



Cornell Law School

Lawyers in the Best Sense

BLUEPRINT FOR A MORE DEMOCRATIC CAPITALISM

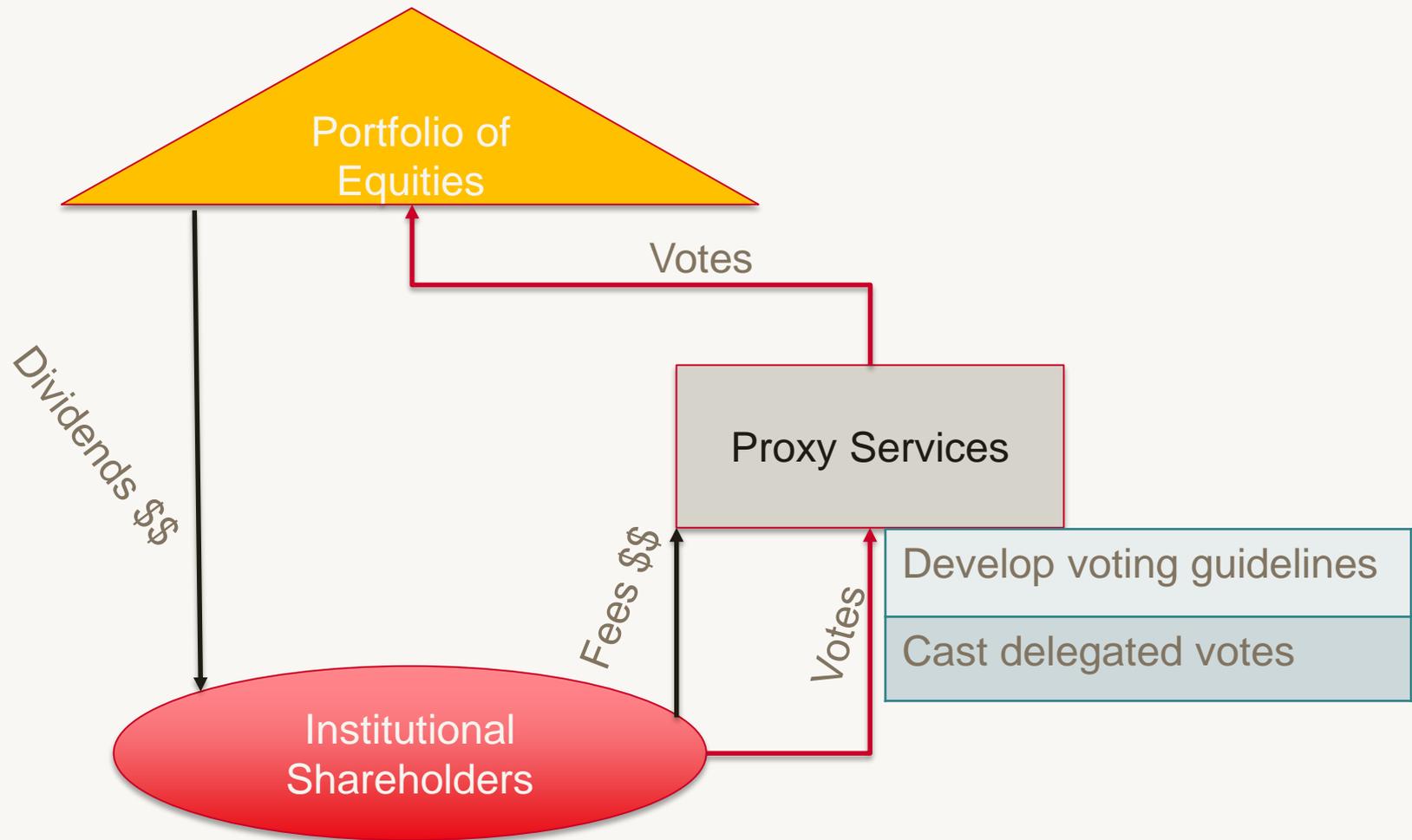
LYNN STOUT AND SERGIO GRAMITTO



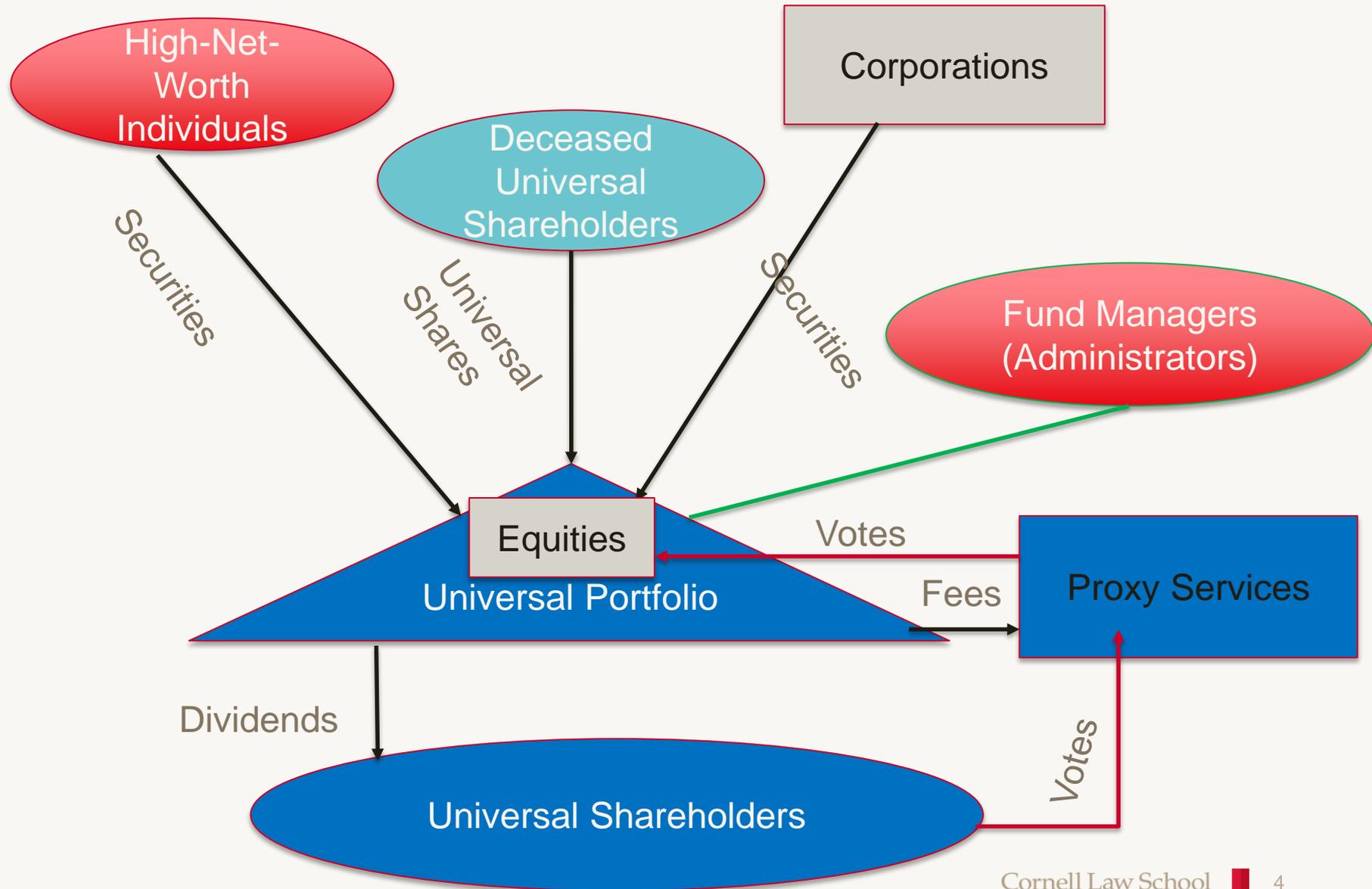
I. A Thumbnail Sketch of the Proposal

- i. Qualified recipients get a share in the Universal Portfolio of equities; dividends generated by Portfolio are “passed through” to Universal Shareholders
- ii. Universal Fund acquires equities in Portfolio from high-net-worth and corporate donors
- iii. Fund managers get low, fixed fees, not allowed to trade
- iv. Universal Shareholders not allowed to sell, hypothecate, or bequeath their Shares
- v. Universal Shareholders determine how their portion of equity securities in Fund are voted; can delegate their voting rights to “proxy services”

Current Proxy Services (e.g. ISS, Glass Lewis)



The Blueprint



II. Problems Addressed by Blueprint

- i. **Rising Inequality:** wealth inequality increasing as capital is generating higher returns (Piketty) and jobs are automated
- ii. **Increasing Poverty and Income Insecurity:** poverty rising as capital ownership concentrates and automation eliminates jobs; income insecurity also increasing
- iii. **Need for More Innovation and Investment in Future:** recent changes in shareholding/share voting patterns and government regulations are eroding corporations' ability and willingness to invest in innovative long term projects

II. Problems Addressed by Blueprint (con't)

- iv. **“Externalization” of Corporate Activity:** Shareholder value thinking fails to serve interests of long-term, diversified shareholders who are also citizens, employees, taxpayers, organisms
- v. **Corporate Money in Politics:** corporations can capture the political system for rent-seeking through political campaign donations, lobbying, “revolving doors,” public relations
- vi. **“Soft” Social Ills:** support for capitalism and corporate sector is decreasing; insecurity discouraging innovation, entrepreneurship, and creativity among Shareholders; intergenerational inequity increasing

III. Challenges and Critiques

- i. **Adequacy and Sources of Funding:** Blueprint's impact depends on the size of Universal Portfolio (e.g. 10% of all equities would produce about \$650 annually)
- ii. **Agency Costs Imposed by Fund Managers:** managers get very limited discretion, additional protection in compensation structure and selection process
- iii. **Reduced Efficiency in Stock Pricing:** trading still occurs outside Fund, benefits of pricing efficiency exaggerated (see private companies)
- iv. **Logistics of Shareholder Voting:** Universal Shareholders subject to "rational apathy," ameliorated by proxy services paid by the Fund so will compete on the basis of quality rather than low cost

Conclusion

The Only Real Question is the Scale on Which Blueprint is Implemented

But Psychological Obstacles:

- i. Assumption all policy problems must be solved either through market forces or government intervention
- ii. Assumption human beings are purely selfish
- iii. Assumption any policy solution we have not seen before cannot work