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The Threat to the American Economy and Society from Activism and Short-Termism

In a comprehensive [report](#) on prosperity and the sharing of prosperity in the industrial democracies, an all-star commission has examined and made recommendations for public and private initiatives to improve GDP growth and fair distribution of prosperity. Among the matters studied are corporate governance and short-termism and activism. The following specially selected quotes (omitting compensation and other matters that the report finds promote short-termism) from the report support the limitations on activism that many of us believe are essential to the American economy and society:

An additional reason for the absence of inclusive prosperity is the changing nature of corporate behavior. Business leaders, government officials, and academics have pointed out that corporations have shifted their traditional focus on long-term profit maximization to maximizing short-term stock-market valuations.

The effects of short-termism are damaging to the economy as a whole. A firm that invests for the long term will make more investments in future productivity, whether that's developing lifesaving medicine; building or buying newer, more efficient machinery; or paying for training for its workforce. All of these investments show up immediately as expenses on the balance sheet and reduce profits in the current quarter but raise future productivity of the firm. Incentivizing a continuing short-term focus lowers future output, reduces long-term competitiveness, and diminishes future worker productivity and the higher wages that it can bring.

To provide greater macroeconomic and financial stability and to raise productivity, it is essential that markets work in the public interest and for the long term rather than focusing only on short-term returns.

Reforms to corporate governance are therefore critical. There are a number of potential ideas that could be implemented, including making directors more independent of company staff, moving away from quarterly reporting, taking measures to reduce the ease with which hostile takeovers can take place, and promoting greater information disclosure from brokers and other market participants.

Implementation of recommendations made in the report is critical to the American economy and a fairer distribution of prosperity.

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