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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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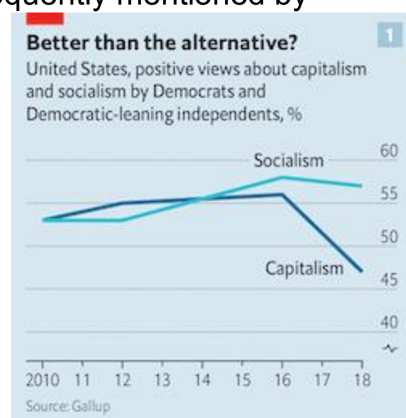
**Re: File No. S7-23-19 and File No. S7-22-19**

Millennial socialists have not been overtly embraced by the SEC, but the Commission's recent proposals to disempower proxy advisors and shareholders below the level of multi-millionaire's plays into the hands of those advocating a socialist economy. The Commission's proposed rules would further concentrate the power of corporate elites and reduce their accountability to "Main Street" investors and "Mr. and Ms. 401(k)" so frequently mentioned by Chairman Clayton.



The Economist

The proposed rules will lead to further rejection of the capitalist mode of production, already estimated at 57% for those of millennial age. Half of Americans have no investments in corporate equities. Those who do are just beginning to realize how their investments are voted in corporate elections to concentrate power in corporate elites, obfuscate environmental issues and influence civil elections. (*Want a Bigger Say on Corporate Behavior? Move Your Money,* New York Times, 12/12/2019 https://www.nytimes.com/2019/12/12/business/corporate-behavior-move-your-money.html)

**What is the Agenda of Millennial Socialists?**

Writing about millennial socialists, *The Economist* notes,

> One common mistake is to assume that they want to build a society in the image of social democracies such as the Nordic states, where progressive taxation of lightly regulated markets funds high-quality public services. But Messrs Sunkara and Adler insist they are no social democrats. Rather, they are democratic socialists…
>
> Since, under social democracy, true power continues to reside with the capitalists, its commitment to egalitarianism is necessarily fragile. A social-democratic government might tax the rich a bit more and redistribute the proceeds to the poor, which is all well and good.
>
> According to the millennial socialists, more radical changes are required. Collectively, their manifesto boils down to three big ideas. First, they want vastly more government spending to provide, among other things, free universal health care, a much more generous social safety-net and a "Green New Deal" to slash carbon-dioxide emissions.

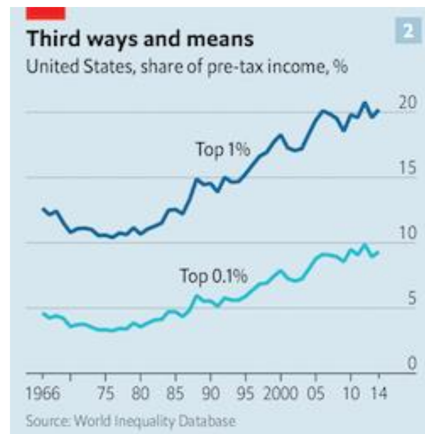
Second, many argue for looser monetary policy, to reduce the cost of funding these plans.

Third, and most crucially, millennial socialists want democratization of the economy by removing the market “from as many aspects of everyday life as possible.” (*What Would Millennial Socialists Do With Power?*, 11/28/19, https://www.economist.com/books-and-arts/2019/11/28/what-would-millennial-socialists-do-with-power) Dive more deeply into their thought through the following books: *The Socialist Manifesto* by Bhaskar Sunkara; *The 99 Percent Economy* by Paul Adler; *Capitalism, Alone* by Branko Milanovic; and *People Get Ready! Preparing for a Corbyn Government* by Christine Berry and Joe Guinan.

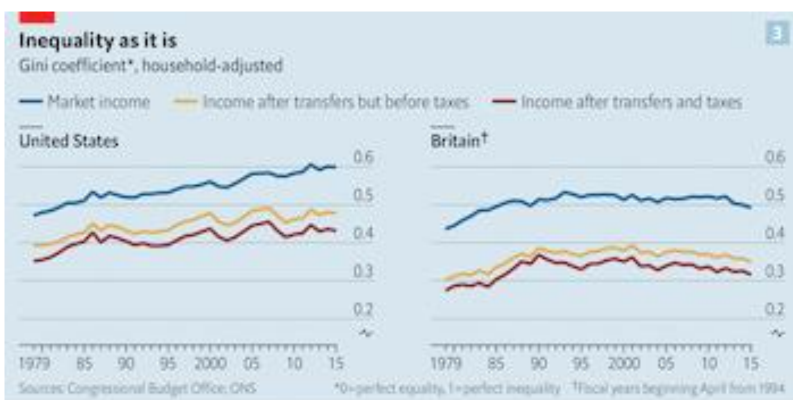
**Millennial Socialists: Popularity**

For Americans growing up since the downfall of the Soviet Union, socialism is now more popular than capitalism. See chart 1 above from *Millennial socialists want to shake up the economy and save the climate*, The Economist, 2/14/2019 https://www.economist.com/briefing/2019/02/14/millennial-socialists-want-to-shake-up-the-economy-and-save-the-climate.

> These people saw their third-way leaders support misguided foreign wars and their supposedly robust economy end up in a financial crisis. They feel economic growth has mainly benefited the rich (see chart 2) and that ideologically driven spending cuts have been aimed at the poor. They are angered by a global elite they see flitting from business to politics and back again, unaccountable to anyone, as economic inequality yawns ever wider (though the picture is more complex than that: see chart 3). The presence of Donald Trump in the White House underlines their discontent—as does, indelibly, the unchecked rise of greenhouse-gas emissions alongside global gdp, endangering, in many young eyes, their very future.



The Economist



The Economist

**Addressing Inequality: The Economist**

As is now widely recognized, owners of capital have seen their income and wealth rise disproportionately to that of labor, although this is somewhat attenuated through adjustments due to declining marriage rates among the poor and tax adjustments (*Economists are rethinking the numbers on inequality,* https://www.economist.com/briefing/2019/11/28/economists-are-rethinking-the-numbers-on-inequality). Without a radical redistribution of wealth, the trend is likely to continue. In America the average income of the top 1% has risen by 242%, about six times the rise for middle-earners.

Some 51% of Americans aged 18-29 have a positive view of socialism, says Gallup. In the primaries in 2016 more young folk voted for Bernie Sanders than for Hillary Clinton and Donald Trump combined. Almost a third of French voters under 24 in the presidential election in 2017 voted for the hard-left candidate. (*Millennial socialism*, The Economist, 2/14/2019 https://www.economist.com/leaders/2019/02/14/millennial-socialism) Andrew Yang's $1,000 a month dividend would be welcome but it would do nothing to address the fact that invested funds are likely to continue to rise, disproportionately to wages and salaries paid to labor. The wealth disparity will continue to grow and most people will feel increasingly powerless.

Elizabeth Warren's plan to allow workers to elect 40% of corporate board seats, combined with other mechanisms for redistributing wealth may reduce imbalances in wealth but would do little to provide mechanisms to connect worker representatives to workers without elaborate new systems of elections and other accountability mechanisms. (Read Paul Bernstein's *Workplace Democratization: Its Internal Dynamics* https://www.amazon.com/Workplace-democratization-internal-dynamics-Bernstein/dp/B006TWWNQ2/ref=as_li_ss_tl?crid=ME8MPF9TENIR&keywords=workplace+democratization&qid=1576028974&sprefix=workplace+demo,aps,193&sr=8-1&linkCode=ll1&tag=corporategoverna&linkId=11a1910937bbdf9e934eebe887a811cf&language=en_US for six "necessary" components.)

While *The Economist* agrees with the need for universal health care in the States and finds the willingness of Millennial's to challenge the status quo "refreshing," the newspaper is wary of putting too much faith in government bureaucracy, lest it be captured by special interests, or in Warren's wealth tax.

> The rich world's housing markets are starving young workers of cash and opportunity; more building is needed in the places that offer attractive jobs. America's economy needs a revolution in antitrust enforcement to reinvigorate competition. And regardless of trends in inequality, too many high-income workers, including doctors, lawyers and bankers, are protected from competition by needless regulation and licensing, and senseless restrictions on high-skilled immigration, both of which should be loosened. (*Inequality could be lower than you think,* https://www.economist.com/leaders/2019/11/28/inequality-could-be-lower-than-you-think)

**SEC Adds Momentum to Millennial Socialists**

The SEC's proposal to "modernize the shareholder proposal rule" by increasing the thresholds for submission and resubmission of shareholder proxies (as well introducing other impediments) aims "to weed out proposals whose do not have a real interest in the company." (*Commissioner Hester M. Peirce, https://www.sec.gov/news/public-statement/statement-peirce-2019-11-05-shareholder-proposal*)

Having what is accepted as a "real interest" in a company would be raised from $2,000 held for over a year to $25,000 (adjusted down for shares held for multiple years). These thresholds will lock out most Americans from the ability to participate in corporate governance through what is essentially a formalized mechanism to petition corporations and their shareholders through constrained shareholder resolutions that cannot address 'ordinary business' and other subjects of interest to many shareholders and other stakeholders.

Half of Americans do not own stock in *any* company. "As of 2019, the top 10 percent of Americans owned an average of $969,000 in stocks. The next 40 percent owned $132,000 on average. For the bottom half of families, it was just under $54,000." (*What Percent Of Americans Own Stocks?* https://www.financialsamurai.com/what-percent-of-americans-own-stocks/) Remember, the law of averages; When Bill Gates enters a room with ten people who earn $50,000 each per year the "average" person suddenly becomes being a billionaire. The SEC's rule would severely limit even the ability of "average" investors to file proxy proposals.

If investors value the ability to file shareholder proposals, the top 10% could have a relatively diversified portfolio with almost 39 holdings at $25,000 each. However, the next 40% would not be diversified with $25,000 in each of 5 companies and the bottom half would hold only two companies. (*What Is the Ideal Number of Stocks to Have in a Portfolio?*, https://www.investopedia.com/ask/answers/05/optimalportfoliosize.asp) Assuming most shareholders aim for at least a somewhat diversified portfolio, the proposed SEC rule essentially limits shareholder proposals (a primary form of voice) to the top 10% of Americans. Yet, even that would be a generous interpretation.

Remember the law of averages. "The wealthiest 0.1% and 1% of households now own about 17% and 50% of total household equities respectively, according to Daan Struyven, Goldman Sachs's chief economist The richest 1% own 50% of stocks held by American households https://finance.yahoo.com/news/the-richest-1-own-50-of-stocks-held-by-american-households-150758595.html. Since averages skew the median, it is likely the SEC's rule would virtually eliminate all but about the top 1% of America's wealthiest households from filing more than one or two shareholder proposals a year.

At the meeting putting forth the proposal, Chairman Clayton noted https://www.sec.gov/news/public-statement/statement-clayton-2019-11-05-open-meeting:

> Resubmission thresholds were last amended in 1954—65 years ago. In that time, our markets have changed dramatically. For example, the retail / institutional shareholder split has flipped from 90% retail / 10% institutional in 1950, to 20% retail / 80% institutional in 2017.

Chairman Clayton then specifically cited letters from individual investors who expressed concern their investments were

> being steered by third parties to promote individual agendas, rather than to further their primary goals of being able to have enough money to lessen the fear of "running out" in retirement or to leave money to their children and grandchildren… Similarly, it is clear to me that a system in which five individuals accounted for 78% of all the proposals submitted by individual shareholders would benefit from greater alignment of interest between the proposing shareholders and the other shareholders—who hold more than 99% of the shares.

Why has the proportion of retail / institutional shareholders flipped? I suspect it was the higher cost of trading individual stocks and because 401(k) and other pension plans initially did not allow individually directed accounts. Many still do not but that is changing. Individually directed accounts are becoming more common. Some brokers have lowered trading fees to $0 and firms, such as FolioInvesting and OpenInvest are facilitating the ability of individual's to construct diversified portfolios through direct indexing with better returns than standard indexes.

Given its history and statutory mandate, one might expect the SEC to *encourage* individual investors, rather than erecting barriers to direct participation in our capitalist economy. Although he implies that proposals from the five individuals are not aligned with the interests of other shareholders, Chairman Clayton presented no evidence for that belief. If five players in baseball hit 78% of the home runs, would their interests be necessarily unaligned with those of other players or the fans?

As for the letters cited by Chairman Clayton from individual's complaining about investments "being steered by third parties to promote individual agendas." Those turned out to be from an "advocacy group paid by corporate supporters" (*SEC Chairman Cites Fishy Letters in Support of Policy Change, https://www.bloomberg.com/news/articles/2019-12-10/fishy-comment-letters-are-being-investigated-sec-s-clayton-says*) and are now under investigation.

While Chairman Clayton claims to be standing up for Main Street investors, as well as Mr. and Ms. 401(k), the SEC's proposal would end up restricting shareholder proposals from individuals mostly to the 1% who are least likely to be negatively impacted by concentrating power within corporate elites and neglect of externalities, such as the climate crisis.

**Alternative Regulations Could Invigorate Capital Markets**

Millennials are turning to socialism because problems like climate change and wealth inequality continue to get worse and millennials have more influence over civil elections than corporate elections. If Americans want to stem the growing tide of socialism, we need to provide more avenues for citizens to become shareholders and for shareholders to *increase* their voices within corporate governance.

After World War II, the New York Stock Exchange developed a marketing campaign, "Own Your Share of American Business" (OYS), to rebuff communism, restore profitability to retail brokerage firms, and convince Americans to lower capital gains taxes. OYS was never aimed at really transforming America by shifting power from the few to the many. Participation in corporate governance was not one of the objectives. Giving small retail shareholders a "sense" of participating in capitalism was enough. (*A Nation of Small Shareholders*, https://www.corpgov.net/2018/07/a-nation-of-small-shareholders-review-essay/)

Imagine, instead, if all Americans had a substantive stake, as well as a meaningful voice in how corporations are governed and corporate resources are deployed. Imagine if investing in shares was promoted as a way to participate in financial returns and in voting on what future we want to live in based on each company's "social purpose." Imagine if the SEC took on the role of protecting not just investors as consumers, but in encouraging capital formation by helping investors use their voices in how corporations are governed.

The statutory mission of the SEC is to "protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation." The market having a voice in corporate governance is anything but efficient, with layers and layers of ownership between investors and those voting on their behalf. SEC rules should facilitate efficient markets and capital formation by ensuring every investor has a voice in corporations where they are long-term shareholders, not based on an arbitrary and capricious rule of two or three years as newly proposed by the SEC but based on long-standing law, which deems that investments held for greater than one year are long-term and are taxed at lower rates than normal income.

Creating a nation of small shareholders involved in corporate governance would be transformative. How to accomplish that should be a matter of national debate. One possible model is the Australian Superannuation program, which might help, at least in part, to explain why *median wealth per adult* (https://en.wikipedia.org/wiki/List_of_countries_by_wealth_per_adult) in Australia is $181,000 versus less than $66,000 in the US.

In order to map the future and what impact it might have on corporate governance, it would be helpful if all investors could easily determine how shares are currently being voted by large funds on their behalf. Real-time proxy vote disclosure would give us a start by helping Main Street investors and Mr. and Ms. 401(K) pick funds and vote shares more fully aligned with their own values.

The current annual N-PX proxy reporting requirements for funds, promulgated before widespread use of the internet, obfuscates the ability of investors to compare voting records. For example, try comparing the sortable voluntary disclosure of *Trillium Asset Management* https://trilliuminvest.com/approach-to-%20sri/proxy-voting/, which often includes voting rationale, with the mandated disclosure of the *Vanguard Index Trust Total Stock Market Index Fund* https://www.sec.gov/Archives/edgar/data/36405/000093247118006890/indexfunds0085.htm, which requires a laborious effort to decipher.

A better way for the SEC to evaluate the need for changes to existing proxy proposal rules would be to first increase public scrutiny and public discussion of how funds vote on their behelf. Driving efficient markets around votes would drive discussion and the demand for proposals better aligned with investor values.

Some shareholders and fund investors may seek better alignment between fund labels, such as “ESG” or “positive impact” and fund voting. Others may focus exclusively on short-term shareholder returns regardless of environmental, social or governance impact. Real-time disclosure in machine readable format will allow Mr. and Ms. 401(k) and Main Street investors to quickly see which funds are voting with their values, and would encourage them to move investments to funds reflecting their own values. See my rulemaking proposal File *4-748, Report of proxy voting record* https://www.sec.gov/rules/petitions/2019/petn4-748.pdf.

The SEC should focus on *increasing* public and investor information, not *discouraging* the involvement of retail shareholders and fund holders in shaping the world corporations help to create on our behalf. Thank you for considering my comments.

Sincerely,

J. McRitchie

James McRitchie, Shareholder Advocate/Publisher
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