Massachusetts Bills Would Limit Political Spending by Foreign-Influenced Corporations

Testimony Before the Massachusetts Legislature
Joint Committee on Election Laws

By Michael Sozan
September 24, 2021

Michael Sozan, a senior fellow at the Center for American Progress, submitted written testimony before the Massachusetts Legislature Joint Committee on Election Laws in support of S. 454, S. 482, and H. 839, three bills to limit political spending by foreign-influenced corporations.

Dear Chairs Finegold and Ryan, Vice Chairs Gomez and Vitolo, and members of the committee:

I hereby submit this written testimony in support of S. 454, S. 482, and H. 839, bills to limit political spending by foreign-influenced corporations, which are pending before your committee.

I am a senior fellow at the Center for American Progress (CAP). Based in Washington, D.C., CAP is an independent, nonpartisan policy institute dedicated to improving the lives of all Americans through bold, progressive policies. My democracy reform work at CAP has involved research in the area of preventing election-related spending by foreign-influenced U.S. corporations. My publications include a report and fact sheet analyzing this policy, with the report republished in the Harvard Law School Forum on Corporate Governance. These publications may be useful as the committee considers the pending legislation.

After reviewing the pending legislation, I conclude that it would provide an important tool to protect Massachusetts’ elections from foreign influence and reduce the outsize roles that corporate money plays in election outcomes. This bold legislation would strengthen the right of the state’s residents to determine the political and economic future of Massachusetts and help ensure that lawmakers are accountable to voters instead of foreign-influenced corporations.
The Massachusetts legislative effort follows on the heels of Seattle, Washington, which last year passed similar legislation to protect its elections after a deluge of corporate political spending by at least one foreign-influenced U.S. corporation. Moreover, the New York State Senate recently passed similar legislation, which is now pending in the state Assembly. Several similar bills have been filed at the federal level by members of Congress, including by Massachusetts’ U.S. Sen. Elizabeth Warren (D).\(^2\) This legislative effort is also particularly timely, given that foreign-influenced corporations Uber and Lyft are leading a ballot initiative effort in Massachusetts that builds on their recent effort in California to overturn a pro-worker state law.\(^3\)

The pending bills would reduce foreign influence in Massachusetts elections by preventing political spending from U.S. corporations that meet one of the following criteria:

- A single foreign shareholder owns or controls 1 percent or more of the corporation’s equity.
- Multiple foreign shareholders own or control—in the aggregate—5 percent or more of the corporation’s equity.
- Any foreign entity participates directly or indirectly in the corporation’s decision-making process about political activities in the United States.

These bright-line thresholds would not bar political spending by all U.S. corporations but rather U.S. corporations that have levels of foreign ownership appreciable enough to influence the decision-making of corporate managers.

**The current legal framework**

Current law and U.S. Supreme Court precedent are clear when it comes to foreign influence: It is illegal for foreign governments, foreign corporations, or foreign individuals to directly or indirectly spend money to influence U.S. elections.\(^4\)

The statutory prohibition against foreign involvement is foundational to U.S. self-government and exists primarily because foreign entities are likely to have policy and political interests that do not align with America’s best interests. This bedrock principle was discussed at length and developed by the nation’s founders and enshrined in the U.S. Constitution. It was reaffirmed just eight years ago in the case of *Bluman v. Federal Election Commission*, written by now-U.S. Supreme Court Justice Brett Kavanaugh, who was part of a special panel deciding the case.\(^5\) In that case, the court stated that “the United States has a compelling interest for purposes of First Amendment analysis in limiting the participation of foreign citizens in activities of American democratic self-government, and in thereby preventing foreign influence over the U.S. political process.” The Supreme Court affirmed the *Bluman* decision (without writing a decision).
Yet a loophole in current law makes the United States vulnerable to foreign influence because foreign entities can invest in a U.S.-based corporation—and then that corporation can spend unlimited amounts of money on elections, often secretly. This loophole was opened in the Supreme Court’s misguided 2010 decision in *Citizens United v. Federal Election Commission*, which, for the first time, gave corporations the right to spend unlimited amounts of money from their corporate treasuries on advertising for the election or defeat of candidates. The Supreme Court indicated it was aware of this foreign-influence loophole and that its decision would not preclude a law to close it. Even with the existence of this loophole, the *Bluman* decision concluded that nothing in *Citizens United* was inconsistent with the law that bans foreign contributions and expenditures in U.S. elections.

**Torrent of spending by U.S. corporations that have appreciable foreign ownership**

In the ensuing decade since *Citizens United*, America’s largest corporations—most of which appear to have appreciable levels of foreign ownership—have spent hundreds of millions of dollars directly from their corporate treasuries to influence elections and ballot measures. This does not even count their separate corporate political action committees, funded by money from U.S. managers and employees; contributions by a corporation’s managers or employees in their personal capacities; or the hundreds of millions of dollars that corporations spend on lobbying and other advocacy.

Much of this corporate election spending is done through dark money channels, which makes it untraceable. Whether traceable or not, multiple avenues now exist for foreign entities to exert influence on our nation’s domestic political process via corporate political spending. This is an especially noteworthy point in light of the fact that foreign investors, as of 2016, owned a whopping 35 percent of all U.S. stock, compared with just 5 percent in 1982.

Many foreign-influenced U.S. corporations that spend political dollars are wholly owned subsidiaries of foreign corporations, such as BP and Shell Oil. Other U.S. corporations are partially foreign owned. For example, approximately 10 percent of U.S.-based Uber is owned by Saudi Arabia, which controls one of Uber’s board seats. Uber has spent tens of millions of dollars in recent years to influence elections and local ballot measures that would help the company’s bottom line.

In 2020, Uber joined forces with foreign-influenced Lyft and other companies to spend a staggering $203 million on a ballot initiative that overturned a pro-worker state law in California. This ballot initiative became the most expensive ballot measure in California history. As you know, these same foreign-influenced corporations are now leading a similar ballot initiative effort in Massachusetts, where they likely will spend tens of millions of dollars attempting to weaken labor laws.
This legislation is rooted in well-accepted principles of corporate governance law and practice

Ownership thresholds are not new or untested in U.S. law. Rather, they are common regulatory tools used in many contexts—such as telecommunications, defense, and financial services—to help prevent undue foreign influence over U.S. sovereignty or national security and the divergent policy interests that flow therefrom. Foreign-ownership thresholds, in fact, were passed by the U.S. House of Representatives in the DISCLOSE Act of 2010 and garnered 59 votes in the U.S. Senate, one vote short of breaking a filibuster.

Massachusetts’ interest in regulating foreign influence need not rest on the idea that foreign investors may be linked to hostile entities that are actively trying to weaken democracy. Rather, because current federal law does not explicitly prevent U.S.-based corporations with foreign owners from spending money in elections, foreign interests are almost inevitably going to influence the political system. That is because, pursuant to long-standing corporate governance principles, corporate managers are obliged to spend resources in ways that serve all shareholders, including foreign shareholders. As the former CEO of U.S.-based Exxon Mobil Corp. starkly stated, “I’m not a U.S. company and I don’t make decisions based on what’s good for the U.S.”

In the policy areas of workers’ rights, taxation, the environment, and commerce—just to name a few—there are many ways that foreign interests predictably diverge from the interests of people living in Massachusetts. At the very least, this dynamic creates a harmful appearance of impropriety that can weaken people’s trust in the state’s elections, in government officials, and, ultimately, in the policies that lawmakers produce.

Barring political spending by corporations with appreciable levels of foreign ownership does not mean that such companies necessarily lack sufficient ties to Massachusetts. Nor is this policy meant to signify that such companies are trying to deliberately influence Massachusetts’ elections, that these companies are bad actors, or that these companies should reject investments from foreign entities. Rather, this legislation would close a loophole opened by *Citizens United* and prevent the possibility that a company with appreciable foreign ownership would allow such ownership to influence the company’s political spending in Massachusetts.

The legislation’s foreign-ownership thresholds are carefully crafted

At first glance, the recommended thresholds—1 percent for a single foreign shareholder and 5 percent for aggregate foreign ownership—may appear to be relatively low. However, both thresholds are solidly grounded in corporate governance and related law.
Corporate managers, capital investors, regulators, and governance experts recognize that a shareholder who owns at least 1 percent of stock in a corporation can influence corporate decision-making, including decisions about political spending. There are relatively few individual shareholders who ever own as much as 1 percent of a major publicly traded corporation, and if they do, their stock likely is worth tens of millions of dollars, if not more. Shareholders who own 1 percent of corporate stock are rare and powerful; they are able to get their calls returned by executive suite managers and have sway over the strategic direction of a corporation.

The legislation’s 1 percent threshold is rooted in regulations of the U.S. Securities and Exchange Commission’s (SEC) governing thresholds for shareholder proposals. These regulations state that if a shareholder owns at least 1 percent of a corporation’s shares, that shareholder has the unique right to submit shareholder proposals to dictate a corporation’s course of action. In November 2019, the SEC even proposed eliminating the 1 percent threshold, finding that the vast majority of investors who submit shareholder proposals do not even have that level of equity ownership and that institutional investors below the 1 percent single owner threshold can, in fact, exercise substantial influence on a corporation’s decisions.

The former Republican chairman of the U.S. House Committee on Financial Services recognized—in the area of proxy contests—that shareholders who own 1 percent of corporate stock are important players who have the very real opportunity to influence corporate decision-making. And the Business Roundtable, an association representing corporate CEOs, acknowledged this dynamic. In fact, the Business Roundtable suggested a sliding scale for shareholder proposals that would dip far below the 1 percent threshold for the largest U.S. corporations—to a 0.15 percent share of ownership.

A 5 percent aggregate foreign-ownership threshold is also well supported. When a significant number of smaller shareholders together have a commonality—such as foreign domicile—it can influence corporate managers’ decisions, in the manner described above. Moreover, if several shareholders each own slightly less than 1 percent of a corporation, but together own at least 5 percent of a corporation, it makes little sense to ignore the possibility that they could join forces to do what a single 1 percent shareholder could do alone.

One avenue for smaller shareholders to exert their collective influence is during “proxy season,” when they can threaten to band—or actually have banded—together to force votes on proposals that affect corporate decision-making. The Business Roundtable stated that it supported the right of a group of shareholders to submit a proposal for consideration if those shareholders owned only 3 percent of a corporation’s shares.

Finally, as Federal Election Commission Commissioner Ellen Weintraub has written, we are not working our way down from a 100 percent foreign-ownership standard; we are working our way up from the zero foreign-influence standard that a strict legal interpretation of federal law suggests.
This legislation is constitutional

The foreign-ownership thresholds in this legislation would survive constitutional challenge, a conclusion supported by several noted experts in constitutional, election, and corporate law. At root, this legislation is consistent with the Bluman decision—which the Supreme Court affirmed—declaring that foreign entities have no constitutional right to participate in U.S. elections.

Moreover, this legislation is consistent with the approach laid out by Commissioner Weintraub, in 2016, which provided a new, cogent way to read Citizens United in conjunction with the ban on foreign spending in U.S. elections. Weintraub pointed out that Citizens United allows corporations to spend freely in politics, calling them “associations of citizens,” and that corporations’ rights to spend in politics flows from the collective First Amendment rights of their individual shareholders. Weintraub stated that it “logically follows, then, that restrictions on the rights of shareholders must also apply to the corporation.” She also writes, “You cannot have a right collectively that you do not have individually.” Therefore, according to Weintraub, “States can require entities accepting political contributions from corporations in state and local races to make sure that those corporations are indeed associations of American citizens — and enforce the ban on foreign political spending against those that are not.”

It is worth noting that foreign-influenced U.S. corporations—and their managers and employees—would have multiple other avenues to exercise their legitimate First Amendment rights to spend money to influence elections, as discussed above.

How the foreign-ownership thresholds practically would affect corporations

The vast majority of U.S. businesses have no foreign owners. But in the CAP report referenced above, I analyzed data on foreign ownership of 111 U.S.-based publicly traded corporations in the S&P 500 stock index. The results include the following:

- When applying the 1 percent single foreign shareholder threshold, 74 percent of the corporations studied exceeded the threshold.
- When applying the 5 percent aggregate foreign threshold, 98 percent of the corporations studied exceeded the threshold.

These 111 corporations voluntarily disclosed $443 million spent in federal and state elections from their corporate treasuries in the years 2015, 2016, and 2017.

Among smaller publicly traded corporations, 28 percent of the corporations that were randomly sampled exceeded the 5 percent aggregate foreign-ownership threshold.
From this analysis, it appears that smaller publicly traded corporations may be less likely to have as much aggregate foreign ownership as their larger counterparts and therefore would likely be less affected by this legislation's ownership thresholds.

Conclusion

At a time of rising foreign interference in U.S. elections, Massachusetts is positioning itself at the forefront of legislative efforts across the nation to take proactive, commonsense steps to stop political spending by foreign-influenced U.S. companies. This is a people-powered proposal that would go a long way in reassuring the people of Massachusetts that their democratic right to self-government is protected.

For the reasons stated above, I urge passage of the pending legislation. Please let me know if I can be of further assistance.

Sincerely,
Michael L. Sozan
Endnotes


7 See Sozan, “Ending Foreign-Influenced Corporate Spending in U.S. Elections” (discussing this issue in several sections).

8 See ibid, p. 9.


