Written Testimony of Vivek Ramaswamy
Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs
Hearing Entitled "The Dignity of Work"
April 29, 2021

Personal Background

My name is Vivek Ramaswamy, and I would like to thank you for inviting me to share my perspectives on this important set of issues. By way of personal background, I am from southwest Ohio. I studied biology in college and spent nearly seven years as a biotech investor at an institutional investment firm. For three of those years, from 2010 to 2013, I attended law school while continuing to work as an investor. In 2014, I left my role as an investor to found a biopharmaceutical company which I led as CEO from May 2014 through January 2021. I have also co-founded two technology startup companies.

I serve on the board of directors of two nonprofit organizations—the Philanthropy Roundtable and the Foundation for Research on Equal Opportunity. Starting one year ago, I began publishing op-eds and speaking publicly about issues relating to capitalism, democracy, and American identity. I have been a public critic of stakeholder capitalism, a topic that is relevant to today's hearing. I am writing a book about some of these topics, which will be published this summer.

Last month, I stepped down as CEO of the company I founded, in part to separate my voice as a citizen from the voice of the company. In today's written and oral commentary, I offer strictly my personal viewpoints as a citizen, not those of any company or organization that I am affiliated with. Thank you in advance for understanding that.

My Perspectives on Corporate Purpose

I will start by sharing my perspective on stakeholder capitalism.

Stakeholder capitalism refers to the idea that companies should serve not only their shareholders, but also other societal interests. Companies across Wall Street, Silicon Valley, and everywhere in between have endorsed stakeholder capitalism. In 2019, the Business Roundtable, which represents many of America's largest corporations, overturned a 22-year-old policy statement that previously said a corporation's paramount purpose is to serve its shareholders. In its place, its 181 members signed and issued a commitment to lead their companies for the benefit of all stakeholders—not only shareholders, but customers, suppliers, employees, and communities. The multi-stakeholder model is no longer merely on the rise in corporate America. Today it is the arguably the dominant perspective.

On its face, stakeholder capitalism is in tension with the demands of corporate law in many states, which holds that directors and executives of a company have a duty to one

master: shareholders. In his famous 1970 essay published by *The New York Times*, Milton Friedman expressed concern that a shift away from shareholder primacy would cause companies to operate less efficiently and to be less profitable, leaving not only investors but also other stakeholders—including workers and consumers—worse off in the end.

I share Mr. Friedman's concerns, but my main problem with stakeholder capitalism is different. My problem is that it strengthens the link between democracy and capitalism at a time when we should instead disentangle one from the other. Stakeholder capitalism, including its allies in the ESG movement, demands that companies and their leaders play a fundamental role in determining and implementing society's core values. But for companies to pursue social causes in addition to shareholder interests, companies and investors must first define what those other societal interests should be. That is not a business judgment. It is a moral judgment.

Speaking as a former investor, a former CEO, and now as a private citizen, I do not want American capitalists to play a larger role than they already do in defining and implementing our country's political and social values. The answers to these questions should, in my opinion, be determined by our citizenry—publicly through debate and privately at the ballot box.

Democratically elected officeholders like yourselves, not CEOs and portfolio managers, should lead the debate about what social values we ought to prioritize over others. Managers of corporations should rightly decide whether to build a manufacturing plant or a research lab; whether to invest in one piece of software or another; whether to promote one aspiring executive or a competitor.

But a democracy should not want or pressure its business leaders to make the moral judgment about whether a minimum wage for American workers is more important than full employment, or whether minimizing society's carbon footprint is more important than raising prices on consumer goods. Investors and CEOs are no better suited to make these decisions than, with all due respect, any member of this committee is to make the day-to-day operating decisions of a biotechnology company.

I was a biotech investor for nearly seven years, and I was a biotech CEO for nearly seven years after that. I have many personal beliefs on matters that went beyond biotechnology. For example, I'm vegetarian because I believe it is wrong to kill sentient animals for culinary pleasure. But I never banned my employees from eating meat. I had no special standing to legislate my morals as an investor or a CEO, even though I did make corporate decisions about drug development.

Proponents of this new model of capitalism argue that companies will be more successful over the long run in serving shareholders if they also serve societal interests along the way. But if that's true, then classical capitalism should do the job just fine, since only companies that serve society will ultimately thrive, and "stakeholder

capitalism" would be superfluous. In my opinion, social activism by companies is often business interest masquerading as moral judgment.

It is puzzling that stakeholder capitalism is now viewed as a liberal idea. Many liberals who love stakeholder capitalism abhor the Supreme Court's 2010 ruling in *Citizens United v. Federal Election Commission* because it permits corporate money to influence elections and thereby implement corporations' values. In my opinion, stakeholder capitalism is *Citizens United* on steroids: it demands that powerful companies implement the social goals that their CEOs want to push. Companies should focus on providing goods and services that consumers want, not pushing social values that only a subset of people agree with.

My colleagues in the pharma industry have often asked: does rejecting stakeholder capitalism mean putting profits ahead of patients? My answer to this question is emphatically no—because over the long run, the only way for a pharmaceutical company to be successful is by serving patients first.

But putting patients first also means putting patients ahead of fashionable social causes. It means that we don't care about the race or gender of a scientist who discovers the cure to an important disease, or if the manufacturing and distribution process that delivers a Covid-19 vaccine most quickly to patients is carbon-neutral or not.

Historically, stakeholder capitalism reflects conservative European social thought, which was skeptical of democracy and convinced that well-meaning elites should work together for the common good—as defined by *them*. In the Old World, that often meant some combination of political leaders, business and labor elites and the church working together to define and implement social goals. But America was supposed to offer a different vision: Citizens—not the church, not corporate leaders, not large asset managers—define the common good through the democratic process, without elite intervention.

Conflicts of Interest

Conflicts of interest lie at the heart of the stakeholder capitalism debate. There are two kinds of conflicts of interest that I will discuss. The first relates to conflicts of interests of corporate executives. The second relates to the conflicts of interest of companies who advocate for the kind of legislation that you may contemplate—for example, legislation to compel more ESG-related corporate disclosures.

Today, corporate law generally defines conflicts of interest in *financial* terms. Proving that an executive or director of a company has a conflict of interest means proving that the director has a *financial* interest that runs contrary to the interests of the corporation on whose board he or she serves. For example, if you serve on the board of a company, but that company is also a major customer of another firm that you own, then that's a financial conflict of interest that may disqualify you from making an impartial business judgment.

But suppose you're an ex-politician—one who might want to get appointed to the Cabinet of a Presidential administration or want to run for office again—and you're on the board of a large manufacturer. Now suppose it comes to a decision about whether to shut down U.S. manufacturing plants here in the U.S. and to relocate them to a less expensive country like Mexico. You'll be less popular politically if you support moving the plant to Mexico. That means you have a conflict of interest, even though it's not a strictly *financial* conflict of interest.

If Board Member A makes a decision to shortchange the company's shareholders by a little bit because of a personal financial conflict, and Board Member B makes the same decision because of a personal reputational benefit, why should the law treat them any differently? In my opinion, it should not.

Maintaining your personal brand or reputation is not the only form of non-financial conflicts of interest. Personal social commitments can be a source of conflict too. Suppose a public company's CEO uses the corporate piggy bank to make a donation to his own high school, or his church. Most people would view this as an improper act, since his high school and his church have little to do with his business.

But what if he uses the corporate piggy bank instead to make a large donation to a climate change organization? Or a specific racial advocacy movement? These causes also have little to do with his business. Yet over the last year, countless executives at companies both large and small have used the corporate piggy bank to donate to precisely these kinds of causes. And they are often lauded as heroes for doing so. They are using corporate resources to derive personal reputational benefit and personal moral satisfaction. That's often as serious of a conflict of interest as many financial ones.

Finally, I would like to point out one other conflict of interest borne by many practitioners and proponents of "stakeholder capitalism." Their visible "do-good" behavior creates a smokescreen that distract investors, employees, and—with all due respect—lawmakers and regulators from more nefarious business practices. Whenever the leaders in a regulated industry ask for greater regulation, the real question is what they hope to achieve for themselves in the process. These are, in my opinion, relevant questions for policymakers to ask. For banks, committing to board diversity is easy; improving evaluation practices for new mortgages is hard. For soda companies, advocating for voting rights is easy; reckoning with the nationwide health impacts of soda consumption is hard. For Silicon Valley titans, disclosing climate-related risks is easy; building a sound business model that ensures privacy and doesn't harvest sensitive user data is hard. For an online retail monopoly, issuing a declaration about racial injustice is easy; treating workers respectfully while maximizing your operating margin is hard. When choosing between accepting constraints on matters that relate to the core of your business versus constraints on matters that are ancillary to your business, self-interested business leaders will generally choose the latter.

ESG Asset Bubble

I worry about the possibility of an ESG-linked asset bubble. In order to understand why, certain factors leading to the 2008 financial crisis are instructive.

The standard explanation for the pre-2008 subprime mortgage bubble was that predatory lenders were greedy sharks who took advantage of the opportunity to make home loans to individual borrowers who weren't very creditworthy. That's why they were called "subprime" mortgages. Prime mortgages were home loans made to people with reasonable creditworthiness. Subprime referred to everything else. Wall Street banks bundled up these different mortgages to reduce risk, then sold them to speculative investors. That bundle is what we call mortgage-backed securities.

But the unsatisfying thing about just blaming greed for the 2008 financial crisis is that it fails to account for the fact that the greediest thing that someone could have done in 2006 and 2007 was also the smartest thing: bet *against* those mortgages. In retrospect it should have been obvious that many of these subprime borrowers would default on their home loans, and that's exactly what happened. If Wall Street bankers were so greedy, then why did they fail to capitalize on the opportunity? As it turns out, some did.

But an important culprit was upstream of that greed: bad government policy. Starting in the late 20th century, the U.S. government embarked on an ambitious policy to drive home ownership in America. The idea of owning a home—as opposed to, say, renting one—was seen as the pinnacle of the American dream. The government decided to help make that dream come true by creating special categories of loans to spur more home ownership, including among people whose incomes didn't support the value of the homes they went on to buy. In part, that's how quasi-government, quasi-private institutions like Fannie Mae and Freddie Mac came into being. The real question isn't why predatory lenders lent money to people who had poor credit scores; it's why bad predatory lenders had all that money to give out in the first place. One answer to that question is government policy itself.

In my opinion, that ought to be one of our key lessons from the 2008 financial crisis: ***socially-driven economic policy risks creating asset bubbles***. And when those bubbles burst, they often end up hurting the very causes whom the original policy was intended to help. That's exactly what happened when the mortgage bubble burst in 2007, especially when that subsequently led to the failure of large investment banks in 2008.

I am not a world expert on these matters. Others are. My reason for bringing it up isn't to offer a history lesson. Rather it's to offer an early warning: if hindsight is 20/20, it's particularly true for asset bubbles.

Morningstar estimates ~$50 billion of capital flows into U.S. sustainable open-end and exchange-traded funds in 2020—approximately 10 times more than in 2018 and 2.5 times more than in 2019. According to the United States Forum for Sustainable and Responsible Investment's 2020 report, total US-domiciled assets under management employing ESG (environmental, social, and corporate governance) investing strategies increased 42% between 2018 and 2020, up to $17 trillion. This means that ESG-

mandated assets now represent 33% of the $51.4 trillion US assets under professional management. This composition is only expected to rise, with ESG-mandated assets representing 50% of all managed assets in the US by 2025. This is a staggering rise in assets invested behind a socially-driven investment strategy. More money going into the same asset class only helps push prices higher. Higher prices mean higher returns for investors in the short run, but it is also a formula for creating asset class bubbles.

Do ESG funds outperform the market? Based upon my review of empirical data while conducting research for my forthcoming book, the answer to this question is unclear at best. Some datasets support ESG investment outperformance; other datasets support the opposite conclusion. The existence of dueling datasets shouldn't surprise anyone. I believe that these so-called "empirical" exercises are often agenda-driven, with preordained conclusions. Fudge factors include which companies to include versus exclude, the relevant time horizon to examine, what benchmark indices to use, and so on. Those are fundamentally subjective decisions, ones often made by people who know what conclusion they wish to reach.

I do not know whether we are in the early stages of an ESG asset bubble. But if we are, then public policies that fuel this bubble could add kerosene to an early fire. I believe we learned as much from the American experience of economic policies to expand home ownership in the 1990s and early 2000s. By using disclosure requirements and other statutory or regulatory mechanisms to favor ESG investments today, we risk creating overinvestment in companies that advance a narrow set of non-economic agendas. These policies may favor the industry leaders who advocate for them, but that does not necessarily make them good economic policies for America at large. It is worth noting that the fund managers who market these products often earn a hefty fee for doing so—just as subprime mortgage brokers did in the period leading up to 2008.

Furthermore, the average U.S. investor is nearing retirement age or is already in retirement. According to the US Federal Reserve Board's Survey of Consumer Finances, individuals over the age of 45 owned over 67% of all US equities over the past 30 years. Most of their stock is held in retirement accounts such as 401ks and IRAs, to which they've spent decades contributing their hard-earned income. Older people don't necessarily want to use their retirement savings to subsidize social causes. Most need the money to live out their golden years and want to have some left over to pass on to their children and grandchildren.

That's not to say that older Americans are greedy. Many tend to be extremely generous. They care about supporting charitable causes, but they prefer to choose them for themselves, rather than leaving it to their mutual fund managers or CEOs of companies that they invest in. According to The Philanthropy Roundtable (whose board I joined last year), older people are more philanthropic because they tend to have more savings, time, and motivation to help others. Charitable giving peaks between ages 61 and 75, when up to 77% of households donate. If older people want to support specific social causes, their dollar may go further via a direct contribution to the specific charities and nonprofits that they care about, rather than companies that an expensive fee-charging investment manager happens to like.

Unforeseen negative externalities

Stakeholder capitalism creates a negative externality for American democracy. There is a social cost to America's democratic fabric when business elites tell ordinary Americans what causes they are supposed to prioritize and what causes they needn't heed as much. I believe that much of current populist backlash and mistrust in our institutions originates not from the idea that companies pursue the interests of their shareholders, but rather from the idea that companies wield too much social power on normative questions that go beyond the marketplace. Continuing to demand that companies make moral judgements and exercise their social power is likely to fuel greater resentment from America's citizenry towards business and political elites who sidestep open public debate in our democracy to enforce a monolithic social agenda using their market power.