excerpt from: Sharon Beder, Free Market Missionaries, Earthscan, London, 2006.

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Shareholder Democracy

> *An unprecedented demographic revolution is happening right under our noses. It is the emergence of the first mass class of worker-stockholders in history, wage-earners who derive a substantial proportion of their income from investments … The rise of the worker-rentier is an enormous conservative opportunity.* RICHARD NADLER[1]

The idea of a 'shareholder democracy' has been used to promote free enterprise and portray it as democratic, accountable and equitable. However, the term shareholder democracy is clearly a distortion of the term 'democracy'. Rather than meaning a sharing of power and decision-making, it generally refers to widespread access and participation in the stock market. *New York Times'* columnist Thomas Friedman uses the term 'democratization of finance' in his 1999 book *The Lexus and the Olive Tree*. He points to the way the public were able to buy corporate bonds from the late 1960s, invest in securitized home mortgages in the 1970s, buy junk bonds in the 1980s, and invest in third world debt in the 1990s – either directly or more often through mutual funds and pension funds: 'This gave you, me and my Aunt Bev a chance to buy a slice of these deals that had previously been off-limits to the little guy.'[2]

The new trend towards internet-based share trading which offers greater access to shares to those who do not have a stock broker has also been hailed as a democratic, levelling trend. E*Trade promoted its services as part of a revolution akin to women's liberation. It claimed to be 'leveling the playing field and democratizing individual personal financial services'. Share ownership was equated with power. E*Trade asserted in its advertisements that 'the power is in your hands'.[3]

The view that the stock market is democratic because it reflects people's choices through their investments has been propagated by free market missionaries who argue that in the stock exchange people 'vote every hour, every day through their mutual funds, their pension funds, their brokers, and, more and more, from their own basements via the internet'. Donald Schwartz noted in the *California Management Review* that 'both law and literature pay formal homage to the notion of shareholder democracy'.[4]

The notion of shareholder democracy is also promoted as a way of countering the perception that powerful corporations are not accountable to anyone.

Corporations are represented as being subject to democratic governance through the voting procedures at shareholder meetings and the exercise of investment and disinvestment. Although it is obvious that managers determine much of what corporations do, not shareholders, corporate managers like to point to the supposedly democratic processes of shareholder meetings. In theory, shareholders can exercise their displeasure with management performance or activities by selling their shares. 'This not only protects their interests but works as a sort of voting mechanism. A large-scale sale by shareholders will punish managers through its effect on the securities market and on the market for corporate control.'[5]

In this way, corporate managers are able to deflect attention from their own power. Thomas Frank points out that: 'Belief that a democratic system functions may provide a false sense of comfort to the public, to wit, that the managers – who, after all, exercise substantial power over our lives – are responsive to a governance process that we understand from another context.'[6]

By representing shares as the major source of wealth of a nation's elites and showing that this route to wealth is accessible to anyone, the inequality produced by the free market is legitimized. Shares are portrayed as a major mechanism for wealth sharing and widening social inclusiveness. Pension and superannuation schemes, managed funds and employee share schemes give working people access to this route to riches and enable business people and financial journals to extol the spread of share ownership as a sign that capitalism is indeed benefiting everyone.

However, it is a distorted picture that business interests paint, because ownership of a few shares in a mutual fund is not a route to wealth. As share prices rose in the 1990s, it was the wealthy people, who owned most of the shares already, who became wealthier. A US Federal Reserve study found that as the share market boomed between 1998 and 2001 the net worth of the top 10 per cent of families increased by 69 per cent ($833,600), while the net worth of the lowest 20 per cent only rose by 24 per cent ($7900).[7]

Similarly, despite widening share ownership in Australia, inequalities have increased. During the 1980s and 1990s as share prices rose so did the gap between rich and poor because of the concentration of shares in the hands of the wealthiest people. Between 1993 and 1998 the share of the wealth owned by the richest 10 per cent of the population rose from 43.5 per cent to 48 per cent, while that owned by the top 1 per cent went from 12 per cent to 15 per cent. During the same period, the middle-income, share-owning Australians had a declining share of the wealth.

Far from spreading wealth more equitably, share ownership has concentrated it in the hands of those who are already wealthy. Nevertheless, the myth of the great shareholder democracies spreading wealth to the underclasses is perpetuated. And although share ownership is spreading, that ownership does not confer any real accountability or power over corporations as corporate propaganda would have us believe.