

# **Countercyclical Corporate Governance**

**By Aneil Kovvali**

Corporate governance scholars and practitioners have debated corporate purpose for decades, with some arguing that corporations should focus exclusively on maximizing shareholders' wealth and others arguing that corporations should advance a broader range of interests. But neither side has paid adequate attention to the relevance of macroeconomic context. When the economy is producing at capacity and markets are functioning properly, there is a reasonable relationship between shareholder value maximization and social wealth maximization. The goals diverge in crisis conditions, when shareholders' interest in minimizing costs can be socially destructive.

Once this divergence is identified, it becomes possible to recognize opportunities to revise corporate governance to support or strengthen macroeconomic policy in a crisis. Supportive corporate governance could cause firms to channel government stimulus toward spending and investment instead of shareholders' pockets. And corporations command extraordinary financial firepower, have direct access to employees and capital, and are capable of acting with dispatch. If they could be induced to use their cash to mitigate recessions, they could have an enormous impact.

This Article explores how corporate governance arrangements might improve macroeconomic performance during recessionary periods. In developing this analysis, the Article makes five contributions. First, it shows that longstanding debates about corporate governance are affected by macroeconomic context. Second, it shows how a corporate focus on shareholders can obstruct traditional government tools for managing recessions, and how revising that focus can make traditional macroeconomic tools more effective. Third, it suggests that corporate governance can itself be a macroeconomic policy tool, inducing corporations to deliver a private macroeconomic stimulus. Fourth, it identifies various developments in the wake of COVID-19 as tentative steps toward countercyclical corporate governance. Finally, it opens a conversation on private and governmental interventions that could install a countercyclical corporate governance regime.

If it would be helpful, a full draft is available upon request.