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Our gambling culture

Laurence Fink

The craving for immediate gratification has spread well beyond Wall Street.

We tend to speak of short-termism as though it's a problem that only afflicts investors or corporate leaders, but that's not the case. Short-term thinking pervades our most important institutions, from government to households. We've created a gambling culture in which we tune out everything except the most immediate outcomes. If we're going to meet our commitments to our children and grandchildren, and to society as a whole, we need to open up the lens and start taking a more responsible, longer-term view of the challenges we face.

There's a host of reasons short-termism has taken hold in our culture, both in the United States and more broadly. Greed and the media's reliance on daily bombardments of bad news certainly play a part, but more important, we've lost sight of our actual goals. It's in everyone's interest to provide opportunities for education, a reasonable level of healthcare, and a secure retirement for the most people possible, just as we should all be working to conserve our natural resources to assure that clean air, clean water, and renewable fuel sources are available to our children.

Instead, we've become mesmerized by the possibility of short-term, one-off gains. There's a chicken-and-egg problem at work. In many cases, there is a serious misalignment of incentives. Instead of encouraging our institutions and our leaders to grapple effectively with complex, long-term challenges, we're rewarding them to do the opposite. Often, there seems to be a great deal more upside to placing a simple bet for a quick win than for staying the course through difficult times to create sustainable gains that are more widely shared. Whether the wrong goals led to the wrong incentives or the reverse is hard to say.

We see this myopia in Washington all the time. Congress has shown an astounding willingness over the past few years to focus on political theater such as debt-ceiling brinksmanship instead of solving long-term problems, fiscal and otherwise.

Even our tax code seems designed to encourage short-term strategies. Paying significantly lower taxes for capital gains, a major component of tax policy, is predicated on one-year holding periods. Who really believes a one-year commitment is long term? We made things worse when we shifted a few years ago to treating dividends as capital gains instead of ordinary income. That accelerated the tendency for companies to opt to return cash to shareholders in the form of dividend payouts or share buybacks—rather than reinvesting those funds in the business by developing a new technology, say, or building a new factory. The latter are the big, long-term bets that create jobs and keep an economy on top of the innovation curve. By not making them now, we're robbing the future.

This wholesale return of cash to shareholders helps explain why equity markets are outpacing the economy. In the short run, we are rewarding shareholders, which causes the stock to spike. But to the extent that those cash expenditures starve corporate investment, the economy suffers. In particular, people who are riding the current wave will pay for it later when the ability to generate revenue in the long term dries up because of the lack of investment in the future.

It's hard for even the most dedicated CEO to buck this trend. I do believe most CEOs would rather be making investments for the long-term growth of their companies. I don't think they're all motivated just to protect their jobs, but the government is not providing an environment that encourages those very long-term investments.

We should be using the tax code to change this behavior, not reinforce it. For example, another form of short-termism that makes it difficult for companies to focus on long-term strategy is the constant pressure to produce quarterly results. Where does that pressure come from? It comes from investors who are renters, not owners, who are going to trade your stock as soon as they can pocket a quick gain—or sooner if there's no such gain in the offing. But what if we made three years rather than one the holding period necessary to qualify for capital-gains treatment and at the same time brought down the capital-gains tax for each year an investor held, perhaps reducing it to zero at the end of ten years? And on the other end, what if we taxed capital gains at an even higher rate than for ordinary income if the stock was held for less than six months? These measures could quickly help to enlarge the population of engaged investors willing to ride out short-term slumps to better position the company for the long haul. These are the types of behaviors we need to encourage.

The scourge of short-termism wouldn't be so bad if the fallout only hit corporate leaders or policy makers, but the truth is that short-term thinking has serious consequences for everyone. One of the biggest challenges we face is the need to fund longer retirements. In my opinion, this will be a bigger crisis than access to healthcare or a depleted Social Security fund. We're all going to be living longer. We know that. But we haven't focused on what a longer life means or how we're going to support ourselves through it. Most people are severely underestimating the assets necessary to live in dignity during a long retirement.

That retirement problem became much more acute when we migrated from defined-benefit pension plans to defined-contribution plans. I don't believe the average individual is equipped to make those investment decisions properly. Most people invest too conservatively when they're young, with a high percentage in cash and bonds. The reality is that most defined-contribution plans are going to be inadequate for a person's needs during retirement. We're not addressing these fundamental issues. There is a policy need on both the company and government levels. Companies need to be more aggressive about educating their employees on their retirement options, and the government needs to endorse policies that give people incentives to save.

Another challenge that cries out for a long-term solution is infrastructure, where we are sinfully guilty as a country of simply ignoring a problem that becomes exponentially worse with neglect. We have not for a long while led the world in transit systems, bridges, tunnels, highways, or other major civic investments. Anyone who's taken a bus or a cab from John F. Kennedy International Airport into Manhattan—or marveled at the lack of a direct rail link from the airport—would have a hard time believing he or she was driving through the world's leading economy. Other countries are behind too, but they're not as behind as we are.

This gets back to a lack of leadership. There's actually a lot of money available for infrastructure investment. But government at all levels in the United States tends to add complexity, making it difficult to plan and initiate large-scale projects. Developers and investors must deal with competing agencies and jurisdictions. It's often difficult to tell who's responsible: whether it's the locality, the state, the federal government, or something else entirely. Most investors will say, "You know what, it really doesn't pay to have a team focus on the United States because it takes so long. Let me send the team someplace with a more conducive atmosphere, where I can actually get a project off the ground." We are leaving our cities and towns worse off for our children as a result.

So how do we fight back against short-termism? I believe the most effective antidote lies in more education and more communication—and more leadership. We need a call to arms with many more voices speaking up and taking a stand. Just to point to the media, its basic narrative in most cases is so short term. I mean, instead of having television shows focusing on the next trade, could we ever have a television show about critical long-term topics such as preparing for retirement?

The communication imperative is certainly critical for our business. Most of our holdings are long dated. More than eighty percent of BlackRock's equity ownership is in index products. So whether we like the company or have concerns about its long-term prospects, if it's in the index, we have to own it. That's true even if the company is doing something that accelerates the stock price in the short term but has long-term negative implications—maybe making a massive stock repurchase or issuing debt at an unsustainable level or transitioning to a more volatile business model. The stock may rally for a while, but long-term viability is harmed. We have to be against that, but again, we have to own the stock as long as it's in that index.

Therefore, to serve the interests of our clients, we try to ensure that we have robust, ongoing communication with the board of directors. That doesn't mean that we want to tell companies what to do. We think that the board should be working with management to make the important decisions. We do, however, want to make sure there is a high-quality board and management team in place and that we have ready access. We're focusing on the best long-term interests of the company and, more important, we're focusing on the long-term interests of our clients.

That kind of ongoing conversation can serve as a deterrent against getting caught up in the lure of fleeting gains. Deep conversation with engaged participants can serve as a check and balance against a focus that is too short term. It's a way to keep critical long-term goals front and center, whether it's the need to save and plan for retirement, build and maintain bridges and tunnels, or preserve the environment for the next generation. There are no easy or quick answers to these complex challenges. That's why it's essential that we all stay engaged, join in vigorous debate, and manage those challenges for the long term. [□](#)

This essay is from *Perspectives on the Long Term: Building a Stronger Foundation for Tomorrow*, a book published by Focusing Capital on the Long Term. For more information about FCLT, an initiative cofounded by McKinsey & Company and the Canada Pension Plan Investment Board, visit fclt.org.

Laurence Fink is the chairman and CEO of BlackRock. Earlier this year, he sent a letter to the CEOs of all companies in the S&P 500 stock index, urging them to take a longer-term outlook on strategy and build engagement with investors.

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