AMERICAN ECONOMIC LIBERTIES PROJECT

BALANCED ECONOMY PROJECT

STAKEHOLDER CAPITALISM'S NEXT FRONTIER: PRO- OR ANTI-MONOPOLY?

DENISE HEARN AND MICHELLE MEAGHER

APRIL 2022

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Business Group Challenges Lina Khan's Agenda at Federal Trade Commission

U.S. Chamber of Commerce asserts FTC is overstepping authority under Khan; FTC says it won't back down

Mission & Impact Data Invest

JUST capital

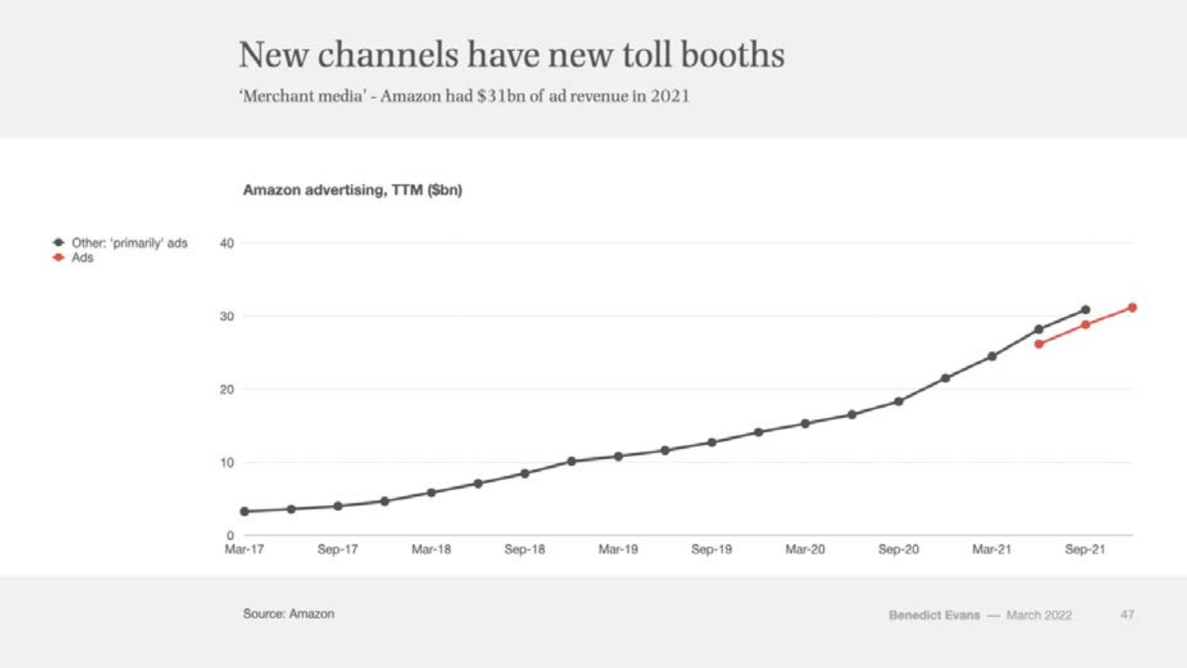
Rankings Polling Is

2022 Rankings Industry Leaders Our Methodology Past R

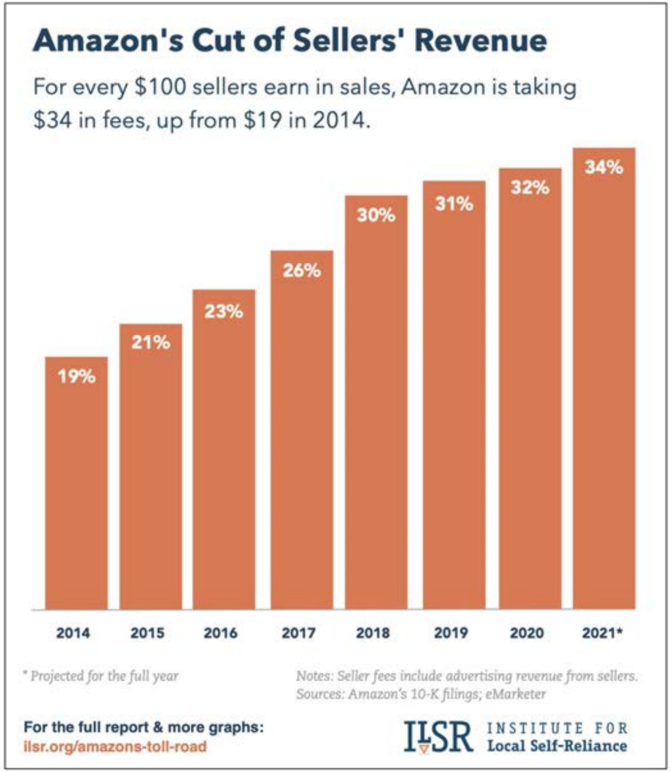
2022 Overall Rankings

Our annual Rankings reflect the performance of America's largest publicly traded companies on the **Issues** that matter most in defining just business behavior today. The Issues, and their weights in our model, are determined by our **polling** of the American public. The 2022 Rankings were published on January 11, 2022. **If you're interested in supporting this work and research, please consider a gift today.**

OVERALL RANK		COMPANY		INDUSTRY RANK
▲ 1	Alphabet	Alphabet Inc Internet	JUST JUST	1 of 12



New channels have new toll booths
'Merchant media' - Amazon had $31bn of ad revenue in 2021
Amazon advertising, TTM ($bn)
Other: 'primarily' ads
Ads
40
30
20
10
0
Mar-17
Sep-17
Mar-18
Sep-18
Mar-19
Sep-19
Mar-20
Sep-20
Mar-21
Sep-21
Source: Amazon
Benedict Evans — March 2022
47



Amazon's Cut of Sellers' Revenue
For every $100 sellers earn in sales, Amazon is taking $34 in fees, up from $19 in 2014.
19%
21%
23%
26%
30%
31%
32%
34%
2014
2015
2016
2017
2018
2019
2020
2021*
* Projected for the full year
Notes: Seller fees include advertising revenue from sellers.
Sources: Amazon's 10-K filings; eMarketer
For the full report & more graphs:
ilsr.org/amazons-toll-road
ILSR INSTITUTE FOR Local Self-Reliance

Marc Benioff @Benioff · Apr 18

Capitalism as we have known it is dead & the obsession that we have with maximizing profits for shareholders alone has led to incredible inequality & a planetary emergency. When we serve all stakeholders, business is the greatest platform for change. ❤️

digitalmag.theceomagazine.com/india/may-2022...

Pinned Tweet

Marc Benioff @Benioff · Mar 1

Salesforce Growth:

2023 $32.1B (guidance)
2022 $26.5B
2021 $21.25B
2020 $17.1B
2019 $13.2B
2018 $10.5B
2017 $8.4B
2016 $6.7B
2015 $5.4B
2014 $4.1B

Thank you Ohana! ❤️

109 326 2,345

TENSION BETWEEN

FIRMS THAT SEEK TO DO GOOD

AND FIRMS THAT SEEK POWER

TWO MOVEMENTS RISING

Stakeholder Capitalism

1. Sincere challengers to neoliberalism, advocating for more democratic systems by sharing and decentralizing power through systemic reforms for workers, consumers, and independent businesses

2. Actors using S.C. as a tactic to forestall regulatory intervention and to shield to retain the private regulatory power that dominant firms now exercise in many areas of the economy.

Anti-Monopoly

1. Sincere challengers to concentrated corporate & financial power and its abuses (structuralists, Neo-Brandeisians)

2. Actors using antitrust to retain the status quo, who use the “consumer welfare standard” and “efficiency” defenses as legal cover for monopolization

DEFINING TERMS

STAKEHOLDER CAPITALISM

- Businesses, investors, legal and corporate scholars, and activists agitating under the banner of "responsible business."
- Varying theories of change and tactics
- Want to achieve social outcomes through the corporate sector (both with and without the state's support).
- Favor the tools of private capital and corporate influence — via culture change, financial incentives, and tweaks to corporate governance.
- Implemented through voluntary corporate initiatives, self-regulation, and market mechanisms

ESG

- "universal owners" (via mutual or index funds and diversified portfolios) increasingly collaborate to raise the ESG standards of portfolio companies
- Theory that it will be more profitable in the long term
- ESG can differ from stakeholder capitalism in that, by definition, it supports the use of shareholder power to create systems change.
- S.C. rhetorically de-emphasizes shareholder primacy, but solutions often use shareholder engagement

ANTI-MONOPOLISTS

- Anti-monopoly movement, at least rhetorically, aligns with the stakeholder capitalism agenda on e.g., workers' rights and poverty
- Differs in its analysis of the cause, pointing not only to profit maximization, but specifically to corporate abuses of power and a structural imbalance of power within the economy
- Advocate for enforcement of anti-monopoly laws and other sector-specific regulations

70%

50%

75%

•**BEEF**: Four largest meatpackers — Tyson Foods, JBS, National Beef and Cargill — control ~85% of the market and have regional monopolies (Source: Politico)

•**INTERNET**: At least 83.3 million Americans only have one broadband provider to "choose" from (Source: ISLR)

•**DEFENSE**: Since the Cold War, 51 aerospace and electronics companies combined into 5, all of which are also massive defense contractors (Source: AELP)

•**INSURANCE**: In at least five states—Alaska, Delaware, Oklahoma, South Carolina, and Wyoming—Blue Cross Blue Shield had 100% market dominance in 2018. Alabama BCBS had 99% in 2018 (Source: Health Payer Intelligence)

•**FARMING**: Since 1980, America has lost 50% of its cattle farms, 80% of its dairies, and 90% of its hog farms, most of which were family farms (Source: AELP)

•**CHEERLEADING**: Varsity Brands (owned by Bain Capital) owns 90% of cheer competitions in the US (Source: AELP)

•**FUNERAL SERVICES**: Often local monopolies. In 1960, funeral related expenses averaged ~$700 / person. Today, they average more than $8,000, and a casket alone can cost more than $10,000. (Sources: ATTN and AELP)

•**HEALTHCARE:** In 2019, PE companies did 226 roll-up deals in health care, almost 5x the amount in 2015. (Source: Bloomberg)

•**NUMEROUS OTHERS**: Semiconductors, commercial chemical production, railroads, kidney dialysis, hospitals, banking, etc.

RISING MARKET POWER LEADS TO:

- Lower wages
- Higher inequality
- Higher consumer prices
- Lower productive investment
- Less business dynamism
- Lower firm exit and entry rates
- Less innovation
- Lower Growth
- Fragile Supply Chains
- Political capture
- National security risks
- Subversion of democracy

Markups & Higher Consumer Prices

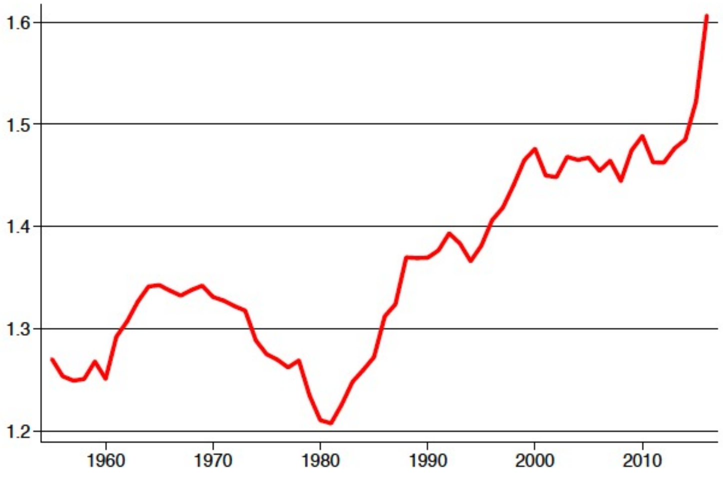


Figure 1: Average Markups for Conventional Production Function. Output elasticities θ_{st} from estimated PF1 are time-varying and sector-specific (2 digit). Average is sales weighted. Evolution 1955-2016.

(Source: De Loecker, Eeckhout, Unger 2018)

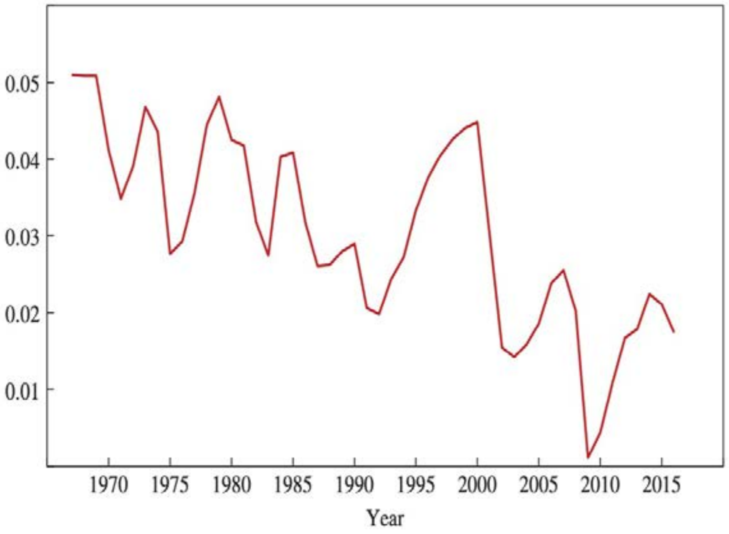
In 1980, average markups were about 20% above marginal cost — today, they are above 60%.

Jan De Loecker, Jan Eeckhout, and Gabriel Unger, "The Rise of Market Power and the Macroeconomic Implications," The Quarterly Journal of Economics, May 2020

Lower Investment in Concentrated Industries

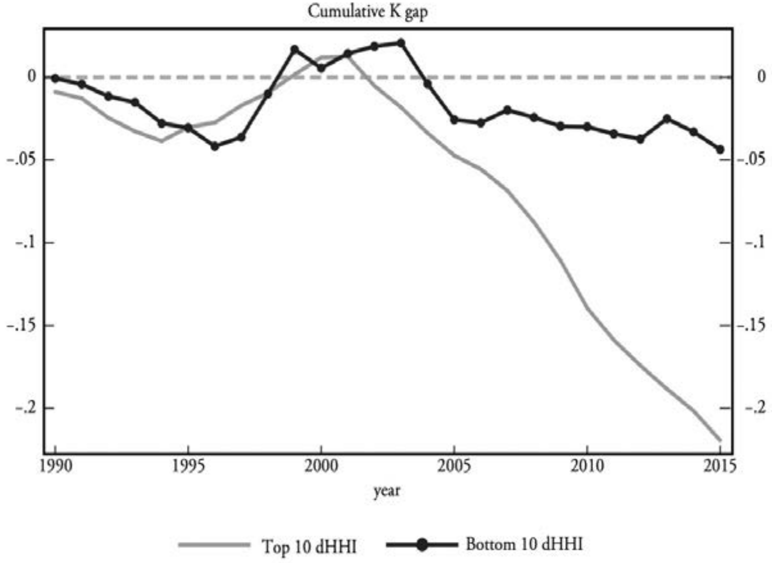
Relative to valuations, investment is low. In concentrated industries, it is 20% lower.

Figure 1. Ratio of Corporate Net Investment to Capital, 1967–2016



Source: U.S. Bureau of Economic Analysis.

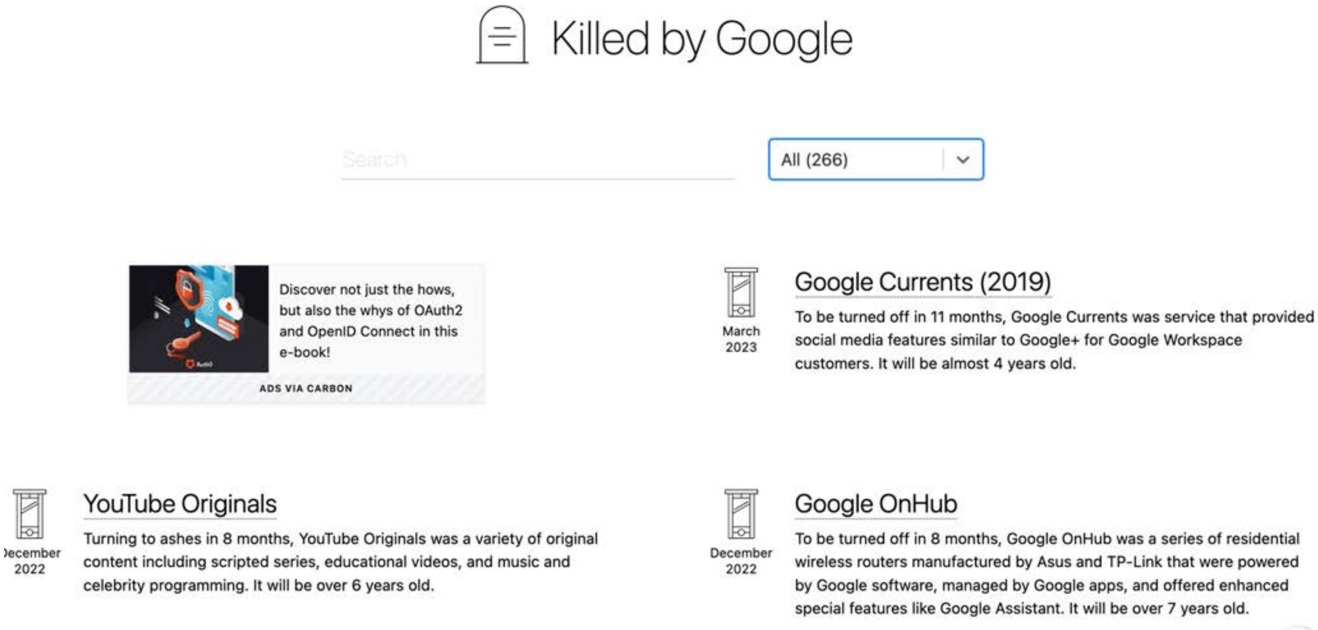
Concentration and Investment Gap



Less Innovation

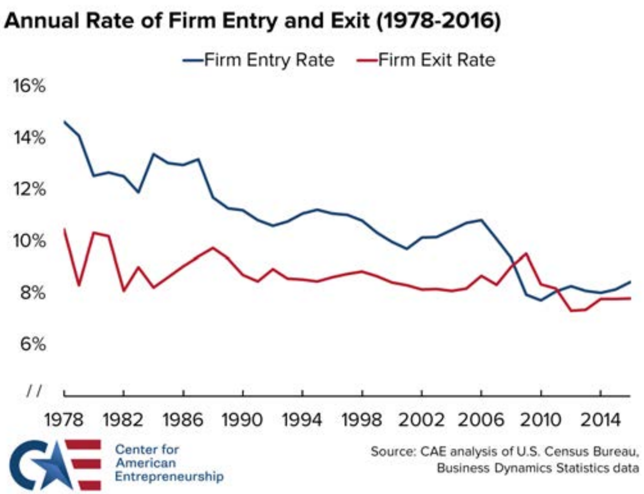
- IMF report shows that competing firms are hurt when a market leader engages in more M&A: "this evidence suggests that M&A can act as a drag on growth, especially when they involve dominant firms."

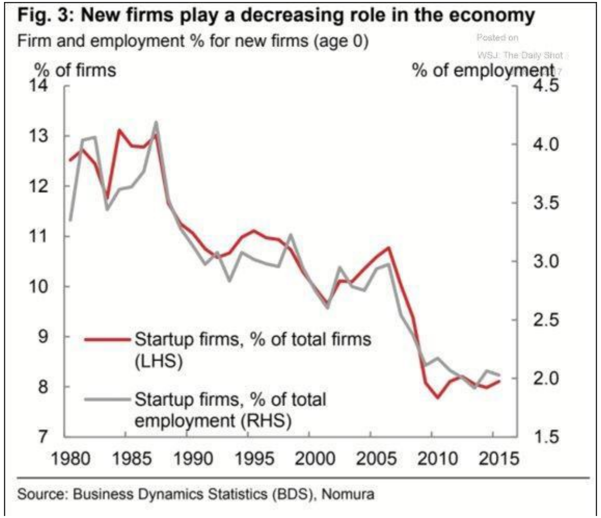
— *Rising Corporate Market Power: Emerging Policy Issues, IMF, March 2021*

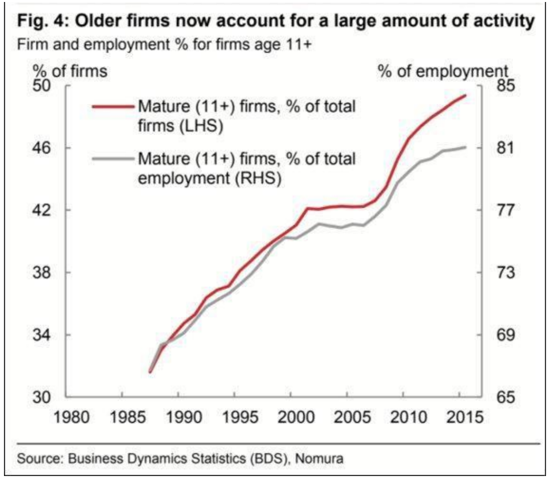


Lower Business Dynamism

- Entrepreneurship rates historically low (Covid boosted these numbers somewhat)
- Firm entry and exit rates declining
- Horizontal and vertical integration/expansion leaves less room for competitors
- Consolidated companies control the fundamental infrastructure on which other potential competitors rely (e.g. Amazon and sales platform, open-source codes, vertical integration of hardware and software for advanced computing power of AI & ML)







BALANCED ECONOMY PROJECT

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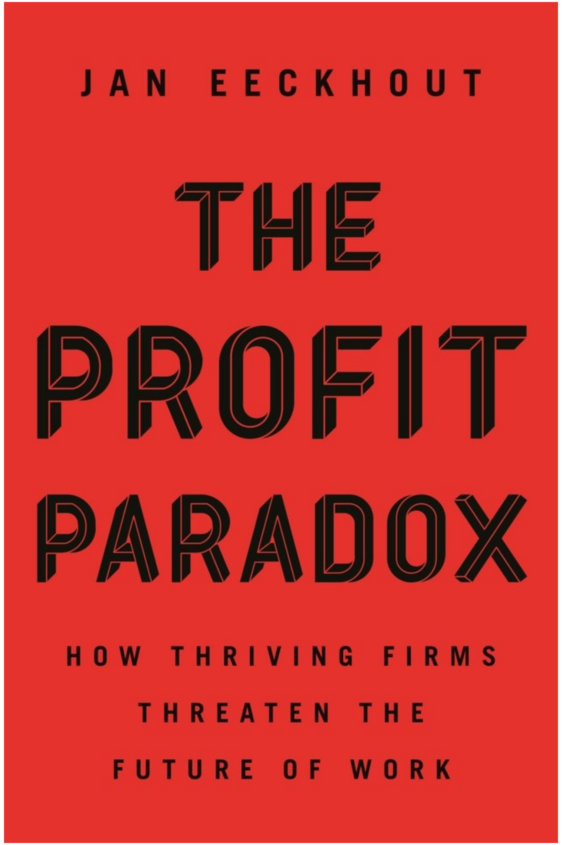
Lower Growth

- Global GDP is 9-10% lower (about $8 trillion less) than it would be if we had the competitiveness of 1980.

- High profits may not be good for the economy, if they are gained through the exercise of market power alone.

- Fallacy of composition (high profit margins act as drag on growth, innovation, etc. which harms investors)

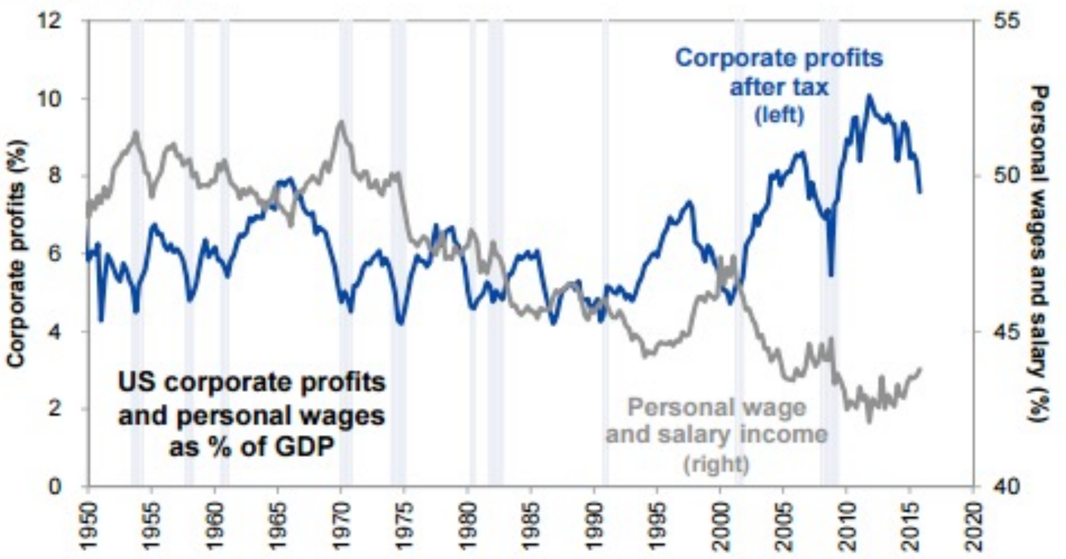


Workers falling behind

For decades, the labor share was two-thirds of GDP globally. In 1980, the labor share began to decline, from 65-66% of GDP, to about 58-59% today (a decline of 7%).

Overall, that is around $6 trillion less going to workers every year.

Exhibit 1: Corporate profit share of GDP rose to record levels at the expense of labor share
as of April 11, 2016

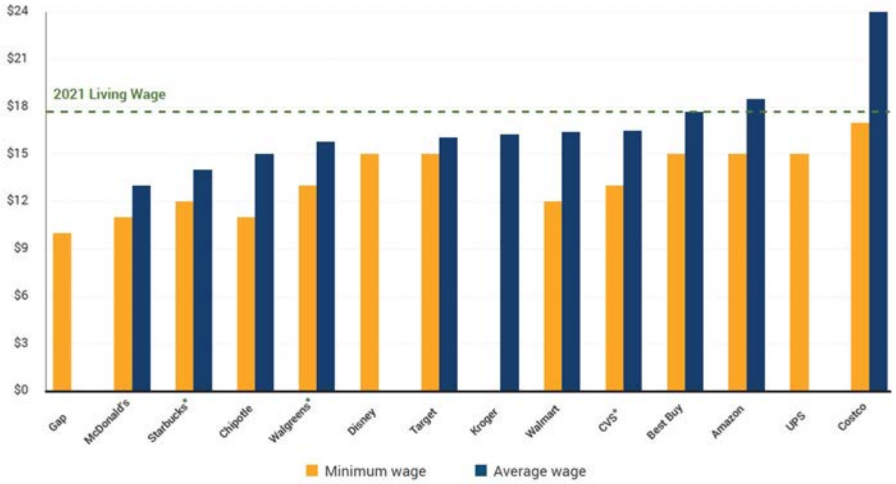


Source: BLS, FactSet, Compustat, and Goldman Sachs Global Investment Research.

BRT Signatories Fail Workers on Living Wages

Figure 9: Even with wage increases, most workers still earn less than a living wage in 2021

Company average wage and minimum wage, as of October 2021



*Company pledges to increase minimum wage to $15 per hour in 2022

Source: *Brookings analysis of MIT Living Wage Calculator data. Wage data via company reporting or direct communication.*

Note: *The companies without a minimum wage or average wage did not publicize or share this data with us.*

"Despite commitments by a majority of the 22 companies to voluntarily embrace more inclusive, worker-friendly 'stakeholder capitalism,' the pandemic test revealed that the system changed little. It still overwhelmingly benefits shareholders, executives, and billionaire heirs and founders. Meaningful change is unlikely to come from corporations themselves, whose executives are deeply incentivized to preserve the current system."

— Brookings Report: "Profits and the pandemic: As shareholder wealth soared, workers were left behind," April 2022

Monopsony Power affecting workers and suppliers

Worsening worker bargaining power across the board

- More than half of US labor markets are highly concentrated (HHI above 2,500) — this drives down wages
- Increase in mandatory arbitration clauses in employment contracts
- Noncompetes: 18% of the entire American workforce is covered by them, even franchisees or fast food workers, only decreased in 2017 after an outcry
- Decline of unions / workers prevented from forming a union (e.g. Amazon heat mapping warehouses most likely to organize)
- Precarious work situations (unstable hours, earnings, or scheduling)
- Increase in contract work without benefits, etc.

Suppliers and Third-Party Sellers

- Etsy Strike
- Meta charging 47.5% on all digital assets sold in its metaverse
- Apple & Google app store commissions, Coalition for App Fairness
- Amazon's $31 billion in revenue from seller fees
- Grocery store suppliers being charged "compliance fees" for late delivery, due to supply chain issues

STAKEHOLDER CAPITALISM'S BLINDSPOT:

MONOPOLY POWER

Source: [MoneyWeek]

ESG Funds – BlackRock

BlackRock U.S. Carbon Transition Readiness ETF ACTIVE

No documents available for this fund | Download

Overview | Performance & Distributions | Fund Facts | Sustainability Characteristics | Fees | Holdings | Literature

as of 22-Apr-22

Filter list by keyword

Issuer Ticker	Name	Sector	Asset Class	Market Value	Weight (%)	Notional Value
AAPL	APPLE INC	Information Technology	Equity	USD 80,072,945.01	5.90	80,072,945.0
MSFT	MICROSOFT CORP	Information Technology	Equity	USD 74,858,693.31	5.51	74,858,693.3
AMZN	AMAZON COM INC	Consumer Discretionary	Equity	USD 40,596,994.00	2.99	40,596,994.0
TSLA	TESLA INC	Consumer Discretionary	Equity	USD 28,145,420.20	2.07	28,145,420.2
GOOGL	ALPHABET INC CLASS A	Communication	Equity	USD 27,348,675.30	2.01	27,348,675.3
UNH	UNITEDHEALTH GROUP INC	Health Care	Equity	USD 22,626,507.96	1.67	22,626,507.9
GOOG	ALPHABET INC CLASS C	Communication	Equity	USD 21,733,863.80	1.60	21,733,863.8
KO	COCA-COLA	Consumer Staples	Equity	USD 18,868,929.75	1.39	18,868,929.7
PEP	PEPSICO INC	Consumer Staples	Equity	USD 18,692,907.75	1.38	18,692,907.7
JNJ	JOHNSON & JOHNSON	Health Care	Equity	USD 18,174,332.48	1.34	18,174,332.4

ESG Funds – iShares

iShares MSCI USA ESG Select ETF

Fact Sheet | Prospectus | Download

Overview | Performance & Distributions | Fund Facts | Sustainability Characteristics | Fees | Holdings | Literature

as of Apr 22, 2022

Filter list by keyword

Ticker ▶	Name ▶	Sector ▶	Asset Class ▶	Market Value ▶	Weight (%) ▼	Notional V
AAPL	APPLE INC	Information Technology	Equity	$188,618,664.96	4.96	188,618,
MSFT	MICROSOFT CORP	Information Technology	Equity	$184,055,811.89	4.84	184,055,
TSLA	TESLA INC	Consumer Discretionary	Equity	$87,085,572.40	2.29	87,085,
GOOGL	ALPHABET INC CLASS A	Communication	Equity	$82,230,264.57	2.16	82,230,
NVDA	NVIDIA CORP	Information Technology	Equity	$70,379,676.60	1.85	70,379,
HD	HOME DEPOT INC	Consumer Discretionary	Equity	$68,064,948.00	1.79	68,064,
PEP	PEPSICO INC	Consumer Staples	Equity	$57,271,894.90	1.51	57,271,
K	KELLOGG	Consumer Staples	Equity	$56,608,568.97	1.49	56,608,
TXN	TEXAS INSTRUMENT INC	Information Technology	Equity	$55,764,745.53	1.47	55,764,
JCI	JOHNSON CONTROLS INTERNATIONAL PLC	Industrials	Equity	$54,349,368.64	1.43	54,349,

Vanguard FTSE Social Index Fund Admiral Shares (VFTAX)

Month-end 10 largest holdings
(34.00% of total net assets) as of 03/31/2022

1	Apple Inc.
2	Microsoft Corp.
3	Alphabet Inc.
4	Amazon.com Inc.
5	Tesla Inc.
6	NVIDIA Corp.
7	Meta Platforms Inc.
8	UnitedHealth Group Inc.
9	JPMorgan Chase & Co.
10	Visa Inc.

Tech Companies and Jobs

The Washington Post
Democracy Dies in Darkness

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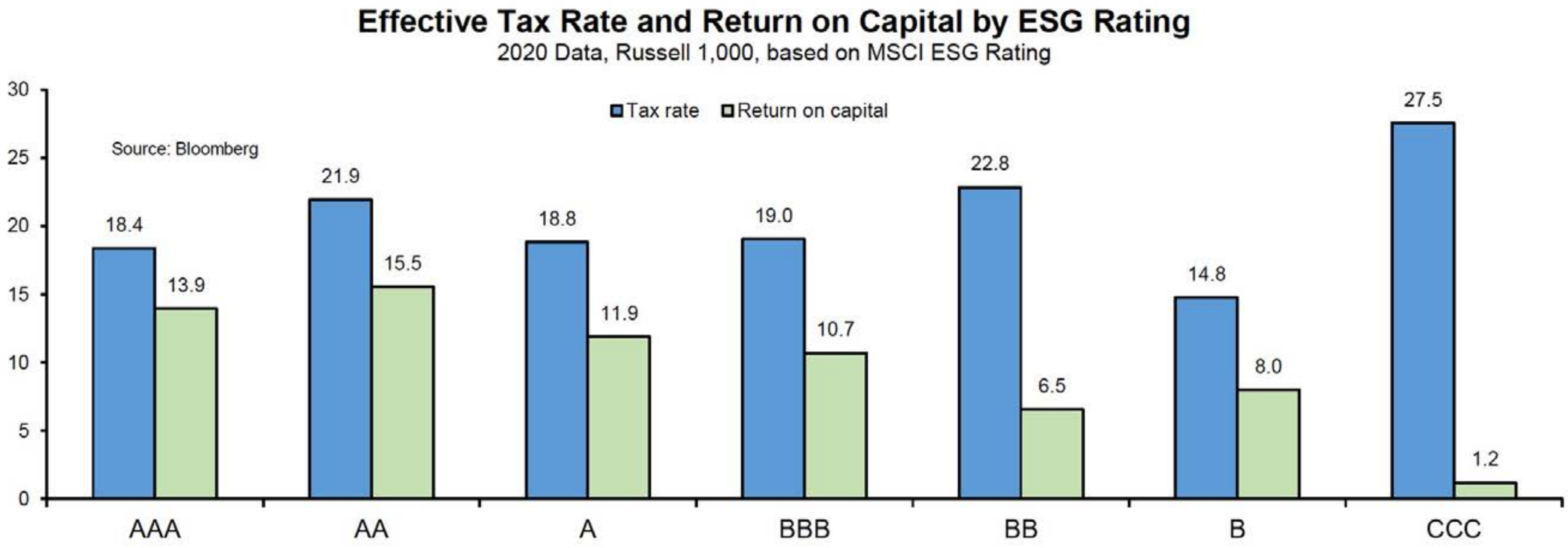
Technology

Silicon Valley's two-tiered system for white-collar workers is under pressure as coronavirus spreads

Contractors at Google, Facebook and other tech giants are unsure if they will get the same benefits the companies extend to their full-time employees

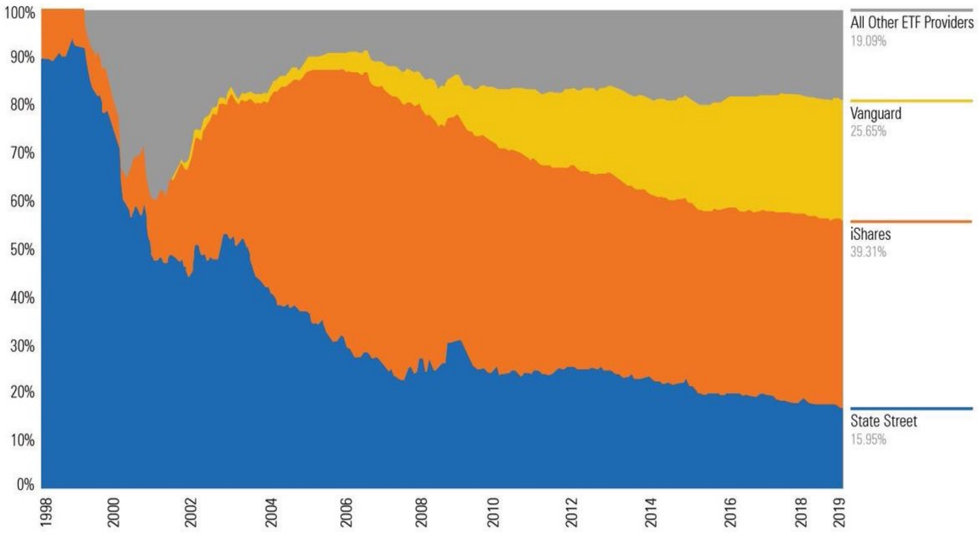
Tech Companies and Tax



Source: Vincent Deluard, StoneX Macro

Age of Asset Management

Market Shares of Major ETF Providers, 1998-2019



Source: Morningstar Direct

• Oligopolies now exist not only within specific industries, but are funded and owned by oligopolistic shareholders

• "Big Three" asset managers —BlackRock, Vanguard, State Street—manage over $15 trillion in combined global AUM, over 3/4 of U.S. GDP (Steele, 2020)

• 82% of all assets flowing into all investment funds—both active and "passive"—over the last decade have gone to the Big Three. (Steele)

• On average the Big Three own 22% of the typical S&P 500 company (Bloomberg)

• Fee reduction, (basically to zero for index funds) means competition is unlikely to reduce concentration

Age of Asset Management

“If historical trends continue, a handful of giant institutional investors will one day hold voting control of virtually every large U.S. corporation. Public policy cannot ignore this growing dominance, and consider its impact on the financial markets, corporate governance, and regulation. These will be major issues in the coming era.”

— Jack Bogel, Founder of Vanguard

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MARKETS | WEEKEND INVESTOR

Bogle Sounds a Warning on Index Funds

The father of the index fund says it’s probably only a matter of time before they own half of all U.S. stocks; ‘I do not believe that such concentration would serve the national interest’

Jack Bogle after speaking at the 2018 Bogleheads Conference. The creator of the index fund says their increasing dominance may create some of the ‘major issues of the coming era.’

PHOTO: RYAN COLLERD FOR THE WALL STREET JOURNAL

By John C. Bogle

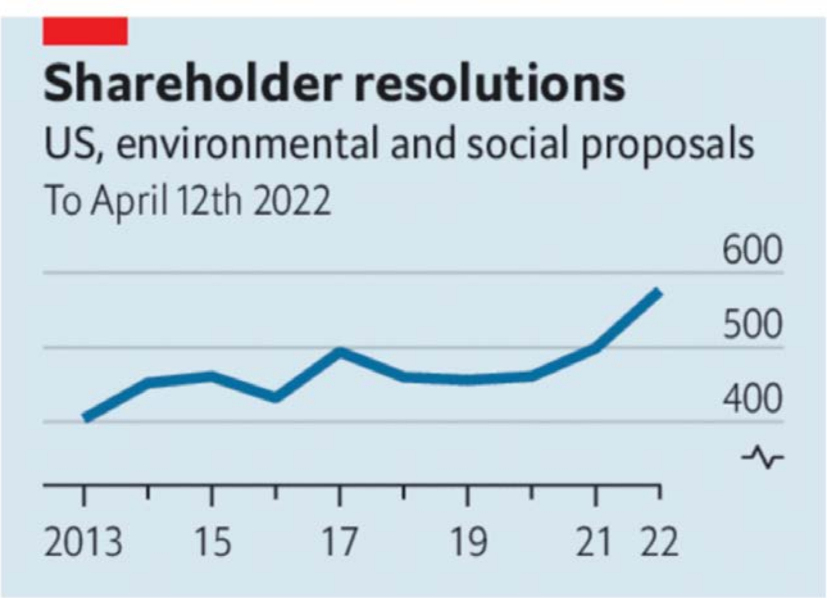
Conservative Critiques Echo Milton Friedman

- Free Enterprise Project, a conservative shareholder activist group, self-described as the “nation’s leading program for confronting liberal shareholder activism” has previously advised conservative investors on how to vote against “corporate wokeness.”

These and similar arguments echo Friedman’s concerns that corporations and executives would become all-too-powerful arbiters of political life.

But zealous application of Friedman’s doctrine, the single-minded focus on profits above all else, led to a corporation elevated to such high political stature that it undermined the countervailing mechanisms of the state and the polity altogether.

Rising Shareholder Resolutions



The Economist

Current Interventions – Limitations & Opportunities

- Antitrust enforcement: historically ineffective due to focus on consumer welfare vs. labor, efficiency focus

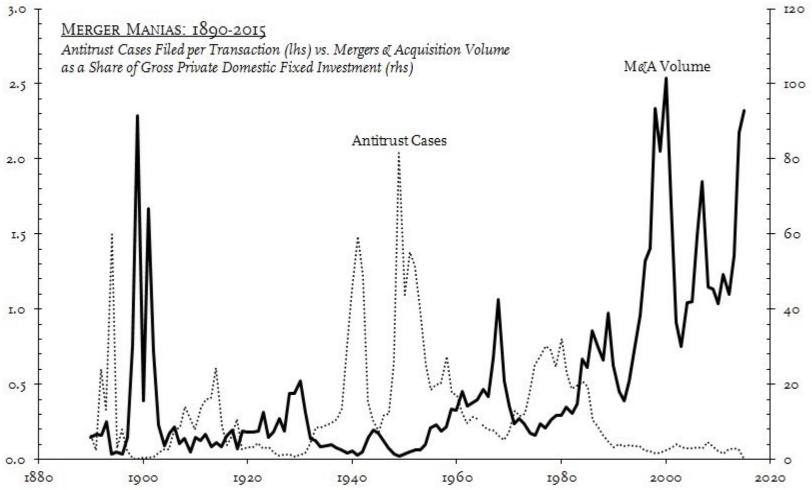
- Merger review: very few mergers blocked due to relaxed merger review guidelines from Reagan

- Corporate governance reform efforts: mostly focused on voluntary internal change, e.g., BRT statement on corporate purpose, spotty at best

- Corp gov reform doesn't address asset allocation or portfolio construction and the role of finance/financial incentives and can even depend on asset management consolidation, potentially leaving some negative impacts unaddressed

- Disclosures: more information does not necessarily translate into accountability

- Political capture means corporations and asset managers can write the rules in their favor – lobbying, political spend, revolving door



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Embrace Anti-Monopoly Policy Solutions

1. Champion President Biden's Executive Order on Promoting Competition in the American Economy

2. Publicly support the FTC and DOJ in investigating anticompetitive mergers and breaking up companies that are too dominant.

3. Support the FTC in its ongoing investigation of coercive contract terms that harm workers and small businesses. Denounce contract terms that are regularly used to dominate and intimidate smaller competitors, suppliers, and workers (take-it-or-leave-it terms, known as contracts of adhesion)

4. Support the FTC and DOJ in their efforts to review and update the federal merger guidelines, and champion more transparency, scrutiny, and oversight of mergers and acquisitions in both public and private markets.

Embrace Anti-Monopoly Policy Solutions (cont'd)

5. Support state attorneys general who are bringing antitrust cases, e.g.,: Washington, D.C., against Amazon; a coalition of 36 state AGs, led by Colorado and including Puerto Rico and Guam, against Google Search; a coalition of nine states, led by Texas, against Google Ad Tech; the state of Ohio against Google (in attempts to convert the company into a public utility); and a 48-state co-sponsored case against Facebook.

6. Support New York state's "Twenty-First Century Anti-Trust Act" (Bill S933A), the most comprehensive update to state antitrust law in a century, introduced by Senator Mike Gianaris.

7. Support additional research on the role of mergers and acquisitions and their effects on the economy, in particular, serial acquisitions, rollups, and private equity add-ons, and the harms these strategies pose to stakeholder groups and fair markets.

8. Bring private antitrust suits against dominant firms that have demonstrated clear harms to stakeholders.

Conclusion

"The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is fascism — ownership of government by an individual, by a group, or by any other controlling private power. ... Among us today a concentration of private power without equal in history is growing."

— PRESIDENT FRANKLIN D. ROOSEVELT

THANK YOU!