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EY's "Study on directors' duties and sustainable corporate governance"
Discussion

The report has no clear definition of “short termism”

- In fact, it is a mixed bag of other (serious) problems
  - environmental
  - income inequality
  - tax avoidance
  - R&D

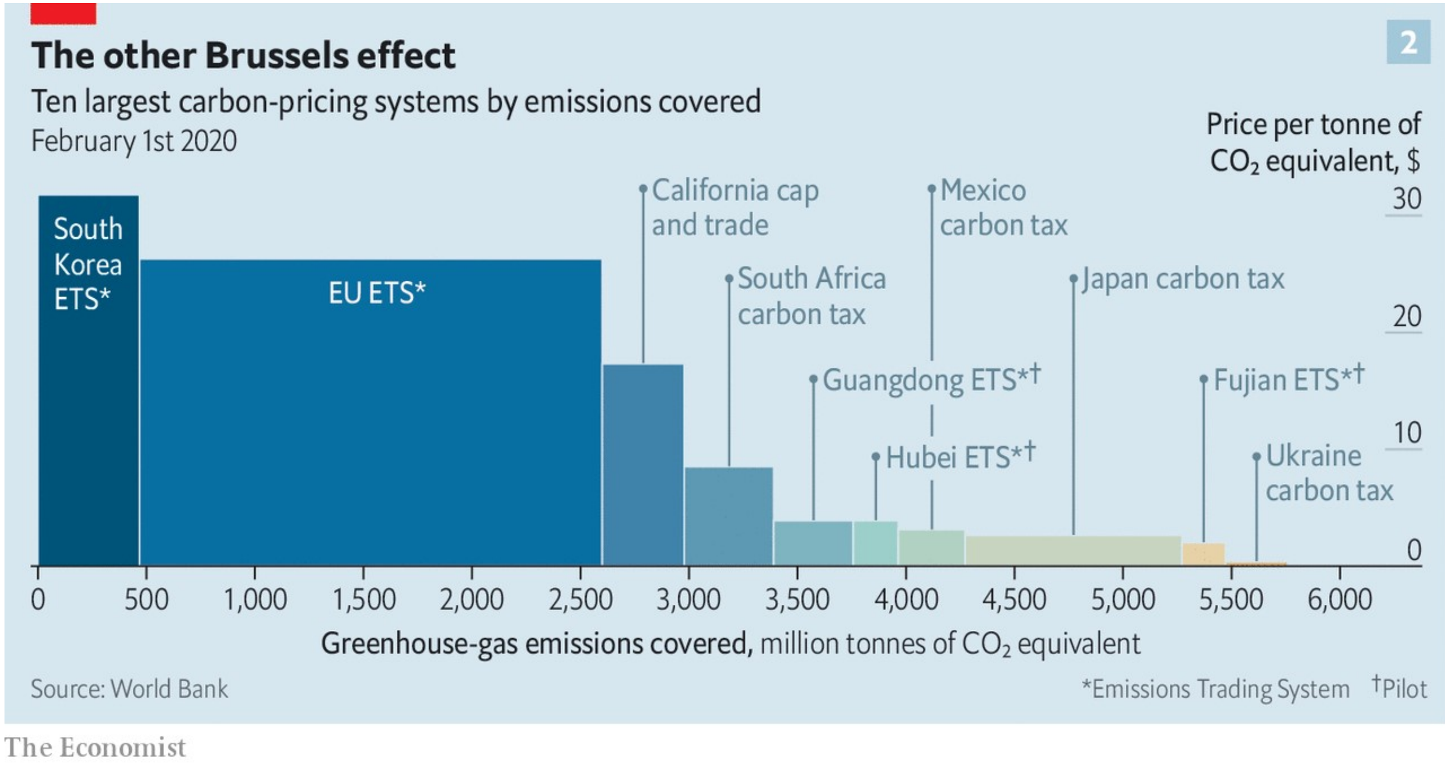
Instead, there is a measurement

- primarily, the pay-out ratio
  - ignoring other factors that affect financial leverage
  - i.e. monetary policy

Is there a corporate governance failure?

- i.e. managers' disregard to shareholders' interests and market signals
- in fact, the report argues that
  - "shareholder primacy ... combined with growing pressures from institutional and activist investors ... places intense pressure on corporate boards to prioritise the market valuation of the company ..."

- Simple economics: market failures call for corrective taxes
  - targeted at the root of the problem
    - carbon trading
    - social mobility policy
    - removing taxation loopholes



The Economist, 23 May, 2020

Why is simple economics getting it right?

Carbon trading, for example, is likely to be more effective

- direct effect on financial incentives
- targeted at the root problem (emission)
  - rather than track the “secondary” effects
  - as they permeate through a complex production system
- directors lack the expertise to needed to evaluate the environmental consequences of their decisions

After Berkshire Hathaway has poured about $30bn into wind turbines in Iowa, Buffett said:

"*We wouldn't do [it] without the production tax* credit we get. ... [ESG is] very hard to do. If you give me the 20 largest companies, I don't know which of the 20 behaves the best, really. *I've been a director of 20 publicly owned [companies] and I think it's very hard to evaluate what they're doing* . . . it's very, very hard."

Financial Times, 3 January, 2020

Political context of CSR, ESG, purpose ... are highly conservative

- if managers can internalize the common good
  - after amending certain legal documents
  - "EU directive requiring corporate boards to integrate sustainability ... into the business strategy"
- then there aren't any serious market failures

"*the focus on individual behaviour … lets the big fossil-fuel companies off the hook*. So what we need to be doing is focus on system changes. … Why is it, for example, so much more expansive to take the train from the UK to other parts of Europe than it is to fly? … There is no reason for that, its because we have decided not to tax aviation fuel … and instead we do when it comes to railways. *So lets change these price signals in order to make it easier for people to do the right thing*"

Caroline Lucas, MP for the Green Party, to Andrew Mar, BBC, 10 October 2019