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OPINION | COMMENTARY

The 'Stakeholders' vs. the People

Liberals claim they're troubled by corporate power. So why are they working to expand it?

By Vivek Ramaswamy

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'Stakeholder capitalism' is officially here. That's the fashionable notion that companies should serve not only their shareholders, but also other interests and society at large. Last month Airbnb's leaders announced a new mandate that the company "benefit all our stakeholders over the long term," including through tying executive compensation to the company's social goals. The same week, BlackRock chief Larry Fink issued an open letter to CEOs explaining that companies his massive firm invests with will soon have to abide by the rules of a Sustainability Accounting Standards Board regarding climate change, labor practices and other issues. CEOs at the World Economic Forum in Davos touted similar ideas, as have presidential candidates.

Stakeholder capitalism runs contrary to the demands of U.S. corporate law, which holds that directors and executives have a duty to one master: shareholders. Milton Friedman worried that a shift from shareholder primacy would cause companies to operate less efficiently and be less profitable, leaving investors, workers and consumers worse off.

My main problem with stakeholder capitalism is that it strengthens the link between democracy and capitalism at a time when we should instead disentangle one from the other. It demands that companies and their leaders play a fundamental role in determining and implementing society's core values. But for companies to pursue societal interests in addition to shareholder interests, companies and investors must first define what those other societal interests should be. This is not a business judgment; it is a moral judgment.

Speaking as a CEO and a citizen, I don't want American capitalists to play a larger role in defining and implementing the country's political and social values. I think the answers to these questions should be determined by the citizenry—publicly through debate and privately at the ballot box.



ILLUSTRATION: MARTIN KOZLOWSKI

I would love to know Larry Fink's favorite stock picks, but I am less interested in his views on the environment or racial equality. Democratically elected officeholders, not CEOs and portfolio managers, should lead the debate about what values define America. Managers of large investment funds gain their positions by trading stocks more effectively than their peers do. Managers of corporations gain their positions by maximizing profits and minimizing losses. Their prowess in private enterprise may give them standing to 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 these business leaders have no special standing to decide 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. CEOs are no better suited to make these decisions than an average U.S. congressman is to make the operating decisions of a complex technology company.

Though I lead a biotech company, I have many personal beliefs on matters other than drug development. I am vegetarian because I believe it is wrong to kill sentient animals for culinary pleasure. But I don't ban employees from eating meat. We try our best to offer vegetarian options at company events because many employees don't eat meat—just as we offer nut-free options to accommodate allergies. I have no special standing to legislate my morals because I am a CEO. I do, however, make the final decision about our company's research-and-development budget.

Other CEOs may ask: Shouldn't we work together with political leaders to answer society's pressing moral questions? I think not. I believe the reason many corporate executives are

speaking up in favor of stakeholder capitalism is that they think they will gain popularity at a time when it is unpopular to be perceived as a pure capitalist.

This impulse is fraught with principal-agent conflicts—shareholders are effectively asked to subsidize a CEO's personal brand. It is revealing that the leader of the world's largest "social impact" investment fund—Bill McGlashan of TPG's Rise Fund—was indicted last year on bribery charges in attempting to give his children an advantage over others in college admissions. Is he really the best person to adjudicate which companies are most socially conscious?

Some may argue that companies will be more successful in serving shareholders over the long run if they also serve societal interests. If that's true, then classical capitalism should do the job, since only companies that serve society will ultimately thrive, and "stakeholder capitalism" would be superfluous. 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. Stakeholder capitalism is *Citizens United* on steroids: It advises powerful companies to implement the social goals that their CEOs want to push. Society created companies to provide goods and services that consumers want, not to push social values that only a subset of people agree with.

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. That is part of what makes America great. It is what makes America itself.

I don't mean to criticize my fellow CEOs who hold different points of view. Airbnb is a larger and more successful company than mine, and I would love to have BlackRock as a shareholder if my company ever goes public. I admire the leaders of those companies—but only as business leaders.

Our troubled times certainly require rethinking historical models, but stakeholder capitalism is a step in the wrong direction. The crux of the populist concern about capitalism is not that companies serve only their shareholders, but rather that capitalism has begun to infect our democracy through the influence of dollars in buying political outcomes. The answer is not to force capitalism into an arranged marriage with democracy. What we really need is a clean divorce.

Mr. Ramaswamy is founder and CEO of Roivant Sciences.

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