"Examining the Impact of Shareholder Primacy: What it Means to Put Stock Prices First"
Chairman Don Beyer – Prepared Remarks
March 16, 2022

Recognitions

This hearing will come to order. I would like to welcome everyone to the Joint Economic Committee's hearing **"Examining the Impact of Shareholder Primacy: What it Means to Put Stock Prices First**."

I want to thank each of our distinguished witnesses for sharing their expertise today. We have an exceptional panel of experts, and I'm looking forward to hearing from them.

Opening statement

This hearing will examine how the shareholder primacy model of corporate governance has impacted the economy and how Congress can help address the problems it has created.

Shareholder primacy is a corporate model that focuses mainly or exclusively on increasing stock prices to generate value for its shareholders.

This approach, which gained favor in just the last few decades, encourages corporations and their executives to spend a larger share of profits on stock buybacks to reward investors in the short-term.

Who are the winners when corporations put stock prices first?

In the United States, shareholders are a relatively small group: The top 1% owns roughly 50% of all corporate equities, and only about half of U.S. households own any stock at all.

As a result, the singular focus on stock prices concentrates wealth at the very top, while leaving less for companies to re-invest in their workers, in innovative technologies and in long-term growth.

For example, the seven largest publicly traded oil corporations recently announced a near-record $41 billion dollar stock buyback program on top of $50 billion dollars in shareholder dividends.

While everyday American workers and families bear the burden of higher gas prices, Big Oil is raking in record profits and prioritizing padding the pockets of their wealthy shareholders.

But it has not always been this way. From the 1930s to the mid-1970s, American corporations largely followed a "retain and reinvest" strategy that focused on long-term innovation and job security for workers.

Workers were seen as an asset and a long-term investment, not a liability. Managers viewed well-paid, cared-for workers as vital to their success and primarily used profits to pay workers, provide benefits and make productive investments. Shareholders received the residual after companies paid workers, invested for the future and paid down debt.

During this time, economic growth was strong and broad-based: As the economy grew, workers saw their wages rise and, on the whole, were more financially secure. They had access to pensions and pathways to the middle class.

Since the 1970s, however, as shareholder primacy has become more dominant, boards have put shareholders at the front of the line for corporate profits, leaving everyone else behind.

While CEOs and executives at the top have seen their incomes go up 940% over the last 40 years, the bottom half of earners have seen their wages virtually flatline.

Across the board, the share of Gross Domestic Product going to employee wages and benefits has been declining for decades. The increased corporate focus on raising stock prices has driven this trend, which in turn has deprived workers of the gains from economic growth.

Because the corporate executives and shareholders who benefit from this model are overwhelmingly and disproportionately wealthy and white, this further reinforces the widening wealth disparities across income and racial groups. By 2019, the top 10% of American households held 70% of all U.S. wealth, and the total wealth owned by the *entire* bottom half of Americans dropped to just 2%.

The impact of shareholder primacy goes beyond the widening differences between winners and losers; it is impacting our economy at almost every level.

Short-sighted decisions to help companies hit short-term earnings targets can help explain the "just-in-time" inventory and staffing approaches that left U.S. supply chains vulnerable to pandemic-related disruptions.

Shareholder primacy also hinders investments in innovation and sustainability that drive inclusive economic growth and are necessary to address threats like climate change.

For example, despite growing risks from climate change, corporations have continued to make decisions that prioritize short-run profitability at the expense of broad sustainability and climate resilience.

Surprisingly, investors themselves also lose under shareholder primacy. Families investing money in diversified stock portfolios for college or retirement suffer when individual companies put their short-term profits over long-term investments.

It's no coincidence that widening economic inequality in this country, which began in the 1970s, coincides with the increased dominance of shareholder primacy.

It has helped concentrate economic power among a privileged few.

But this is not how we, as a nation, have always done things. There are other paths forward that maintain firm profitability ***and*** promote economic growth that is stronger, stable and more broadly shared.

For example, incentivizing business to invest in innovation, sustainability and enhanced productivity would boost competition, workers' wages and economy-wide returns.

Legislative proposals that place limits and tax share buybacks would help realign corporate incentives away from short-term stock prices and toward long-term, pro-growth investments.

Legislation that strengthens collective bargaining and raises wages, like the PRO Act and the Raise the Wage Act, would ensure workers take home a larger share of the gains that public companies and their executives have been keeping for themselves.

Turn it over to Senator Lee

As we dive deeper into these issues, I look forward to the testimonies of our expert witnesses. Now I would like to turn it over to Senator Lee for his opening statement.