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 other Brussels effect
Ten largest carbon-pricing systems by emissions covered
February 1st 2020

Source: World Bank

*Emissions Trading System  †Pilot

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