Committee for Economic Development

For Immediate Release

CONTACT: Morgan Broman – (202) 469-7814
morgan.broman@ced.org

Are Institutional Investors Part of the Problem or Part of the Solution?

New Report from Yale's Millstein Center and the Business-led CED

Washington, D.C. October 3, 2011. The Committee for Economic Development (CED) and the Millstein Center at the Yale School of Management have today published a new working paper, ***Are Institutional Investors Part of the Problem or Part of the Solution?*** authored by Ben W. Heineman, Jr., Chair of CED's Corporate Governance Subcommittee and senior fellow at Harvard's schools of law and government and Stephen Davis, Executive Director of the Millstein Center. The report argues that institutional investors---pension funds, mutual funds, hedge funds, sovereign wealth funds and endowments of non-profits now have a significant impact on individuals, investee companies, the market and the economy but too little is known about how they are governed. The report calls for develop of far more information about institutional investors and far more analysis of whether public regulation or private ordering is necessary to address the problems such institutions create. It calls for construction of a new national database on the governance and practices of institutional investors.

"Public policy in recent years has given shareholders more power and assumed they are part of the solution to the failed governance that was a primary cause of the financial melt-down," said Ben W. Heineman, Jr. "But this assumption my be wrong in significant ways and institutional investors may have been a significant contributing factor in the crisis. It is imperative that we have a much firmer handle on how institutional investors work and how they should be regulated and governed."

Are Institutional Investors Part of the Problem or Part of the Solution? focuses on three major questions:

- Do institutional investors adequately advance the goals of the individuals who have invested in them?
- Do institutional investors contribute significantly to "undesirable short-termism" in their publicly held investee companies?
- Can institutional investors become more effective "stewards" of publicly held investee corporations?

The paper addresses the importance to our economy of finding answers to these questions. It demonstrates that addressing these three generic questions is critical to individuals, equity markets, publicly held companies, the economy—and to the troubling (and conceptually difficult) issue of good v. bad short-termism in investor and investee behavior. But, as the paper also demonstrates, there is a lack of information and analysis on a host of important empirical and prescriptive issues that relate to these three critical questions.

The paper makes the case that we need to have as much understanding about investor entities as we do about investee companies. It points the way analytically towards the variety of issues which need to be addressed in answering the three generic questions—without trying to bias the outcomes. It invites much greater attention to these critical questions from all across the intellectual and policy spectrum and urges think-tanks and academic institutions to develop comprehensive programs to address the profound implications of the changing world of institutional investors.

"This important essay from our colleagues at CED and the Millstein Center identifies a number of key questions that once answered may help policy makers in government and firms identify further and more specific solutions to the challenges posed by an overly short-term perspective in capital markets," said Judith Samuelson, Executive Director of the Aspen Institute Business & Society Program. "In 2009, the Aspen Institute's statement, 'Overcoming Short-Termism,' identified some institutional shareholders as a source of long-term wealth creation, articulated challenges to their being able to focus long term, and proposed potential public policy solutions."

Are Institutional Investors Part of the Problem or Part of the Solution? is an important contribution to the public debate because rather than arguing for new regimes of public policy or private ordering without facts, it proceeds from the belief that factual and policy analyses are inextricably bound together.

"Fixing dysfunction in capital markets has to involve institutional investors," said Stephen Davis. "But as our research demonstrates, policy makers in this area are operating in a knowledge vacuum. A national database on how investors behave would be a timely and critical aid in understanding how the market can meet social expectations for solid and sustainable growth."

Are Institutional Investors Part of the Problem or Part of the Solution?, Key Descriptive and Prescriptive Questions About Shareholders' Role in U.S. Public Equity Markets is available at www.ced.org and http://millstein.som.yale.edu/

CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nation's most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.