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Propositions relating to the dissertation ‘Corporate Law and Economic Stagnation: How Shareholder Value and Short-termism Contribute to the Decline of the Western Economies’ by Pavlos Masouros

1. The shift in the institutional logics of corporate governance towards shareholder value (‘Great Reversal in Corporate Governance’) coupled with shareholdership’s increasing short-termism (‘Great Reversal in Shareholdership’) have cumulatively contributed to the low rates of GDP growth that are observed in five major Western economies (France, Germany, The Netherlands, UK, US) since the breakdown of the Bretton Woods system of monetary arrangements in the early 1970s.

2. Corporate law has been an accomplice for the reorientation of corporate governance towards shareholder value, i.e. for the Great Reversal in Corporate Governance, and thus it indirectly shares the blame for the low rates of capital accumulation that have thrown the five major Western economies in a stagnation mode over the past four decades.

3. Corporate law rules have escalated the divestment of structurally long-termist institutional investors from equity positions and have preserved the trend towards shareholder short-termism that other legal and extra-legal institutions have directly caused. Corporate law has thus sustained the Great Reversal in Shareholdership and hence it has contributed to the maintenance of the second factor that brought about the observed low rates of growth in the five major Western economies over the past four decades.

4. Corporate governance should be restructured along the lines of a new normative legal concept ‘Long Governance’. Long Governance rebuts the assumption of shareholder homogeneity and claims that shareholders should be classified into groups, so that more powers are distributed to the long-termist shareholders. Nevertheless, because of the fact that the vast majority of non-controlling shareholders of listed corporations are short-termists, one of the foremost regulatory goals of Long Governance should be to provide incentives to the investor community, so that the pool of long-termist shareholders, which will be empowered, can eventually be increased.

5. Corporate law lies at the heart of the organization of the capitalist system, since it regulates the corporation, where the production function and the capital accumulation process take place. It follows that every crisis of capitalism reveals a failure of corporate law.

6. The greatest failure of the finance-led model of capitalism – and therefore of corporate law – is that the stock market has transformed from a mechanism to finance the supply side of the economy (i.e. the industry) into a mechanism that finances the consumption side (i.e. stock portfolios function as a complement to falling real wages). Corporate law should introduce the appropriate mechanisms so that the character of the stock market changes again.

7. Short-term capital is of pro-cyclical nature. To the extent that corporate law sustains the existence and proliferation of short-term capital, it should be viewed as deepening economic crises.

8. The fundamental debate of corporate governance, i.e. shareholder value vs. stakeholder value, is a dead-end. An intermediate ‘third way’ that would focus on the importance of long-term shareholder value (‘Long Governance’) has the potential of conciliating the desiderata of both shareholderism and stakeholderism.

9. The ongoing economic crisis was initiated by the burst of the bubble in the US real estate sector and the concomitant collapse of the shadow banking sector in the US. In essence, failed bets in these sectors produced negative externalities for other market players and that exposes a structural pathology of capitalism and of the neoliberal approach to the regulation of the financial sector.
10. The ongoing sovereign debt crisis in the EU cannot be cured by the introduction of austerity plans in heavily indebted states. Austerity might be trying to save money, so that debt is serviced, but at the same time it removes liquidity from the real economy throwing the latter in a recession. Recession in turn drives the debt to GDP ratio of a country up, which is the most common metric of sovereign debt sustainability. That in turn requires more austerity measures to be taken, so that the country can service its debt; in turn greater recession is marked. This creates a death spiral for the economy, upon which austerity has been imposed.

11. The European Fiscal Compact effectively outlaws Keynesian policies that have historically been the only proven remedies to fight recessions. States are effectively deprived from their historical ability to help their economies recover from crises.

12. The Eurozone can never recover from its problems without the creation of an official Surplus Recycling Mechanism that will automatically tunnel funds (not in the form of debt) from countries that are in a fiscal surplus to countries that are in a deficit. Otherwise in a monetary union surpluses and deficits have the tendency to be persistent in the countries, in which they have emerged and eventually the deficit countries will be forced to exit the common currency so that they can reintroduce their national currency and depreciate it.