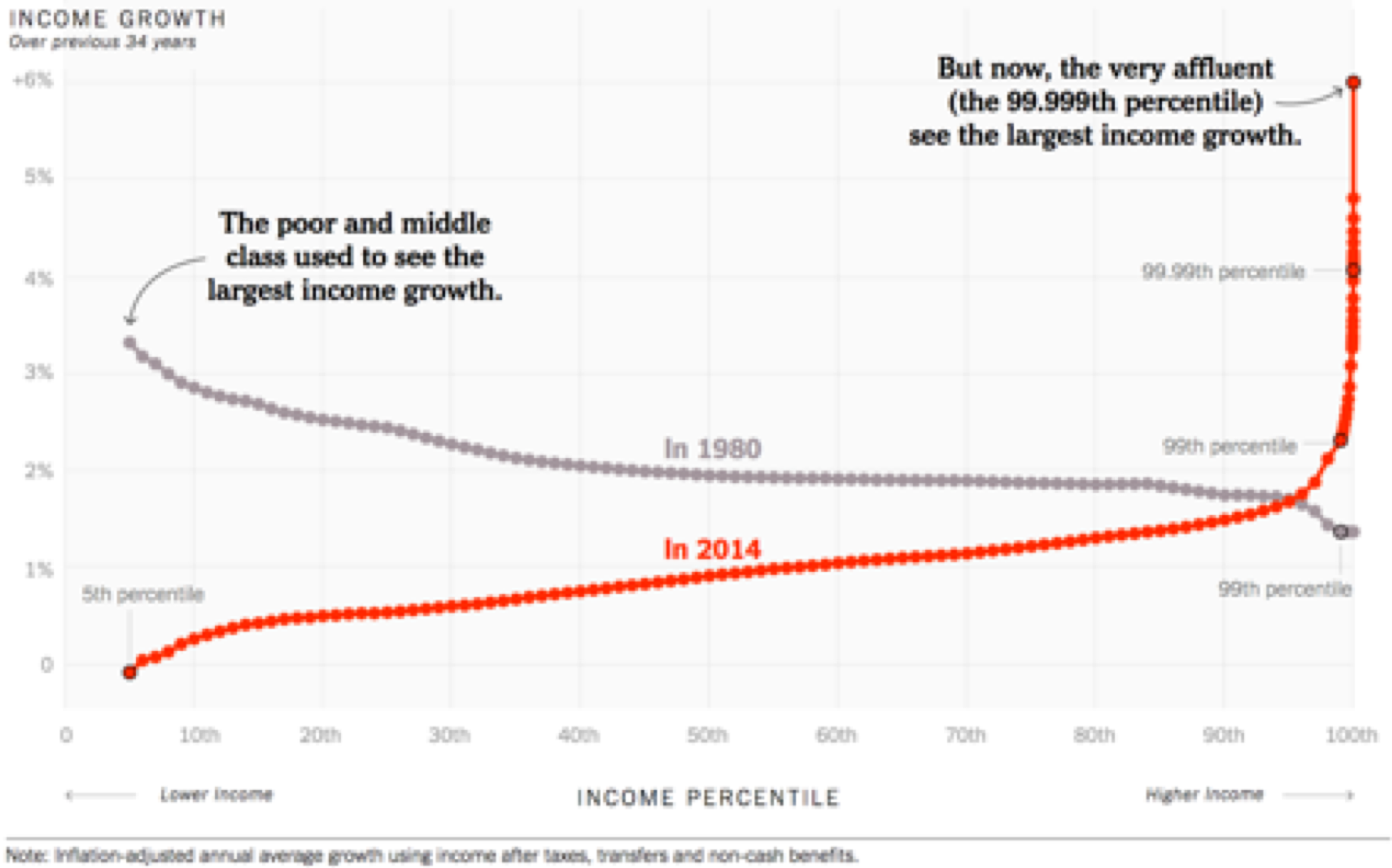


PVE and the growing productivity-pay gap



Source: Economic Policy Institute: https://www.epi.org/productivity-pay-gap/

The coming of the PVE era



Source: David Leonhardt, "Our broken economy, in one simple chart," New York Times, August 7, 2017, at https://www.nytimes.com/interactive/2017/08/07/opinion/leonhardt-income-inequality.html.

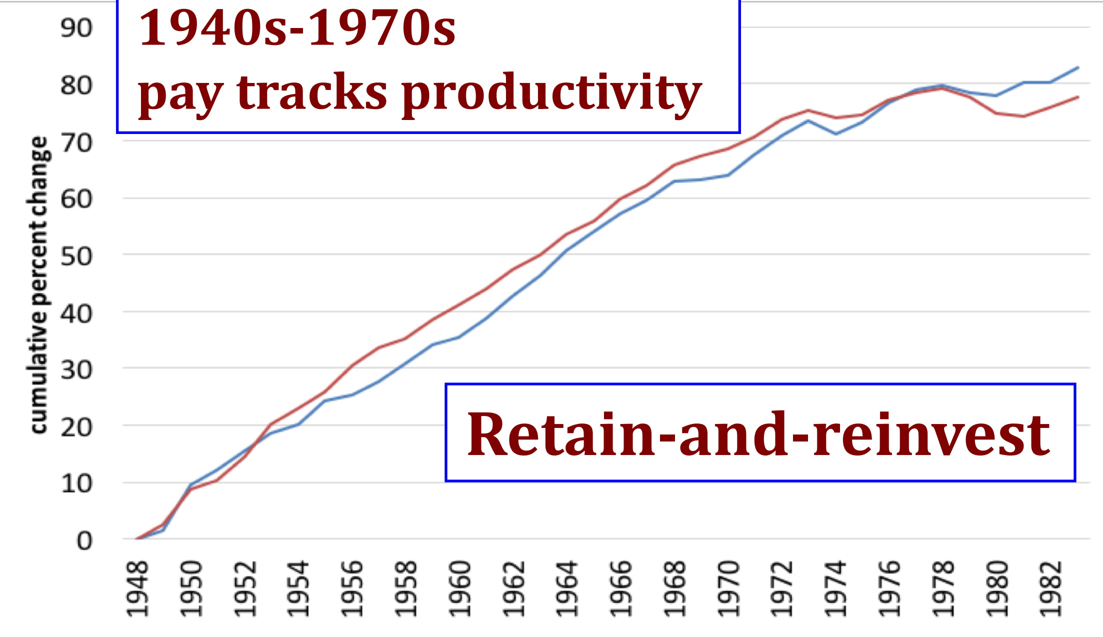
Large corporations dominate the US economy

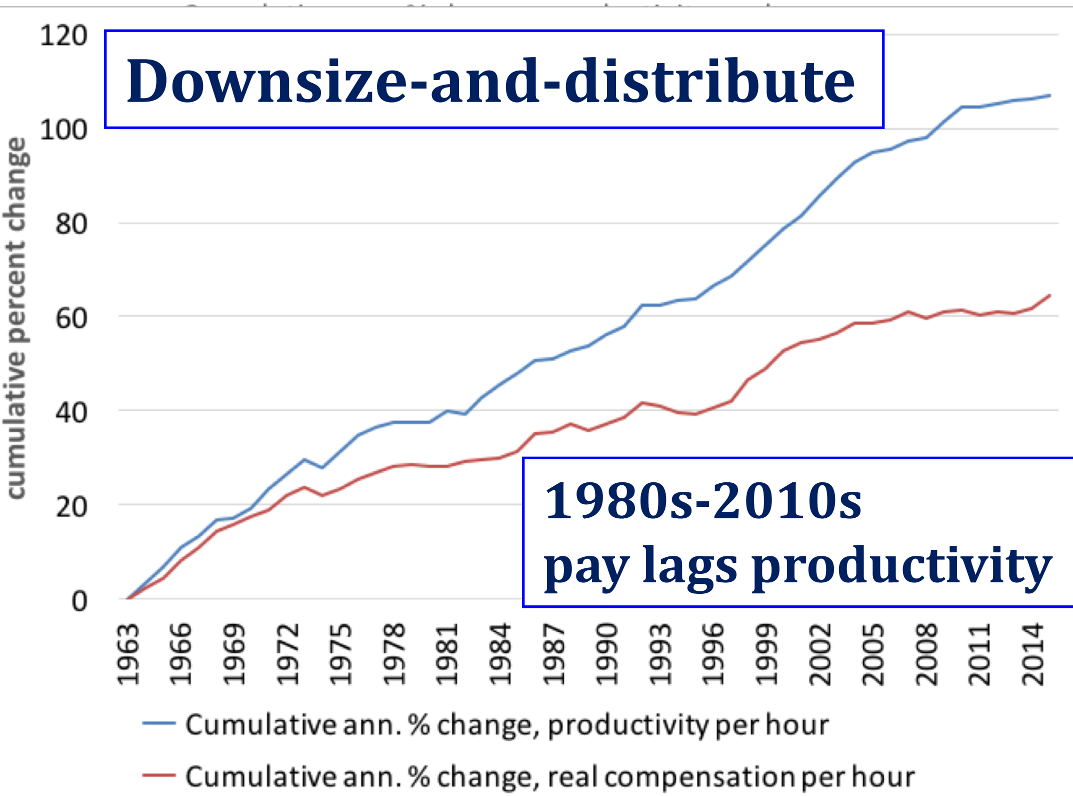
Economic performance depends on corporate resource allocation

2012	Most recent revenue data		Percent of US business total			
			Firms	Employees	Payroll	Revenue
No. of emplo-yees	No of firms	Average employees	%	%	%	%
All sizes	5,726,120	20	100.00	100	100	100
500 +	18,219	3,286	0.32	52	58	64
5,000+	1,909	20,366	0.03	34	38	44
10,000+	964	33,542	0.02	27	31	36

- Around 1,900 firms with 5,000+ US employees have a major influence on US economic performance.
- How senior executives decide to allocate corporate resources affects employment, productivity and pay.

https://www.census.gov/data/tables/2012/econ/susb/2012-susb-annual.html





Source: Bureau of Labor Statistics

Career employment: Key driver of the productivity-pay relation

Old Economy Business Model

Career-with-one-company norm: employees share in profits through job security, pay raises, defined-benefit pensions, and health coverage

New Economy Business Model

Insecure jobs, globalized labor, defined-contribution pensions

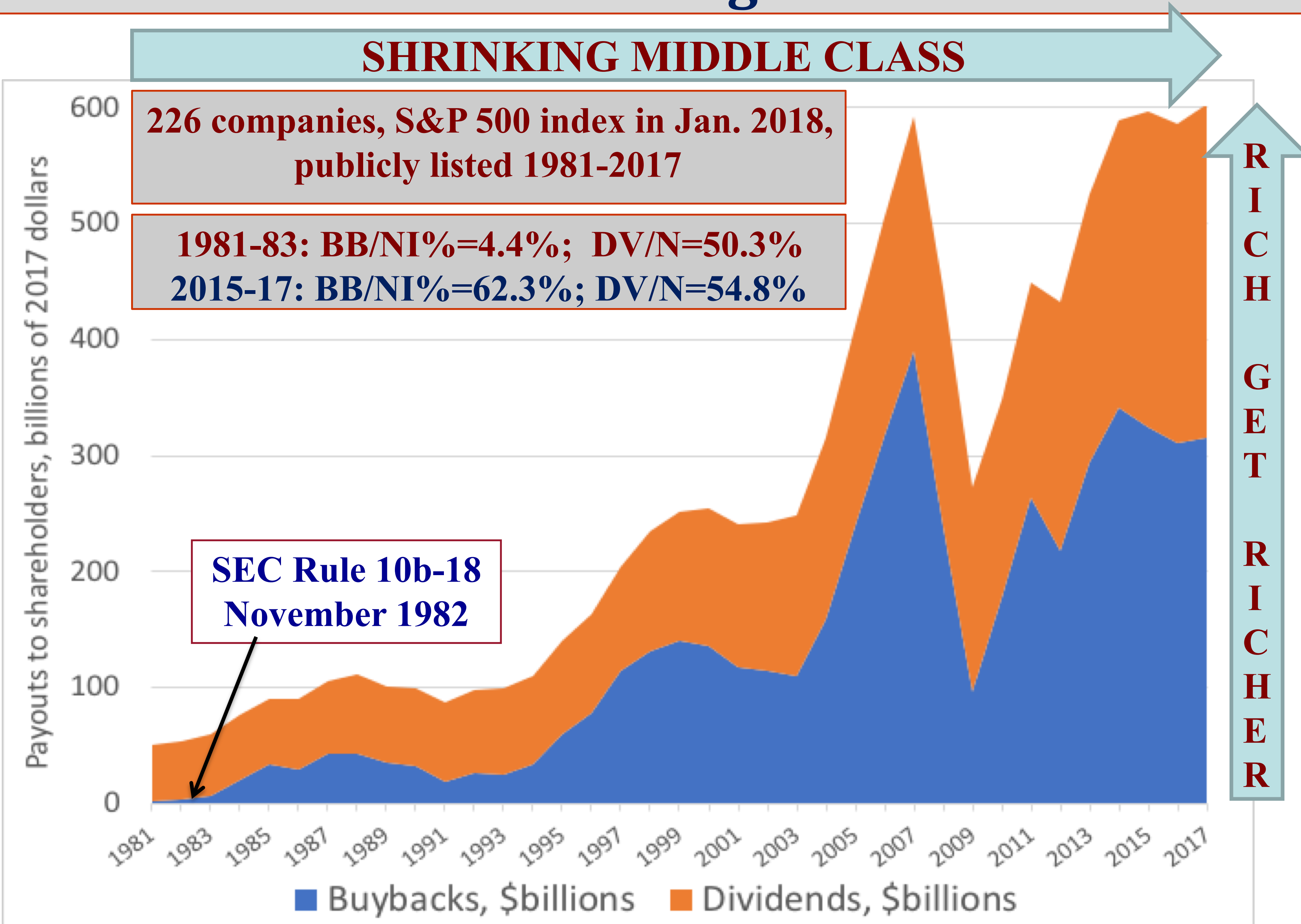
Massive stock buybacks, exploding top executive pay, and billionaire hedge-fund activists

Erosion of middle-class employment opportunities as careers in companies

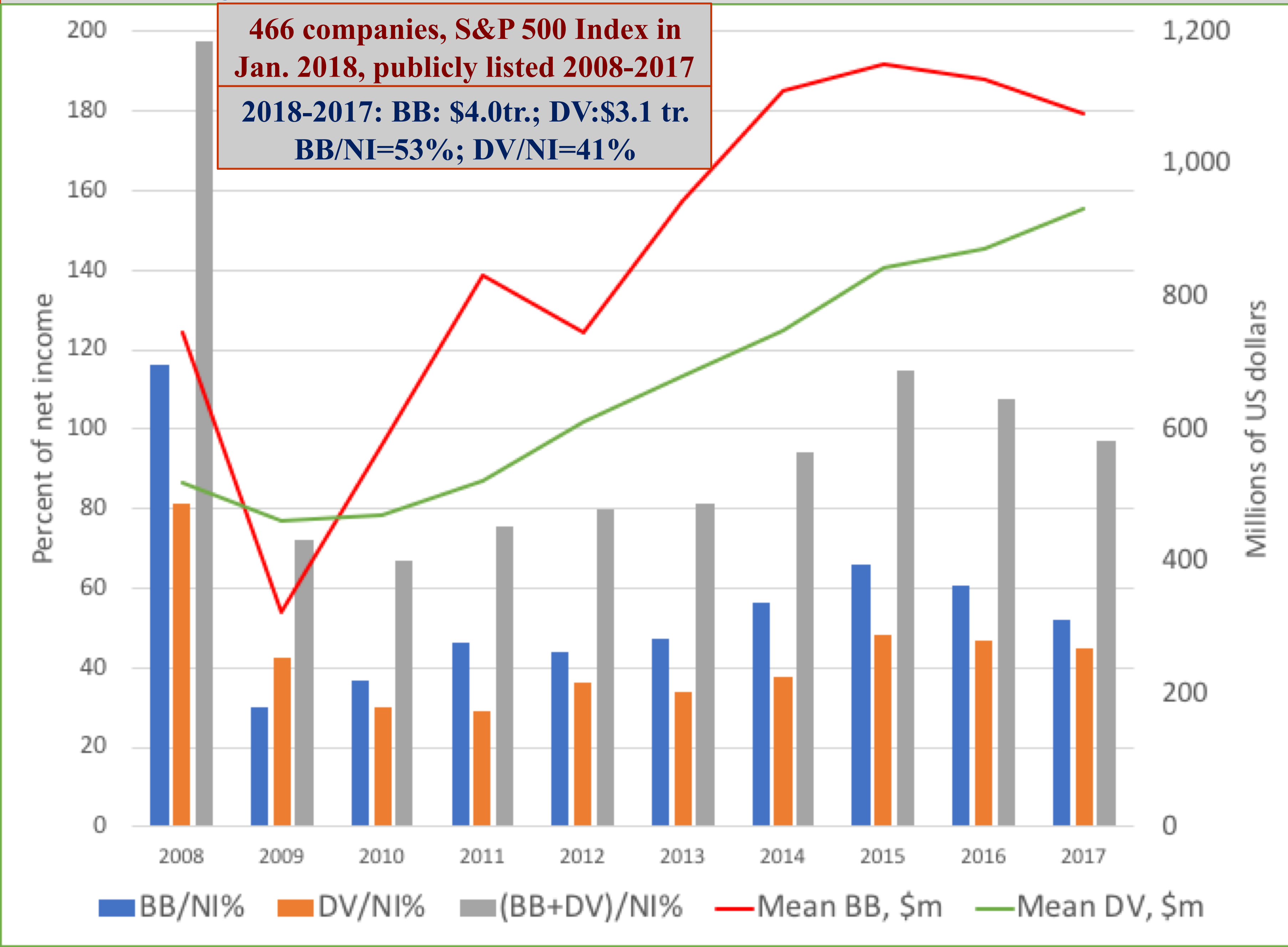
The buyback economy

- **US corporations hold a vast accumulation of productive capabilities that, daily, create value.**
- **The value creators are households as taxpayers, workers, and entrepreneurs.**
- **Predatory value extractors include corporate executives, investment bankers and hedge-fund managers.**
- **They extract value by accumulating corporate stock, with distributions of corporate resources to shareholders in the forms of cash dividends and stock buybacks boosting the stock's value.**
- **Stock repurchases are so massive in the United States that it can be called a "buyback economy."**

In the name of “maximizing shareholder value”



Mean buybacks & dividends, and % of net income, 2008-2017

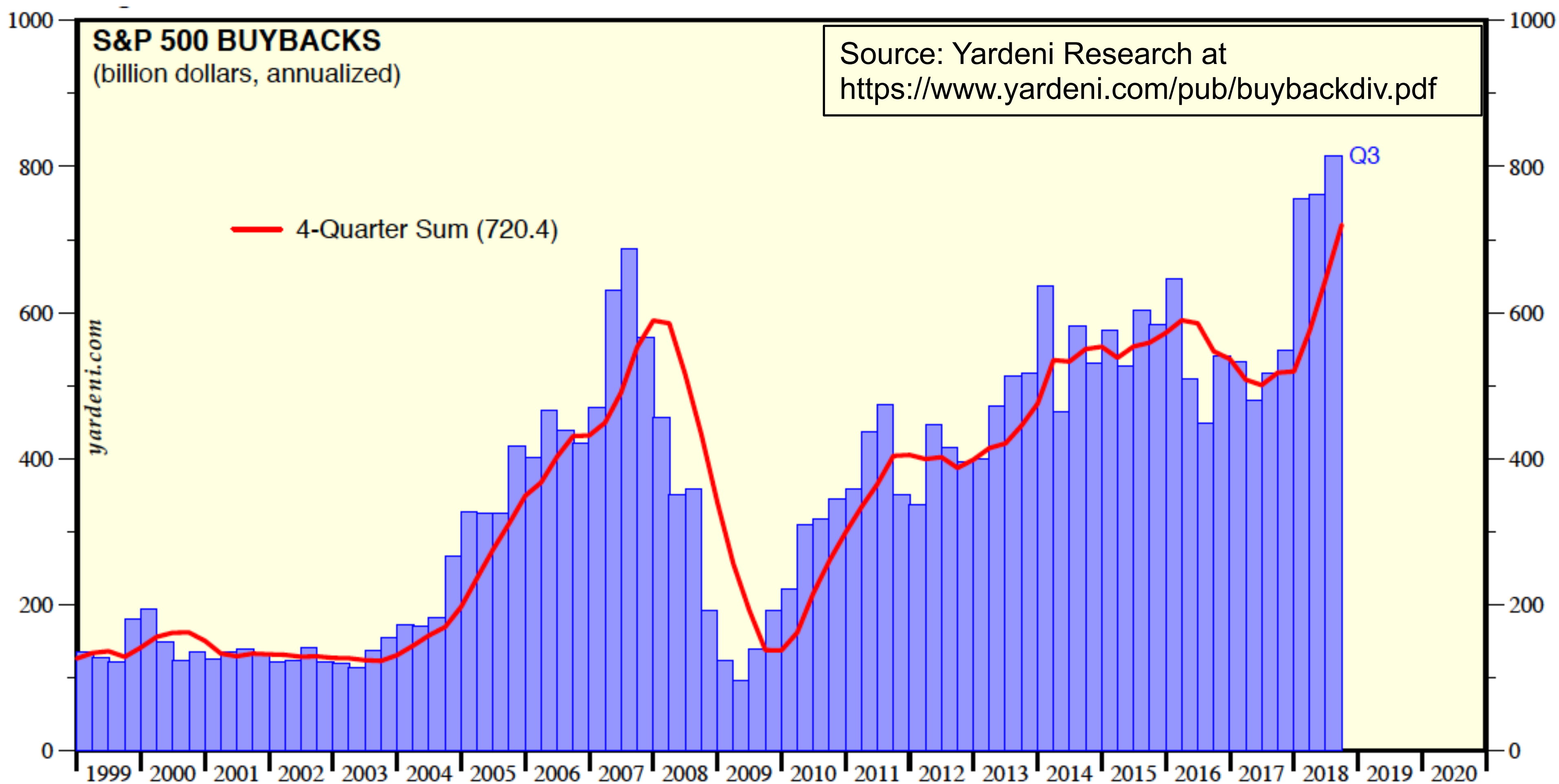


25 largest repurchasers 2008-2017

Research agenda: analyzing how buybacks undermine attainment of equitable and stable economic growth in particular industries and companies within those industries

Rank	Company Name	BB, $billions	BB/NI %	DV/NI %	(BB+DV)/NI %
1	APPLE	165.7	52	19	71
2	EXXON MOBIL	146.6	51	36	86
3	MICROSOFT	104.6	56	40	96
4	IBM	100.7	76	30	106
5	WAL-MART STORES	67.9	46	36	83
6	ORACLE	67.0	80	21	101
7	CISCO SYSTEMS	60.1	72	28	100
8	PROCTER & GAMBLE	59.3	51	54	104
9	PFIZER	56.2	48	59	107
10	GOLDMAN SACHS	55.1	78	23	102
11	JPMORGAN CHASE	53.2	29	31	60
12	INTEL	52.6	54	43	96
13	WELLS FARGO	50.2	29	34	62
14	GENERAL ELECTRIC	49.4	53	89	143
15	DISNEY (WALT)	48.8	78	23	101
16	AIG	48.0	-69	-9	-78
17	HOME DEPOT	47.8	92	45	137
18	HP	47.3	122	24	146
19	VISA	46.3	112	19	131
20	JOHNSON & JOHNSON	45.4	37	57	94
21	MCDONALD'S	42.3	85	56	141
22	GILEAD SCIENCES	37.9	59	11	70
23	PHILIP MORRIS	37.7	51	75	126
24	BOEING	34.8	80	42	122
25	AT&T	34.7	25	75	101

With Republican tax cuts, buybacks reach record levels in 2018



2013-2017, S&P 500 companies did BBs of $2.6tr. (56.1% of NI) plus DVs of $2.0tr. (41.9%), and, buoyed by tax cuts, set records in 2018Q1, Q2, & Q3, with over $800b. annualized in 2018Q3.

SEC Rule 10b-18: A license to loot

SEC Eases Way For Repurchase Of Firms' Stock

Agency Assures It Won't File Charges of Manipulation If Certain Rules Are Met

By RICHARD L. HUDSON
Staff Reporter of THE WALL STREET JOURNAL

Wall Street Journal, Nov. 10, 1982

Reagan's SEC Chair John Shad

SEC Rule 10b-18: market manipulation and value extraction

Top ten stock repurchasers, 2008-2017, and SEC Rule 10b-18 safe-harbor limit on buybacks per trading day, as of August 17, 2018

Company	BUYBACKS, 2008-2017, $BILLIONS	25% ADTV LIMIT, 8/17/18, $MILLIONS
APPLE	166	1,437
EXXON MOBIL	147	197
MICROSOFT	105	730
IBM	101	179
WALMART	68	131
ORACLE	67	200
CISCO	60	215
PROCTER & GAMBLE	59	154
PFIZER	61	232
GOLDMAN SACHS	55	189

SEC does not require disclosure on the days on which buybacks are done—and Rule 10b-18 cannot be violated

July 2015: SEC Chair White responds to an April 2015 letter from US Sen. Baldwin

The Intercept_

UNOFFICIAL _SOURCES

Photo: Mandel Ngan/AFP/Getty Images

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David Dayen

Aug. 13 2015, 9:08 a.m.

SEC Admits It's Not Monitoring Stock Buybacks to Prevent Market Manipulation

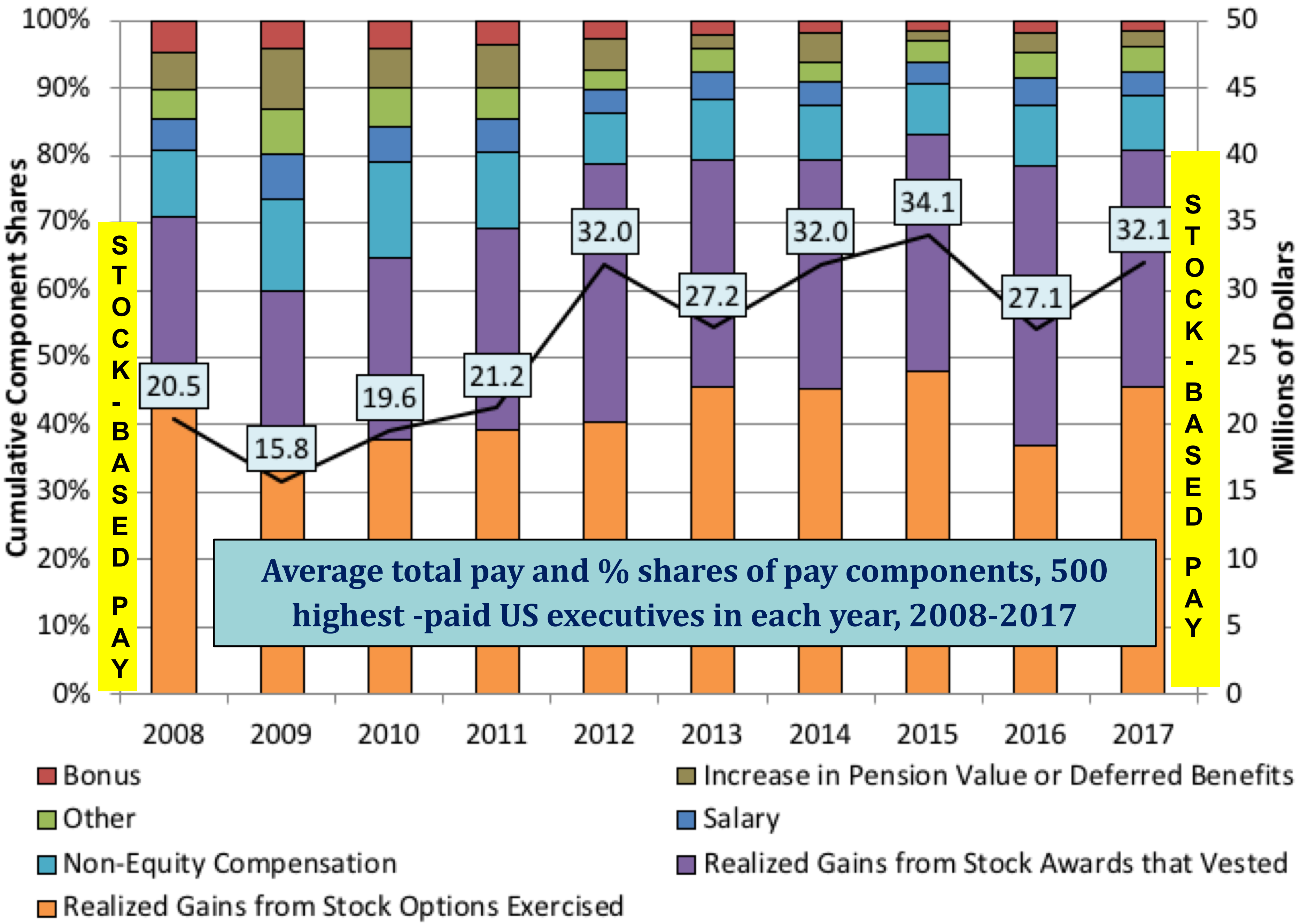
The Securities and Exchange Commission has admitted that it has no ability to enforce the main rule intended to prevent market manipulation when companies buy back their own stock, and has no intention to do so.

https://theintercept.com/2015/08/13/sec-admits-monitoring-stock-buybacks-prevent-market-manipulation/

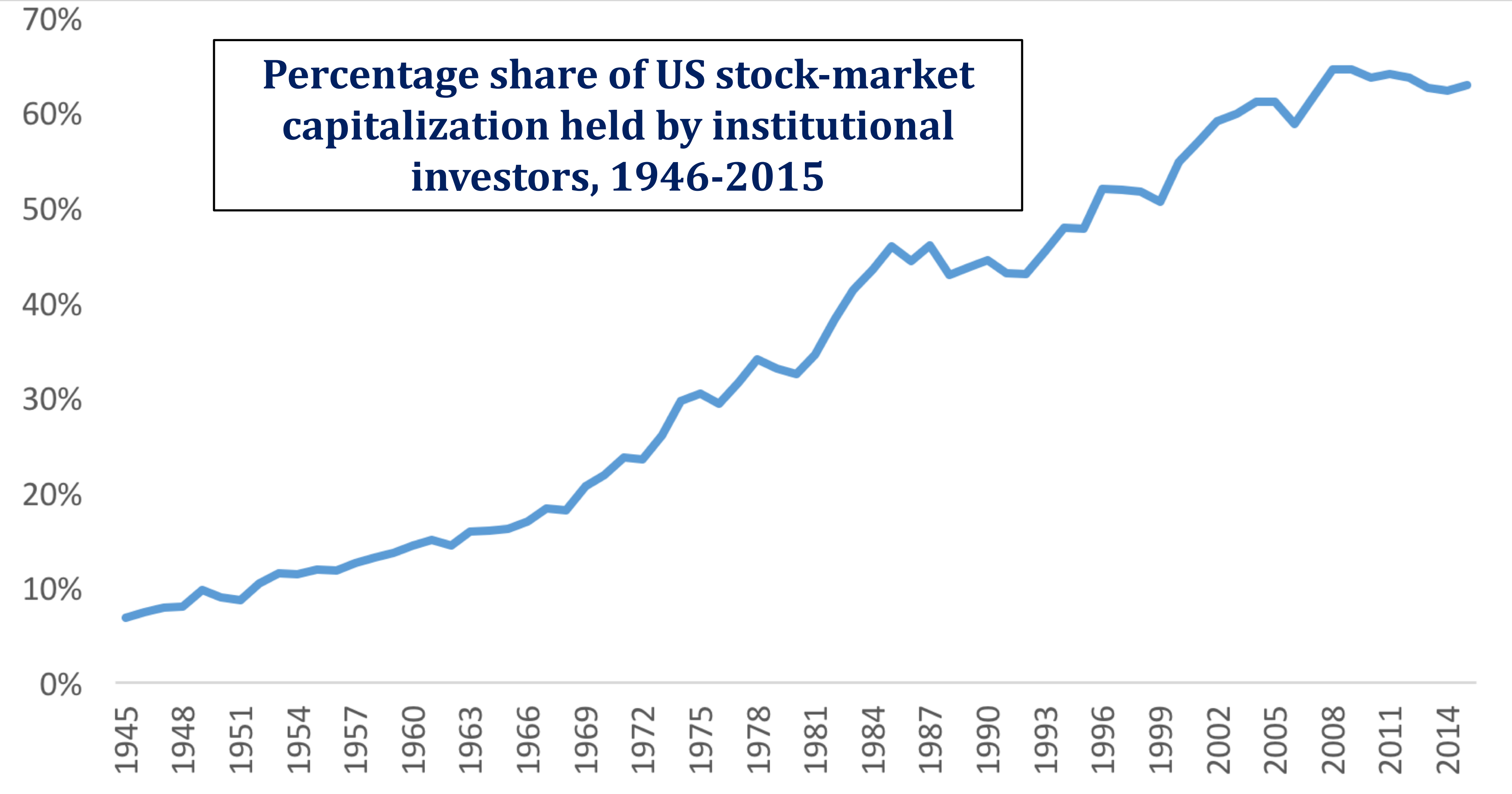
Value-extracting insiders, enablers, and outsiders

- **Value-extracting insiders:** senior corporate executives incentivized by stock-based pay to engage in downsize-and-distribute rather than retain-and-reinvest
- **Value-extracting enablers:** institutional investors, mainly pension and mutual fund managers, holding over 60% of market cap of outstanding shares in the United States, incentivized to secure high yields on stock portfolios and required to exercise proxy votes
- **Value-extracting outsiders:** hedge-fund activists, holding small fractions of shares of companies, lobby proxy-voting services (ISS and Glass Lewis) to back board of director candidates who will pursue the activists' agenda to "maximize shareholder value"

Value-extracting insiders: Weight of stock-based executive pay



Value-extracting enablers: Pension-fund and mutual-fund managers control an increasing share of corporate stocks



Sanctioned by the SEC since 2003, the proxy voting system requires fund managers to vote portfolio shares, and they rely on proxy advisers (mainly ISS and Glass Lewis) to recommend how to vote.

Value-extracting outsiders: Take-home pay of hedge-fund managers, 2016; shareholder activists underlined

Name	Hedge Fund	Take-Home Pay
James Simons	Renaissance Technologies	$1.5 bill
Michael Platt	BlueCrest Capital Management	
Raymond Dalio	Bridgewater Associates	
David Tepper	Appaloosa Manage	million
Kenneth Griffin	Citadel LL	$500 millio
Daniel Loeb	Thi	$40
Paul Singer	ent	
David Shaw	aw & Co.	
John Ove	Two Sigma Inve	illion
David Sieg	Two Si	$375 million
Michael Hintze		$325 million
Jeffrey Talpins	agement	$300 million
Stanley Druckenmi	amily Office	$300 million
Brett Icahn	ahn Capital Management	$280 million
David Schechter	Icahn Capital Management	$280 million

Take-home pay of the top 15 hedge-fund managers, USA, 2016 (top15 average=$606 million)

Top15 corporate executives in 2016
Average total pay=$120 million (93% stock-based)
Range: $83 million to $220 million

//www.forbes.com/pictures/58b7441c4bbe6f0e5587d2ae/1-michael-platt/#a0f059147746

Neoclassical "agency theory": a theory of the firm and its role in resource allocation that provides academic legitimacy to MSV ideology

- **"Maximizing shareholder value" (MSV): rooted in neoclassical theory; the firm as a massive market imperfection, reflecting "inefficient" capital markets**
- **Critical assumption of agency theory: all economic participants receive guaranteed market returns except for *shareholders who bear risk by making investments without guaranteed returns***
- **It is then assumed that this risk-bearing function results in a more efficient economy.**
- **Hence those who bear risk should control resource allocation in the economy, including the corporation.**

Economic critique of MSV

- **Fundamental problem with MSV: erroneous assumption that shareholders are the only actors who invest without a guaranteed return**
- **NOT SO: *Taxpayers* through government agencies and *workers* through business enterprises regularly make risky investments in productive capabilities. From this perspective, both the state and labor have economic claims on profits if and when they occur.**
- **Irony of MSV: public shareholders typically never invest in the company's value-creating capabilities. They invest in outstanding shares, hoping for a rise in price. Following MSV, executives fuel this hope by "disgorging" cash as dividends and buybacks.**

Separation of share ownership and managerial control

- **In the growth of the US economy, the key function of the stock market was *control:* the stock market promoted innovative enterprise by separating managerial control over corporate resource allocation from ownership of the company's shares,**

- **Erroneously assuming, however, that the stock market's function is cash—and that *control* is the "original sin" of US corporations—agency theorists argue that, for the sake of economic efficiency, shareholders as "principals" must compel managers as "agents" to "maximize shareholder value."**

See W. Lazonick, "The Functions of the Stock Market and the Fallacies of Shareholder Value," INET WP, 2017 (www.ineteconomics.org/research/research-papers/the-functions-of-the-stock-market-and-the-fallacies-of-shareholder-value)

MSV is a theory of value extraction, not value creation

- **Economic activity and performance depend on resource allocation decisions.**
- **We rely on corporate executives to make resource allocation decisions that have a profound influence on the operation and performance of the economy.**
- **Stock-based compensation enriches top corporate executives in the name of MSV, and gives them incentives to encourage speculation in and engage in manipulation of the price of their company's stock.**
- **Stock buybacks: The prime mode of corporate resource allocation for the purpose of manipulating stock prices.**

Milton Friedman's clarion call for MSV

Milton Friedman, "The social responsibility of business is to increase its profits" *NYT Magazine*, Sept. 13, 1970.

"In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom."

Friedman concludes the article by quoting himself from his 1962 book *Capitalism and Freedom*: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

THE CONTEXT: **Friedman's article as it appeared in the *New York Times*, September 13, 1970**

A Friedman doctrine—

The Social Responsibility Of Business Is to Increase Its Profits

By MILTON FRIEDMAN

TAMING G.M.—Chaiman James Roche of General Motors (right) replies to members of Campaign G.M. (below, wearing "Tame G.M." buttons) at the corporation's stockholders' meeting in May. Representatives of the campaign demanded that G.M. name three new directors to represent "the public interest" and set up a committee to study the company's performance in such areas of public concern as safety and pollution. The stockholders defeated the proposals overwhelmingly, but management, apparently in response to the second demand, recently named five directors to a "public-policy committee." The author calls such drives for social responsibility in business "pure and unadulterated socialism," adding: "Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society."

“Campaign G.M.” demands that General Motors address safety and pollution

In the photo from GM’s shareholder meeting in May 1970, Roche was replying to members of Campaign G.M., an organization that

“demanded that G.M. name three new directors to represent ‘the public interest’ and set up a committee to study the company’s performance in such areas of public concern as safety and pollution. The stockholders defeated the proposals overwhelmingly, but management, apparently in response to the second demand, recently named five directors to a “public-policy committee.” The author [Milton Friedman] calls such drives for social responsibility in business “pure and unadulterated socialism,” adding: “Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of free society.”

Milton Friedman tells US corporations how NOT to be innovative in global competition

In historical retrospect, the "public purpose" demands of Campaign G.M. for safer and less polluting cars were in effect demands for GM to engage in automobile innovation. In the 1970s and beyond, the world leaders in producing these "socially responsible" cars would be Japanese and European companies, leaving the "profit-maximizing" GM lagging further and further behind.

What Friedman (and, quoting him, the NYT editor) called "pure and unadulterated socialism" proved to be the innovative future of the global automobile industry!

Jensen: "Disgorge" the "free" cash flow

Solution to the agency problem:
To make markets efficient, *"disgorge free cash flow":*

"Free cash flow is cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital. Conflicts of interest between shareholders and managers over payout policies are especially severe when the organization generates substantial free cash flow. The problem is how to motivate managers to disgorge the cash rather than investing it at below cost or wasting it on organization inefficiencies."

Michael C. Jensen, *American Economic Review*, 1986.

What it means to “disgorge” the “free” cash flow

DISGORGE: Implication that the cash that is under corporate control is ill-gotten—but agency theory lacks a theory of the productive (i.e., innovative) enterprise

Who created that value? Whose cash is being disgorged?

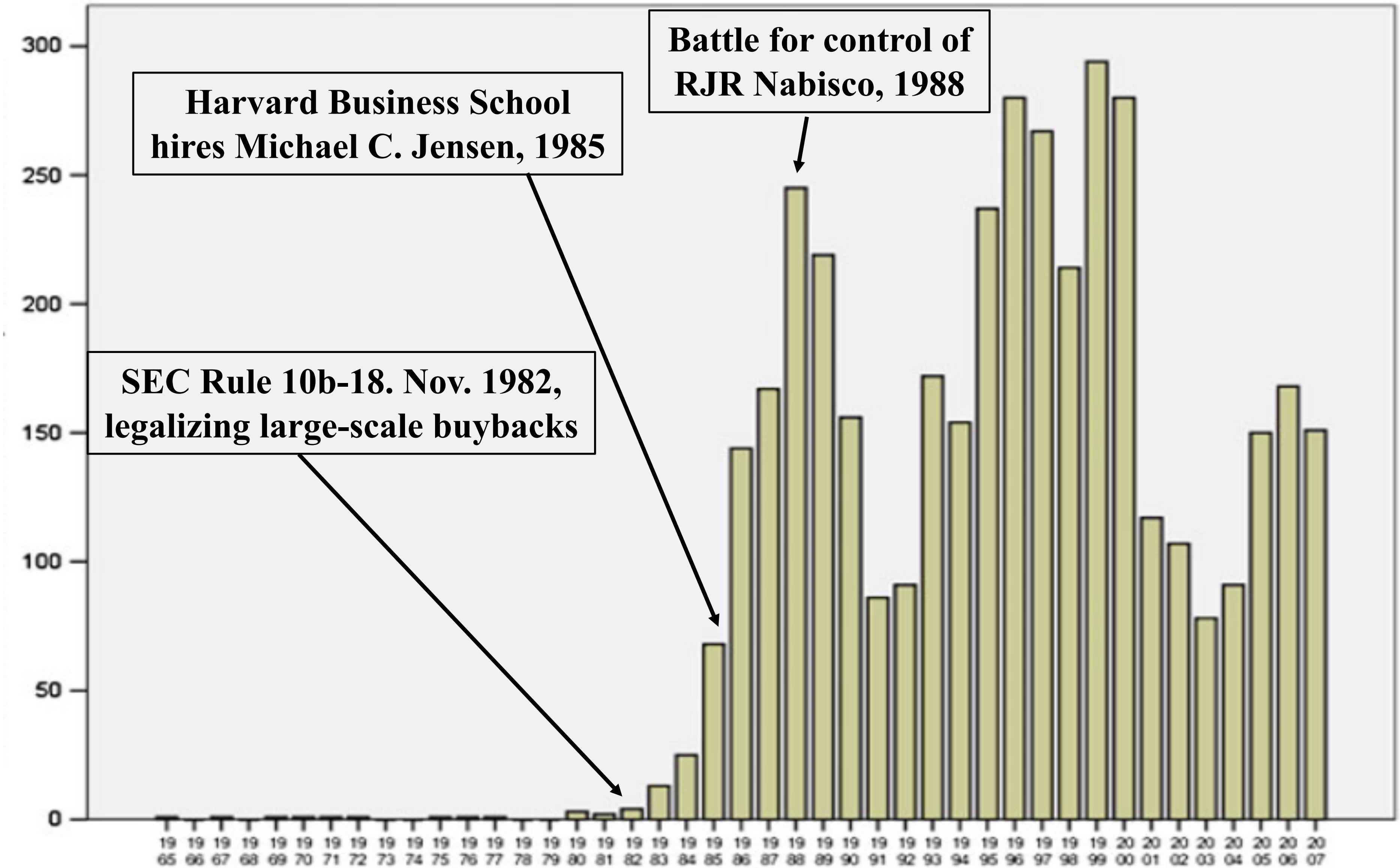
FREE CASH FLOW: Lay off, say, 5,000 employees who generated the firm’s revenue-generating products—and increase the cash flow that is “free”

Or avoid corporate taxes to make more cash flow “free”

Or price-gouge customers to create more cash flow “free”

Integral to “disgorging” corporate cash is alignment of executives’ interests as agents with shareholders’ as principals by *giving executives stock-based pay.*

“Shareholder value” hits in *Wall Street Journal*



Source: graph of hits is from Johan Heilbron, Jochem Verheul, and Sander Quak, “The Origins and Early Diffusion of ‘Shareholder Value’ in the United States,” *Theory and Society*, 43, 1, 2014: 1-22

Investment in productive capabilities includes, first and foremost, investment in people

- Along with investment in plant & equipment, innovation requires investment in **training & retaining employees**, which may include investment in research & development, but is not confined to it
- To generate a competitive product from these investments in productive capabilities, the firm must
  - Transform technologies to generate a high-quality product
  - Access markets to transform the high-fixed costs of developing a product into low unit costs

Companies grow through innovation: generation of high-quality products at low unit costs

- **For sustainable prosperity, the size of the firm or even its dominance of its industry is often not the problem for attaining sustainable prosperity.**
- **The problem is predatory value extraction.**
- **The regulatory solutions have do with corporate governance: that is, regulating the ways in which business corporations allocate resources and returns.**
- **And some members of the United States Congress get it.**

For the first time, in a letter of April 23, 2015, a US Member of Congress, Sen. Tammy Baldwin (D-WI), questioned the SEC about stock buybacks.
She wrote a second probing letter in November 2015.

TAMMY BALDWIN
WISCONSIN

United States Senate
WASHINGTON, DC 20510

April 23, 2015

Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NW,
Washington, DC 20549

Dear Chair White:

I write to you today with concerns about the recent explosion of stock buybacks by U.S. corporations. Stock buybacks use profits to purchase a company's own stock instead of investing in the worker training, research, or innovation necessary to promote long-term economic growth. In 1982, when the Securities and Exchange Commission (SEC) issued a rule[1] to provide 'safe harbor' from manipulation liability, buybacks were near zero. Last year, over $500 billion was spent on share repurchases. I request that the SEC, as the regulator responsible for fair and efficient capital markets, provide the following: any analytic work done by the SEC on the long-term economic impact of the 1982 rule; an accounting of all investigations undertaken by the SEC into possible violations of the rule; and, an assessment of whether this rule is adequate for the SEC's stated mission—to foster capital formation and prevent fraud.

U.S. corporate profits have been at post-World War II highs since late 2011, yet the nation's gross domestic private investment remains below historical averages.[2] American workers' wages have not increased either; in fact, average hourly real wages have stagnated since 1979. A growing body of research[3] suggests that the vast amounts U.S. corporations have spent to repurchase their own stock is a chief cause of the stagnation of American wages and investment, and could be a potential source of long-term national decline.

According to research by William Lazonick, from 2003 to 2012, S&P 500 companies used 54 percent of their earnings—$2.4 trillion—to buy back their own stock.[4] Dividends paid to shareholders accounted for an additional 37 percent. Only the remaining nine percent was invested back in their own companies, down from an average of 70 percent reinvestment in the early 1980s. There is no evidence that buybacks will slow down anytime soon—cash handed back to shareholders in 2014 was 95 percent of profits, up from 88 in 2013, and 72 in 2010.

Sen. Baldwin's 2nd letter to SEC Chair White
November 16, 2015

"Your previous response did not sufficiently explain what the SEC is doing to respond to the buyback phenomenon....I request that you respond to the following questions:

- What steps are you taking to investigate the risk that share buybacks could be manipulating stock prices?
- Have you opened any investigations into specific questionable buyback practices?
- Given that you have explained that the Commission lacks the necessary data to perform analysis on buybacks, are you working to improve your data collection efforts?

The overarching reason I am interested in buybacks is that I am concerned that they come at the expense of the investments in innovation, research, and workers that are necessary for stable and equitable economic growth, as some academic studies have suggested."

US Senator Tammy Baldwin (D-WI) uses research on financialization of the US pharma business model to question the lobby group PhRMA

UNITED STATES SENATE
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS
THE COST OF PRESCRIPTION DRUGS: HOW THE DRUG DELIVERY SYSTEM AFFECTS WHAT PATIENTS PAY, PART II
OCTOBER 17, 2017
Questions for the Record – Ms. Reilly

Senator Baldwin

1. Ms. Reilly, in your testimony on October 17, you explained that higher drug prices in the United States are needed to support an "innovation ecosystem." Compared to lower prices in Europe and Canada, you argued that higher prices here provide companies the financial resources to "fuel the next generation of therapies for patients." You said that your member companies spend significantly more on research and development than marketing and that they do a great deal of basic research to develop new therapies. However, as the first chart (Table 1) from Professor William Lazonick's paper[1] makes clear, PhRMA's members in the S&P 500 are spending significantly more buying back their own stock and issuing dividends than they are on research and development. To me, this suggests that R&D isn't as important to your members as boosting the stock price.

https://www.ineteconomics.org/uploads/general/Baldwin-QFRs.pdf

US Senate Democrats, GOP Tax Scam, and stock buybacks

TAMMY BALDWIN
United States Senator *for* WISCONSIN

NEWS ABOUT TAMMY FEEDBACK

HOW CAN I **HELP YOU?**

03.07.18

U.S. SENATOR TAMMY BALDWIN AND SENATE DEMOCRATIC LEADER CHUCK SCHUMER INTRODUCE AMENDMENT TO REIN IN CORPORATE STOCK BUYBACKS IN BANKING DEREGULATION BILL

Following passage of the GOP Tax Scam bill, corporations have announced more than $200 billion in corporate share buybacks, overwhelmingly benefiting corporate executives and wealthy shareholders, while workers get pink slips

WASHINGTON, D.C. – Seizing on the surge in corporate stock buybacks, U.S. Senator Tammy Baldwin and Senate Democratic Leader Chuck Schumer are introducing an amendment today to the banking deregulation bill that would stop the growing trend of corporate tax breaks going towards stock buybacks.

https://www.baldwin.senate.gov/press-releases/amendment-to-rein-in-corporate-stock-buybacks

June 28, 2018 21 US Senators call for a period of public comment on Rule 10b-18

United States Senate
WASHINGTON, DC 20510

June 28, 2018

The Honorable Jay Clayton
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair Clayton:

We write with concerns about the accelerating pace of stock buybacks in U.S. capital markets. The Securities and Exchange Commission ("SEC" or "the Commission") last updated Rule 10b-18, which governs stock buybacks, in 2003.[1] Since that time, there have been significant changes in executive compensation practices, shareholder activism, and investing technology. Therefore, we respectfully request that the Commission begin a process to review how companies are conducting buybacks under Rule 10b-18 and whether corporate insiders are exploiting buybacks to sell shares received as executive pay at inflated prices.

We, too, are concerned that short-term interests are too often driving stock buybacks. Shareholders, employees, and the American public will benefit when executives have the appropriate incentives to facilitate job growth and long-term investment in their firms. Accordingly, it is time for the public to weigh in on the impact of the buyback phenomenon on ordinary investors, wages, investment, and the overall competitiveness of U.S. companies.

To that end, we ask you to open a public comment period to review the SEC's current rules around share repurchases. Last year, you solicited public comment prior to proposing an updated fiduciary standard. In your public statement, you justified opening the public comment period by noting the "significant developments" in the marketplace since 2013, when the Commission had last solicited input from the public. As stated above, we believe the developments in executive compensation, shareholder activism, and buyback activity warrant serious reconsideration and review of Rule 10b-18.

Sincerely,

Tammy Baldwin
United States Senator

Chris Van Hollen
United States Senator

Charles E. Schumer
United States Senator

Sherrod Brown
United States Senator

Cory A. Booker
United States Senator

Elizabeth Warren
United States Senator

Ron Wyden
United States Senator

Mark Warner
United States Senator

Sheldon Whitehouse
United States Senator

Kirsten Gillibrand
United States Senator

Jack Reed
United States Senator

Richard Blumenthal
United States Senator

Edward J. Markey
United States Senator

Mazie K. Hirono
United States Senator

Benjamin L. Cardin
United States Senator

Dianne Feinstein
United States Senator

Angus S. King Jr.
United States Senator

Brian Schatz
United States Senator

Jeffrey A. Merkley
United States Senator

Joe Donnelly
United States Senator

Margaret Wood Hassan
United States Senator

Reward Work Act

TAMMY BALDWIN
United States Senator *for* WISCONSIN

March 22, 2018

U.S. SENATOR TAMMY BALDWIN INTRODUCES LEGISLATION TO REIN IN STOCK BUYBACKS AND GIVE WORKERS A SEAT AT THE TABLE

Corporations have announced more than $225 billion in corporate share buybacks, overwhelmingly benefiting corporate executives and wealthy shareholders, while workers get pink slips

WASHINGTON, D.C. – Today, U.S. Senator Tammy Baldwin introduced legislation to rein in corporate America's addiction to stock buybacks by giving workers a say in how their company's profits are spent. The *Reward Work Act* improves disclosure of repurchases and requires public companies to give workers the right to directly elect one-third of their company's board of directors.

https://www.baldwin.senate.gov/press-releases/reward-work-act

Rescind SEC Rule 10b-18
Labor representatives: 1/3 of board members of a US business corporation

Accountable Capitalism Act

ELIZABETH WARREN

August 15, 2018

Warren Introduces Accountable Capitalism Act

Comprehensive Legislation to Eliminate Skewed Market Incentives and Return to the Era When American Corporations and American Workers Did Well Together

https://www.warren.senate.gov/newsroom/press-releases/warren-introduces-accountable-capitalism-act

The **Accountable Capitalism Act**, 115th Congress (2017-2018) S. 3348 is a proposed federal bill introduced by Senator Elizabeth Warren in August 2018. It would require that employees elect 40% of a board of directors of any corporation with over $1 billion in tax receipts, and that 75% of shareholders and directors must approve any political spending. Corporations with revenue over $1 billion would be required to obtain a federal corporate charter. The Act contains a "constituency statute" that would give directors a duty of "creating a general public benefit" with regard to a corporations stakeholders, including shareholders, employees, and the environment, and the interests of the enterprise in the long-term.

https://en.wikipedia.org/wiki/Accountable_Capitalism_Act

Support for the Accountable Capitalism Act builds in the new US Congress

Vox

Top House Democrats join Elizabeth Warren's push to fundamentally change American capitalism

Co-determination would transfer huge sums of wealth to the middle class.

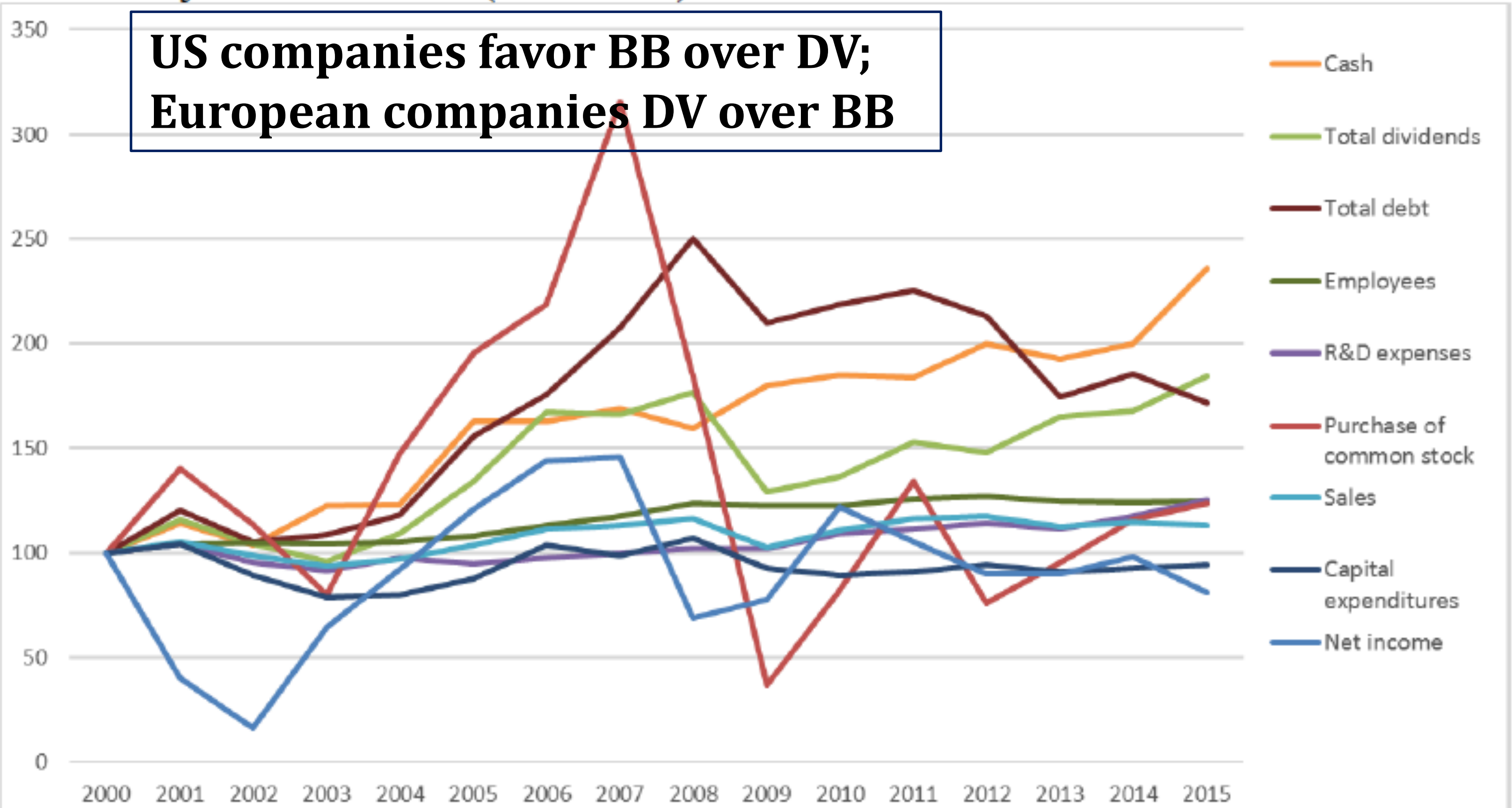
By Matthew Yglesias | @mattyglesias | matt@vox.com | Dec 14, 2018, 9:00am EST

This past summer, **Sen. Elizabeth Warren (D-MA) rolled out a big idea to challenge how we think about inequality and the fundamental structure of the economy**. Thursday, a group of five House Democrats — critically including newly elected assistant leader Ben Ray Luján and Progressive Caucus Chair Mark Pocan along with Reps. Jan Schakowsky, Stephen Lynch, and Brendan Boyle — are joining her by co-sponsoring a House version of Warren's Accountable Capitalism Act.

Comparative research on PVE in Europe
Stock buybacks

Mustafa Erdem Sakinç (The Academic-Industry Research Network), "Share Repurchases in Europe: A Value Extraction Analysis," IsiGrowth Working Paper 16/2017 May, at www.isigrowth.eu/2017/06/15/share-repurchases-in-europe-a-value-extraction-analysis/

Figure 2: Selected financials of 298 S&P Europe 350 companies, 2000-2015, 2000 = 100, Eurozone inflation adjusted euro values (2015 = 100)



Source: CapitalIQ and company annual reports

Comparative research on PVE in Europe
Executive pay

Patricia Kotnik, Mustafa Erdem Sakinç, and Dejan Guduraš, "Executive Compensation in Europe: Realized Gains from Stock-Based Pay," Institute for New Economic Thinking Working Paper No. 78, September 2018: https://www.ineteconomics.org/research/research-papers/executive-compensation-in-europe-realized-gains-from-stock-based-pay

- **A sample of CEO pay for the fiscal year 2015 of 301 companies listed in S&P Europe 350 Index from 11 EU countries: Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Spain, Sweden and the UK**
- **On average half of the total compensation of the European CEOs in the sample is stock-based, measured by actual realized gains, with large differences among countries.**
- **In some European countries the majority of total compensation is stock-based, but the proportions are still well below those that prevail in the United States.**

Governing Financialisation, Innovation and Productivity in UK manufacturing (GOFINPRO), (Gatsby Foundation 2017-2019)

SOAS University of London

Co-Principal Investigators: Antonio Andreoni (SOAS), Marie Carpenter (TEM) and William Lazonick (Mass Lowell and SOAS)

Researchers: Mustafa Erdem Sakinc, Oner Tulum and Matt Hopkins

As a result of the widespread adoption of the ideology of "maximizing shareholder value" (MSV) in public US corporations since the 1980s, superior corporate performance has increasingly become defined as meeting Wall Street's expectations for quarterly earnings per share. Through stock-based pay, senior management of these firms have been incentivized to focus, above all else, on boosting stock prices, and the result is trillions of dollars spent on stock buybacks that could have been invested in innovation in pursuit of increased productivity and long-term competitive advantage. Such financialised practices have clearly spread beyond the US, in particular in sectors such as biopharma where global competitive dynamics exert a powerful influence over strategic decisions related to investments in new technologies and markets.