

Short-termism is a real problem, and it's damaging our economy.

Put simply, short-termism—also known as “quarterly capitalism”—is the focus on short time horizons by both corporate managers and financial markets. It results in corporate funds being used for payouts to shareholders in the form of dividends and buybacks rather than investment in workers, R&D, infrastructure, and long-term success. This means that the economy continues to operate below its full potential and the Federal Reserve’s efforts to boost growth by easing credit access are less effective. Because most capital is owned by the wealthiest Americans, this is also directly connected to the rise of inequality and the fight to level the playing field while growing the economy, which has become a key issue in the 2016 election.

Shareholders aren’t the “owners” of a firm, and they aren’t reallocating money efficiently.

The idea that shareholders have the only legitimate claim on corporate money gained traction with the “shareholder revolution” of the 1980s, but it was not widely accepted before then. In fact, there are many other relevant stakeholders, such as employees, customers, and suppliers. And shareholders have not been putting their increased returns to good use: Instead of reinvesting the money in innovative startups, they’re using it to fuel their own conspicuous consumption. \$1.2 trillion is leaving firms through payouts, but only \$200 billion is going back in through IPOs and venture capital.

We have the ability to tackle short-termism directly and immediately.

Our agenda calls for stricter limits on stock buybacks, which now soak up roughly 100 percent of corporate profits; reforms to discourage incentive-based CEO pay and the use of shareholder return as the primary performance metric, which encourage short-sighted and risky behavior; reforms to private equity to increase transparency and accountability, limit leverage, and forbid firms from taking on more debt to fund shareholder payouts; and limits on dividends and buybacks for firms with unfunded pension liabilities.

Ending short-termism also requires a long-term agenda.

Even with the direct policy responses we outline, the forces that promote short-termism will continue to fester. With this in mind, we propose strengthening countervailing forces by increasing representation of long-term shareholders and workers on corporate boards, encouraging companies to experiment with loyalty shares and dual-class shares to further empower long-term stakeholders, and reaffirming the power of boards to make decisions for their firms. Many of these are simple changes that can be made by regulators.

Short-termism and its effects demand a government response.

Government policy sets the rules that guide our economy and society. Our agenda calls for capital gains to be taxed as regular income so that passive generation of wealth is no longer privileged over work, and for the Federal Reserve to make full employment a priority again in order to empower workers and ensure that the gains of the recovery are shared more equally. Finally, our agenda calls on the government to step in as it did during the New Deal and fund the vital long-term investments in R&D and infrastructure that have fallen by the wayside as corporations chase quick returns.