

# Ben-Ghiat & Venice Module #2 6-23-22

**Elizabeth Doty:** [00:00:00] Hello, and welcome to the Erb Institute's Corporate Political Responsibility Task Force Expert Dialogue Series. My name's Elizabeth Doty, and I'm the Task Force Director, and I'm delighted to be moderating today's conversation with Professor Ruth Ben Ghiat and Katherine Venice.

The Corporate Political Responsibility Task Force, or CPRT, is an initiative of the Erb Institute, a 25 year long partnership. between the Ross School of Business and the School for Environment and Sustainability at the University of Michigan. Led by Managing Director Terry Nelodov and Faculty Director Tom Lyon, the Erb Institute is known for its leadership in three areas, teaching and learning, business engagement with groups like the CPRT, and scholarly and applied research.

The CPRT's mission is to help companies better align their [00:01:00] approach to political influence with their commitments to purpose and values, sustainability, and stakeholders. As we're seeing, corporate political responsibility is an increasingly pivotal element in managing stakeholder trust, addressing systemic issues, and rebuilding public trust in institutions.

Before we dive in, I want to just share a little bit about the incredible people that we have speaking with us today. Professor Ruth Banguiet, She is a professor of history and Italian studies at New York University, who writes about fascism, authoritarian leaders, propaganda, and democracy protection.

She's a recipient of the Guggenheim and Fulbright fellowships, along with others, and has written or edited seven books. Many essays and op eds that are featured in outlets such as CNN, The New Yorker, and The Washington Post, and Business Insider. Her newest book is called Strongmen, from Mussolini to the Present, which examines how illiberal leaders use corruption, violence, [00:02:00] and propaganda to stay in power, and how resistance to them has unfolded over a century.

Including how it has changed. She is an MSNBC columnist and writes regularly for Business Insider and appears on other television networks and outlets such as Slate, Salon, and Democracy Now, bringing a historical perspective to her analysis of current events, which I think all of us can use. She also publishes

Lucid, which is a substack publication about threats to democracy, with weekly essays, interviews, and Q& As for subscribers, and we will post the link at the end of the call so you all can join that if you want to continue the conversation.

Katherine Venice is the founder of the Ethical Capitalism Group. They are pioneers in the growing effort to reform capitalism, to ensure it primarily benefits Main Street workers, worker investors, savers, pension fund beneficiaries, actual shareholder humans. Um, not just wall street shifting from what Katherine has framed as wall street primacy to true [00:03:00] shareholder and thus stakeholder primacy.

Knowing that 55 percent of Americans are shareholders, she's also pioneered the issue of economic equality inequality as a core investment concern for asset owners and guardians and the institutional investor community, running a summit at the UN in 2017, long before the investor and ESG community pick this up as a topical timely issue.

And we need to give credit to those who have foresight on things like this, and Katherine, I think you deserve a lot of credit, um, for seeing these systemic issues and bringing them to life in this community. More recently, she has focused on harnessing shareholder power to build advocacy around saving U.

S. democracy, publishing an op ed in the Financial Times, launching a coalition, and writing a really important report, which we'll share at the end of the call in January of this year about the threats to American democracy. And she does this building on a prior career as an institutional investor with three different top tier global investment management firms.

So she knows the territory, um, of which she speaks and can bring that to bear on, um, the [00:04:00] concerns and maybe some of the ways that business needs to rethink how it's interpreting, uh, current events. So thank you both.

I want to go to this. Question about businesses. And I know for myself, I've been learning about the definition of a hostile takeover. I think Katherine, you were the one who shared this with me and we shouldn't have to ask this. Right. But we're at the point where we're re questioning everything. So I wonder if you could talk about how does an authoritarianism unfold for business.

Ruth has painted the picture of the early promise and then the actual experience. Um, and what are the risks to business and economic growth under authoritarianism in practice?

**Katherine Venice:** What I want to do is, first of all, talk about the risks. And I also want to talk about why we're here in the United States, why U. S.

capitalism is, I believe, extremely susceptible to these risks, more so than one would otherwise think. So what are the risks? First, under authoritarianism, you can forget about shareholder primacy, [00:05:00] stakeholder primacy. Even director primacy than Wall Street primacy, because it's going to be all about kleptocrat primacy.

Now, here's what that's going to look like. Let's start with Harvard's Rebecca Henderson. I quote, I think the decline of democracy is a mortal threat to the health of capitalism. Kleptocrat. Uh, capture will result in, I quote her again, throttling the entrepreneurial energy and the innovation and the experimentation that has made the American economy the envy of the world.

We must not become Russia. Um, MIT's Darren Acemoglu and University of Chicago's James Robinson have done a lot of great work around this as well. I quote, The formula is stark. Extractive, kleptocrat governments mean poverty, privation, and stagnation. In fairly short order, such authoritarian economies start to wheeze by throttling the incentives for technological process, creativity, and innovation.

They choke off sustained long term growth and prosperity. Don't forget, by the way, we're already looking at some extremely severe problems in our economy. So, for example, [00:06:00] Ken Rogoff, uh, Nouriel Roubini and others have been warning us since early 2021, we are facing a long period of stagflation. And don't, don't forget, by the way, even before. Many economists Um, and the hollowing out of innovative capability across the economy.

So we've already got quite a few problems to worry about. We really don't want to be over innovative. So we're going into a new decade of much lower economic business growth and investment returns. And that was due to the excessive financialization of the economy and the hollowing out of innovative capability across the economy.

So we've already got quite a few problems to worry about. We really don't want to be over innovative. contending with kleptocracy as well. Now, what will life be like for CEOs? Um, I wrote about this a lot in my report in January. So, instead of focusing on top line growth and competing to grow your market share, CEOs will have to focus more of their time on pleasing the autocrat and his kleptocrat cronies.

Under authoritarianism and its model of economic capture, The authoritarian and his kleptocrat cronies decide which businesses will succeed and prosper, and which will not. Total loyalty will be constantly demanded from [00:07:00] CEOs who will be under relentless pressure to undertake increasingly compromising actions.

I'm going to quote Berkeley's Stephen Vogel. authoritarian government could arbitrarily seize their assets, undermine business performance, and put them out of business entirely. The authoritarian economic model, let's say, is very consistent and uses the same core, uh, core ingredients, which are, in, in a nutshell, plunder of private as well as state assets, um, being forced to sell assets at basement bargain prices, uh, no big procurement, placing the autocrats cronies on corporate boards, threats, uh, Mr.

Fink, uh, we're going to audit you because we think you've been evading your taxes, uh, would you like to cooperate with us, um, trumped up charges of tax evasion, assets stripping, uh, corporate raids, have a little chat with Bill Bradd about what that's like, uh, kickbacks and That's the core toolkit. Um, I want really everybody please read.

Ruth's book, Strongmen. I'm going to quote from that, if I may, Ruth. Um, one third of Russian businesses were raided [00:08:00] under the first, um, 10 years of Putin, um, on made up charges, tax evasion, and other crimes. One in six Russian business owners faced prosecution. Harvard's Michael Porter, I quote, this is him last year, CEOs are also fearful of political retribution, a disturbing tactic.

that we routinely see deployed by autocratic governments, which we would never have imagined would occur in the United States. In April, this was last year, legislators in Georgia threatened Delta. Marco Rubio threatened to cancel Sodexo's food service contract. These incidents underscore the urgency for the business community to take a united stand.

For investors, what does this mean? It's going to mean lower business growth, lower investment returns, and poorer retirement. It will also mean ESG is over. DEI, diversity, will go the same way as critical race theory. By the way, we've already started to see authoritarian groups file their version of ESG shareholder resolutions protecting [00:09:00] white workers.

that sort of thing. Um, workers across the board will be even more exploited than they have been over the last two, three decades. Um, under the William Lasnik downsize and distribute model, uh, economic inequality will go off the

charts, even compared to what we've seen in the last two or three decades. Um, also environmental action, um, will be shut down.

Um, the authoritarians cronies will stack the SEC, et cetera. It's. You know, and Ruth talked about that already. Something I highlighted in my January report is, you know, the bullying that we've seen of election administration officials across the country. We're going to see that, but instead, it will be the leaders of the public and the state pension funds, leaders of the investment management firms that will get the same treatment.

By the way, Paul Risman, um, I think published a couple of days ago on PI Online, um, an op ed about how that's already happening in Texas. We're going to see huge wealth expropriation of Main Street's, um, money skyrocket. Now I want to touch on this. We've seen immense wealth expropriation of Main Street, meaning regular [00:10:00] workers, um, their pensions and savings, under both the public equity and the private equity model over the last couple of decades.

I refer you to the work of John Kay, Stephen Davis, John McCormick, Bob Monks, uh, Jack Bogle, et cetera. This will skyrocket. because the authoritarians, kleptocrat cronies, will demand their cut and they will get it. Investment management firms, foundations, university endowments, pension funds will be targeted for a cut, whether it's via consulting fees, so to speak, uh, written down, artificially written down assets, etc, etc.

Corporate treasuries also will be drained. political donations, um, from treasuries will skyrocket. What I want to touch on really quickly next, um, is why do I think that U. S. capitalism is extremely susceptible to these risks? The question has often been asked in the last few years, uh, will American democracy survive authoritarianism?

But what hasn't been asked is will American capitalism survive kleptocracy? And I argue that it's probably even more vulnerable for at least three reasons. [00:11:00] Number one, American capitalism in the last three decades has been fundamentally value extracted, which is a rather convenient philosophical overlap, let's say, with kleptocracy.

Number two, the gatekeepers, regrettably, of Main Street's money have been, let's say, asleep, allowing this expropriation of Main Street's pensions, etc. Um, to happen, which is also rather ideal for the kleptocrats when they come along. Um, and the third thing very briefly is, um, Professor John Coates, um, his, uh, problem of 12, and I'll come to that in a second.

So in terms of extractive models, public equity, um, Charging gigantic fees, not delivering the service they promised, um, et cetera, et cetera. Lots has been written about, um, about that and the names I've mentioned. Private equity, um, even more so. I'm just going to quote the Amundi asset management CIO in Tuesday's FT.

And he said, basically with private equity and all this self dealing. It's a pyramid scheme. A lot has [00:12:00] been, uh, written in terms of the blank checks, using mainstream money, handed over to the private equity firms. Um, in my report in January, I've listed a lot of academic research around that. It's really important.

Um, workers have been funding corporations, um, is the argument that Bill Lasnik has used in terms of companies downsizing and distributing, squeezing workers to generate short term profits, um, et cetera, et cetera. Essentially, by the way, that model turns the fundamental model of capitalism on its head. Um, and numerous academics have long pointed that out, including Edmund Phelps, Michael Porter, clay Christensen, et al.

Um, so basically workers on mass for the last two, three decades have had their value creation exp prorated. This, of course, is part of the much criticized model of short-termism, financial engineering, financialization of the economy, but has been forced upon corporations. Um, and it's been written about a lot.

So I'm, I'm just. pointing people in that direction. So it's a really, um, the groundwork has been beautifully primed [00:13:00] already for this, uh, value extractive kleptocracy model that we're, uh, we, you know, it's in front of us. Bob Monks, Citizens Disunited, I strongly recommend reading his book. Here, within this leadership class of money, the great and good of investing, and he's talking about the leaders of the big investment management firms, but also the big state pension funds, the endowments, the foundations, et cetera.

Um, where are they? Where are the owners? Because it's not sufficient just to look at, you know, we really beat up corporations, but we don't do the obvious and say, what about the owners? Why, what, where are they? They're, they're a little silent and they do kind of have an obligation to step up here and show some leadership at this critical time in our history.

Those potentially. unwittingly or otherwise, will become the kleptocrats biggest enablers if they stay silent and hiding away. Um, they are the linchpins of our capitalism. They are the key centers of power. They will be among the first

doors who the authoritarian and his kleptocrat cronies [00:14:00] come knocking on.

Um, by the way, if you're a universal owner, it's really time to step up to your responsibility as a universal owner. Um, John Coates. Please look at his paper, the problem of 12. I'll just give you one quick quote, which is horrifying in the near future control of most US public corporations will soon be concentrated in the hands of a dozen or fewer people.

We're rapidly moving into a world in which the bulk of equity capital of large companies will be owned by a small number of institutions, and those institutions in turn are ultimately controlled by a small number of individuals, in other words, a small number of unelected. Agents operating largely behind closed doors are increasingly important to the lives of millions who barely know of the existence, much less the identity or inclinations, of those agents.

This is the dream system that kleptocrats to pervade and take over.

**Elizabeth Doty:** I've been surprised to see how often people like Scott Kalb, or the shareholder commons, [00:15:00] or I know Paul Rissman and others are speaking, and you as well. To these owners at this unexercised stewardship function and things as simple as the guardrails that they apply to what institutional investors can do, even their contracts with institutional investors over what time horizon and how they count success.

The two things I wanted to point out that I, that landed with me and what you're describing, there's a quote. In another really incredible report, um, by the World Business Council for Sustainable Development's Vision 2050 Refresh, about as mainstream as you can get, talking about how current forms of capitalism reward value extraction more than value creation.

And what you're describing is a reinforcing cycle, where that becomes vulnerable to political pressure, that leads to pressure on rules and laws that don't, that limit plunder. That makes it more and more concentrated as you're describing. So I hear both of you pointing to a reinforcing cycle [00:16:00] between the economy and the political system that expropriates and plunders what all of us depend on and that we participate in as owners, right?

As you're both saying, actually, can you bring in, um, any comments or questions you're hearing?

**Ruth Ben-Ghiat:** Actually, Julia has been sharing a lot of articles that were relevant to this conversation. So I was just wondering if maybe she would want to come onto the screen and speak to The one about like Peter Thiel and his investments.

**Julia:** Yeah, you know, gosh, this is all so relevant and I'm so glad to be having this conversation and hearing from you and what I was putting in the chat is just, you know, there is. A pushback right now. And there's a pushback, I think, to potentially there's an alignment with the clip talk, Chrissy and, and, uh, authoritarianism, and there seems to be just a natural pushback to kind of a anti regulation deregulation mindset, [00:17:00] so I don't want to assume the worst of intentions of all conservatives that just believe in small government as being pro capitalism.

And yet, you know, the pushback against, um, ESG and, um, woke capitalism and, and the, the way, um, that actually a lot of the kind of conservative, um, or even autocratic faction in the United States. States seems to be really anti

business

right now, and I think that

I'm just

curious about your reaction about the difference between kind of the small government, you know, the implementation of ESG and DEI isn't going as well, and there are some critiques that are valid versus the actual, um, linkages with the authoritarian threat.

Like how do we distinguish? It's

**Ruth Ben-Ghiat:** about the frame because what's unfortunately, [00:18:00] um, what's happened to the GOP, which is a big tragedy, uh, is that it's In my estimation from studying these things for a long time, it's become an extremist entity. There's not much room for conservatism anymore. So the kinds of positions that, that were perhaps principled or reasoned, that's not how they're reasoning anymore.

It's, it's, it's a kind of, there is no room for nuance anymore. And you see this in politics too. So this plunder mentality truly. Has taken over and the other thing that is the one of the biggest indications is that when you have authoritarian



political culture that takes over, which has happened in the GOP, there is no room for debate.

In fact, the, the Republican National Committee is now declining to engage in debate. for the presidential election [00:19:00] and anybody who doesn't share your point of view is demonized as a political enemy and that's been the genius of what the party has done and that's why in 2016 the solution to Hillary Clinton was quote lock her up that's an authoritarian thing so that so the kind of all of these Uh, economic and philosophical ideas about small government and and have been placed in an extremist frame.

And just the other thing I want to say is that unfortunately, this happens everywhere. The things that Katherine, um, went through. It's not just in Russia. It's also in Turkey, where, um, about 36 billion dollars. Has been plundered of assets have been seized by the government in Hungary. They were quieter about it, but 500 media companies, 500 media companies [00:20:00] voluntarily between quotes donated their assets into a government allied foundation.

These are kind of, um, processes that happen everywhere authoritarians come to power. And then the only other thing, Katherine was so complete, the only thing I would mention is, um, like Erdogan, there was just a New Yorker piece about Erdogan in Turkey, the drones they're building. That are being used the revolutionizing warfare.

Well, guess what buried in the article was the fact that they can't get anyone to build these drones because what do you have with authoritarianism, you have creative flight, you have capital flight, you have people going into exile. And I have, that's a sub theme of my book is every time you have authoritarianism you have people mass.

Mass numbers of the most talented people and business owners who don't want to be plundered, they have to leave the country. So you have a brain, a brain drain. Um, and, and, uh, [00:21:00] so these, these are just, it's huge problems and we're seeing them. They're going to start here too, and they are starting already.

**Elizabeth Doty:** Now, thank you very much, Ruth. It was really sobering to me to read from either one of you, a reference to the hostile takeovers in Russia, being from the most profitable businesses and those leaders being, uh, many of them forced to take people on their boards, forced to sell shares and being put in jail for ostensible Violations in the country, companies being run and extracted by, uh, those, those that took it over.

If this is the kind of conversation in the sense of what is most important or critical for business people to be thinking about right now, and all of us as, as participants in the financial system, please stay in touch with us. Please go to our website, sign up for future expert dialogues. In Yusuf Afdab, who is working on corporate political responsibility in the law.

And does this actually [00:22:00] violate fiduciary duty to do the things you all are talking about? And the, and the data we have actually from Chief Justice Strine and others that it does not. We have a resource list. And Katherine, I know we will be adding to it from your citations today and Ruth with your book.

And a blog post about indicators of authoritarianism as well from another professor that we've learned from. Sign up for news and updates and join us. If you're a company and want to work on how to unite with others to address these structural threats and risks, uh, together by agreeing on what defines corporate political responsibility and then putting it into practice.

Also, I highly encourage you to follow the work that both of our guests have been advancing and with deep respect for the dedication and effort and hours and heart that you all have brought to this. Professor Pagelid has her webpage, um, which has quotes and interviews and how often she's, um, speaking in the news to topical events with this larger perspective, as well as the book, which I think everyone now will see, uh, the need to read and recognize these patterns.

For [00:23:00] Katherine, this January report does an incredible summary of the things that she talked about today, and I think that's very important reading. I encourage you to sit down while you read it. It's very troubling. But as we've said, if we do not face the magnitude of the stakes, we won't take the right action, right?

We'll fall into blaming this group or that group. Thank you once again for all you've brought to this and to all of you for staying in and doing this work and committing yourselves.

**Ruth Ben-Ghiat:** Thank you, everybody. Bye for now.

**Katherine Venice:** Thank you all for joining us. It was lovely to be with you all.