

#### D 4. CHANGING ROLE OF STOCK MARKETS

In our earlier history the stock market provided an excellent way for well known corporations in the United States to raise new capital much more easily than they could try to otherwise, just by selling new stock issues to the wide public. Those who bought were almost exclusively those who had enough wealth and income that they could afford to take the risks involved in the expectation that they would then share through dividends paid on the stock in the profits made by the corporations whose stock they bought. This worked.

Over the ensuing years, corporations increasingly financed their new investments of all types out of profits that they retained rather than paying it out in dividends. That is the predominant way of financing new corporate investment now. So the stock markets now exist largely to facilitate trading in outstanding issues of corporate stock. That is still an important function, since it makes it possible for investors in any stock who want to get their money back, for whatever reason, can sell it at whatever its current price is. And increasingly, purchasers of corporate stock buy it less for the dividends than in the hope that they can sell it later at a higher price than they paid for it, especially since such capital gains are taxed at a lower rate than income earned by whatever job they might have. So stock market prices are now determined largely by speculators seeking capital gains.

Wall Street, our term for all those employed in the stock market operations directly or indirectly, has increasingly come to dominate corporate business, a trend that has implications for the economy that are not desirable in some respects either for business itself or for the general public.

Wall Streeters now put a lot of pressure on firms whose stock is listed on the stock markets to do everything possible that might boost their stock's price in order to stimulate more stock market trading & increase the earnings of Wall Streeters. It is of course impossible for this to succeed all the time in raising all stock prices, so prices sometimes fall instead. But the continuous pressure results in business doing many things to try to boost their stock price in the short run, even though those actions may be contrary to those they would need to take to maximize long run profitability of the business. As for the public, the short run measures are often against its interest, as when it involves business reducing costs by decreasing product quality one way or another, or by reducing labor costs in some ways, or failing to protect the environment. Business has many stakeholders who are interested in the success & profitability of businesses but are harmed by the idea that too often dominates the business world now--that the purpose of business is not to profit by how well they serve the public but is instead "to create value for stockholders". The latter serves primarily Wall Streeters. and some speculators. It would be a public tragedy if this trend continues.