



The Daily Dish

Beware Senators Bearing Gifts

DOUGLAS HOLTZ-EAKIN | AUGUST 16, 2018

Eakinomics: Beware Senators Bearing Gifts

Senator Elizabeth Warren, charter member of the academic and ruling elites but self-styled crusader for the average guy, is out to save you (again). The [problem](#): America's corporations. In the good old days, "Corporations sought to succeed in the marketplace, but they also recognized their obligations to employees, customers and the community." Now, however, the ethic has changed so that "corporate directors ha[ve] only one obligation: to maximize shareholder returns." The result? "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."

What is her solution? The Accountable Capitalism Act (ACA, hmmm...where have I seen that acronym before?). As she [explains](#) it: "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."

Let's ignore the shaky foundation of non-facts on which her indictment of the current situation is built and cut to the chase. This makes no sense in ways small and large.

In the small, she argues that corporations shouldn't be responsible solely to shareholders, but rather to all stakeholders. But what is the stick behind the ACA? "Shareholders could sue if they believed directors weren't fulfilling those obligations." Huh? She also misses the point that corporations are subject to an enormous array of labor, workplace, environmental, product safety, and other regulations that are *de facto* accountability mechanisms for those other stakeholders.

But she really just misses the big picture: If this is what people want, market forces will deliver it! If you want to support only environmentally acceptable operations, there's a fund for that. Hate those firms invested in countries with human rights violations? Divest and boycott their products. Want to support social investing — there's a fund for that, too. If treatment of stakeholders is important, those values get transmitted in the products people choose to buy, the jobs they are apt to take, and the investments they are willing to make. Indeed, Warren undercuts herself by pointing out, "This approach follows the 'benefit corporation' model, which gives businesses fiduciary responsibilities beyond their shareholders....And successful companies such as Patagonia and Kickstarter have embraced this role." Exactly.

It is extremely dangerous to move toward embedding decisions over those values in the government. Whose values would we get then? Those who favor top-down, government-instilled morality seemingly believe that the government is controlled by [angels](#). Hardly.

My guess is that this is largely empty political posturing. But it feeds a dangerous meme that somehow we just have to get back to the good old days. I grew up in the '50s and '60s. Other than the blatant sexism, blatant

racism, riots, political assassinations, threat of nuclear annihilation, Western colonialism, Cold War, and a few other details, it was great. The economy prospered because it could not help but prosper — the rest of the world was digging out of the rubble of World War II. Being a global monopolist is a great gig if you can get it, but those days are over. Senator Warren is just like President Trump in longing for the easy affluence of that age, without having a clue how to reproduce it in the era in which we actually live.