ESG PART II: THE CASCADING IMPACTS OF ESG COMPLIANCE

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, ENERGY POLICY, AND REGULATORY AFFAIRS

AND THE

SUBCOMMITTEE ON HEALTHCARE AND FINANCIAL SERVICES

OF THE

COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

JUNE 6, 2023

Serial No. 118–40

Printed for the use of the Committee on Oversight and Accountability

Available on: *govinfo.gov*, *oversight.house.gov* or *docs.house.gov*

U.S. GOVERNMENT PUBLISHING OFFICE

52–574 PDF WASHINGTON : 2023

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C O N T E N T S

Witnesses

Opening statements and the prepared statements for the witnesses are available in the U.S. House of Representatives Repository at: docs.house.gov.

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* Article, *The Washington Post*, "Protecting Public Pension Investments"; submitted by Rep. Bush.

* Article, Texas Public Policy Foundation (TPPF), "Keep Politics Out of Texas Pensions"; submitted by Rep. Fallon.

* Report, Life:Powered, "Corporate Collusion: Liability Risks for the ESG Agenda"; submitted by Rep. Fallon.

* Report, Life:Powered, "Energy Discrimination: A Threat to Capitalism, Prosperity, & Flourishing"; submitted by Rep. Fallon.

* Analysis Chart; submitted by Rep. Raskin.

The documents listed above are available at: docs.house.gov.

ESG PART II: THE CASCADING IMPACTS OF ESG COMPLIANCE

Tuesday, June 6, 2023

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY
SUBCOMMITTEE ON ECONOMIC GROWTH, ENERGY POLICY, AND REGULATORY AFFAIRS
Washington, D.C.

The Subcommittees met, pursuant to notice, at 2:23 p.m., in room 2154 Rayburn House Office Building, Hon. Pat Fallon [Chairman of the Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs] presiding.

Present from the Committee on Oversight and Accountability [Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs]: Representatives Fallon, McClain, Edwards, Bush, Raskin, Brown, Stansbury, Norton, and Krishnamoorthi.

Present from Committee on Oversight and Accountability [Subcommittee on Health Care and Financial Services]: McClain, Grothman, Porter, Raskin, Balint, and Lee.

Also present: Representative LaTurner.

Mr. FALLON. This joint session of the Subcommittee on Economic Growth, Energy Policy and Regulatory Affairs and the Subcommittee on Health Care and Financial Services will come to order. We want to welcome everyone. Thank you for coming.

Without objection, the Chair may declare a recess at any time.

I recognize myself for the purpose of making an opening statement.

I ask unanimous consent for Representative LaTurner of Kansas to waive on to the Committee for the purposes of asking questions during this hearing.

Without objection, so ordered.

Today's hearing will examine what ESG—environmental, social, and governance—initiatives really mean for workers and consumers and how the decisions made in boardrooms and global climate conferences have real-world impacts here at home. What are social impacts of using ideological activism to change corporate behavior, to change and really shape it? And that is the question that, really a vital question we need to answer here today.

A few weeks ago, we heard from two very well-known and very well-respected state attorneys general about the dangers of what ESG policies mean when in the hands of activist asset managers. We know that asset managers control an estimated, and really astounding, $126 trillion, and that is with a "T," trillion dollars, in financial resources in almost 30 percent of all global financial assets. This type of power and influence extends far beyond what most people can really even conceive of, and just like they say, with great power comes great responsibility.

Millions of Americans across the country trust their investments will be used to make a profit and, hopefully, one that they can live on comfortably in retirement because what we are really after here when we are all investing long-term is financial security. But these days, it is not crazy for many Americans to wonder 'will I even be able to afford retirement?' This Administration has driven inflation through the roof. It is at a 40-year high and pushed the economy to the brink of a major recession, which we all pray will not happen, but it very well could in the next year.

Now, due to Democrats' ESG push, asset managers are prioritizing ESG goals over profit and risking Americans' hard-earned money. With ESG investing, businesses are now tasked with accounting not only for their own carbon footprints, but maybe the footprint of their contractors and suppliers, the race and gender of their corporate boards, instead of the merit and performance of those same corporate board members.

These are all factors that have come to be valued, and valued at least to activists and dominant asset managers, and woke corporate boardrooms as much, if not higher, than the actual returns that a business provides to their shareholders. To secure capital, the lifeblood of any business, companies large and small now must hire teams of lawyers and compliance consultants to comb through internal data and estimate exactly what their greenhouse gas emissions might or may be, or how many points they have scored with activist organizations for checking the right boxes on an ever-changing list of leftist social norms.

Somehow this financial gamble, one that is played with your money and your investments, is supposed to still maximize returns for pensions and 401(k)'s. In fact, the Biden Administration is placing political ESG priorities over American retirements. The Department of Labor Prudence and Loyalty Final Rule allows fiduciaries to consider climate change as well as other ESG factors when making investment decisions.

President Biden actually vetoed Congress' bipartisan resolution overturning this rule, financially risking the retirements of millions of Americans. This certainly sounds like the Biden Administration is sending mixed signals when it comes to American retirements and encouraging them, as we heard at the last hearing with the state AGs, to violate their fiduciary duties. Rules do not have a force, well, they should not have a force of law, and rules are below laws. That is what we are all here for. ESG is being utilized in an attempt to rewrite the fabric of America with, unfortunately, woke policies that deliver nothing but higher prices, fewer market choices, cultural oppression, not to mention jeopardizing returns on investments for retirees and regular Americans.

I thank the witnesses for appearing here today and for their willingness to testify on this important issue. And with that, I ask unanimous consent to submit three statements into the record: "Corporate Collusion" by Life:Powered, "Keeping Politics out of

Texas Pensions" by the Texas Public Policy Foundation, and "Energy Discrimination" by Life:Powered.

Without objection, so ordered.

Mr. FALLON. I now yield to Ranking Member Bush for her opening statement.

Ms. BUSH. Thank you, Mr. Chairman. St. Louis and I are here today because we understand the simple concept of cause and effect. We understand that when pharmaceutical giants, like Purdue Pharma, make their fortunes by getting people addicted to opioids, someone pays the price. We understand that when corporate governance failures lead to the collapse of banks and Fortune 500 companies alike, someone pays the price. We understand that when corporations recklessly pollute our communities or fail to consider how the climate crisis will harm people on the front lines, someone pays the price.

Who pays the price? Our constituents. More specifically, it is our constituents who live in Black and Brown communities, it is the children in my district who are suffering from some of the highest asthma rates in the country because corporate polluters put short-term profits over the needs of people. It is the families in East Palestine who paid the price when they had to flee their homes because railroad companies cut corner after corner, inevitably leading to adverse health outcomes and environmental ruin. It is our workers who entrust their livelihoods and their earnings with their employers, only to have those employers go bankrupt after years of mismanagement and self-dealing. It is our constituents who will pay the price with their retirement funds and investments if Republicans succeed in their attempts to restrict the public's access to data.

Environmental, social, and governance elements, commonly known as ESG factors, have material and defining benefits on companies' bottom lines. Companies that face and responsibly address this reality carry less risk, both for themselves and for society overall. Companies that deny this reality and pretend their actions do not have consequences are not only delusional, they are dangerous. ESG principles are designed to protect investors, workers, and retirees from the financial risks of bad business practices by responsibly considering all available data about potential investments.

Responsible investing depends on ESG data to facilitate prudent planning for long-term challenges. That is why Democrats are working to protect access to this data so that financial professionals and the public are free to make responsible and economically beneficial investment choices. For example, under the Biden-Harris Administration, the Department of Labor finalized a rule reversing a Trump-era regulation that prevented retirement plan fiduciaries from considering ESG data when seeking to maximize investment returns for plan participants. The Securities and Exchange Commission is also working on rulemakings to require publicly traded companies to disclose climate risk information and make ESG disclosures more standardized, more consistent, and more reliable.

The MAGA insurrectionist Republicans' political crusade against responsible investing is an attempt to manufacture a culture war and protect corporate special interests, all at the expense of taxpayers and their savings. For example, in 2021, Texas barred municipalities from contracting with banks that have ESG policies regarding fossil fuel and firearms companies. The move cost taxpayers an additional $300 million to $500 million in interest in the first eight months alone. The vast majority of the public, Democrats and Republicans alike, oppose government efforts to restrict responsible investing. They understand that investments have better returns when financial professionals are free to consider all data, including environmental, social, and governance risks and opportunities.

Over the past few months, the GOP has made it clear that they have no problem putting the public in harm's way for political gain and using the debt limit to take our economy hostage. They willingly risked the full faith and credit of the United States simply to push through politically unpopular policies that could not otherwise win the votes it needed. By attempting to prohibit responsible investing practices, they continue to risk the retirement security of hardworking people simply to protect corporate special interests that cannot attract investment on their own merits.

To reiterate the clear message of our previous hearing on this topic, transparency, and responsible management of environmental, social, and governance risks is the bare minimum we should expect of corporations, such as those that are headquartered in St. Louis, that bear a responsibility to the communities they touch and the people that invest in them. This access and freedom is just common sense, it is common decency, and smart business practice. Thank you, and I yield back.

Mr. FALLON. Thank you. I now yield to Chairwoman Lisa McClain of Health Care and Financial Services Subcommittee for her opening statement.

Mrs. MCCLAIN. Thank you. Before I was in Congress, I actually was a financial services professional. I actually understand fiduciary responsibility and fiduciary duty. I understand what it is like to run a business because I did not talk about it, I actually did it. I understand how important it is for those entrusted to manage the wealth of Americans across the country to protect that wealth and to work to grow that wealth for Americans. Yet today, that is simply not happening.

Money managers' unrestricted ability to pursue ESG pledges without their clients' knowledge is doing the opposite. And I always scratch my head, because I do agree with my colleague, we should have transparency, but if we are going to be transparent, let us really be transparent. What are we hiding? We should not need to hide anything, so let us be transparent. It is not their money manager's job, it is not their job to pursue political agendas. It is their job to actually manage the accounts for return on investment. It is their job to invest their clients' money by putting their clients first and focus on rates of return. Again, it is not their job to instill their political agenda under the cloak of darkness, right—we want to be transparent—without their clients' knowledge.

And again, I ask, what are we hiding? In fact, it is their fiduciary responsibility to do just that. Yet, we are seeing more and more instances of woke corporations importing European values over American values and hiding it, and they are not even telling their clients about the financial risks associated with adapting these values. I mean, we want to be transparent. Let us be transparent with the risks.

Even the so-called neutral, non-ESG investment funds are increasingly voting for ESG resolutions in some cases more so than ESG funds. And again, they are not telling their clients. Why? What are they hiding? Why is there a lack of transparency? Again, I have no idea what they are hiding. Well, it looks like they are hiding the ball because we all know that if the clients knew the truth, they would not approve. That is why they have to hide it.

The fact is that they are funding their woke agendas using Americans' hard-earned retirement savings without any accountability until now. I am for the freedom to invest your own money into the causes you, the client, actually believes in, but that is not what is happening here. Managers are investing your money in causes they believe in, and we are seeing real consequences for Americans' retirements.

Americans' retirement assets were down nearly 15 percent last year, 15 percent. This includes state pension funds. State pension funds supports teachers, librarians, firefighters, and other public sector employees. Some states, such as Texas and Kansas, are actually getting in front of this by advancing laws that restrict investments that consider non-financial factors. Remember, they are in the financial sector. They should be focusing on financial factors, like ESG for state pension funds.

Unfortunately, the Biden Administration recently issued a rule that makes the problem even worse. Now, plan fiduciaries that fall under the ERISA are empowered to consider ESG factors when selecting investments. Well, I am going to be sarcastic. "ESG," does that mean they can empower themselves to consider any agenda they want? What if it was a pro-life agenda? That would be horrible, right? We would be all up in arms about that, and we would want transparency, right? Well, what is good for the goose is good for the gander. The President vetoed a bipartisan congressional resolution actually overturning this rule. This is just one step in this Administration's job to push ESG into a more prominent role in a financial decision-making.

Today's hearing is a continuation of this Committee's broader efforts to shed light—to shed light—on the long-term impacts of ESG's agenda. We are delivering accountability and transparency. I thank the witnesses for being here, and we look forward to your testimony. And with that, I yield to the Chair.

Mr. FALLON. Thank you, and I now yield to Ranking Member Katie Porter from California for her opening statement.

Ms. PORTER. Capitalism means economic freedom. It means choices. Here in America, when I go to buy a car, I do not have to buy the cheapest car. I can buy a minivan that is comfortable for my family of four and provides plenty of storage. In our capitalist system, I am glad that I do not have anyone powerful telling me what I should like or what I should buy. If the product is safe for the marketplace, I can choose it.

I would like anyone here who thinks we should have less economic freedom to please raise their hand. Republican or Democrat, it seems like everyone is comfortable with letting consumers pick what they want, how they want from a marketplace of responsible goods and services. So why are Republicans worked up about investors choosing to invest in a company based in part on its performance on environmental, social, or governance data? Republicans want to force Americans to pick our investments based on dollars and cents alone. That would limit economic freedom.

Let us see if Republican limits on financial decision-making would give me more freedom if I use that same framework to buy a new car. I mentioned my minivan. Someday I need to trade one for a new one. I want one that is really fuel-efficient. I also want one that is not country blue because that is not cool. Let us say I go for the new car. I walk into a dealership in a state that has banned showing consumers any data or information other than financial info. Wow. To give me only the financial info, the dealers had to cover up all the cars. I see a sign that shows me things like price and expected depreciation, but I cannot see the color, the model, the fuel efficiency, whether it was made in America, because those are not directly related to its value. I am struggling to figure out how to find the environmentally friendly minivan that I want without any fuel efficiency information. I would struggle to find a truck that was made in America, paying the highest costs for good workers in my district, if they ban data on labor.

Republicans say none of those things should matter to me. According to them, the cost alone should guide me to what I value. So, I find a few covered up cars in my price range, and I buy one that depreciates the slowest because that is the only information that I have. I cross my fingers and I hope that I get the car that I value the most. I uncover the car to drive off the lot. I got a three-row SUV that guzzles gas that was made in China. It is a color that I hate. I stayed within my budget and got an economically sensible vehicle, but I got nowhere close to what I wanted.

Who thinks I have more freedom like that? Of course I do not. I am freer when I know all of the features of the car I am buying, including things like fuel efficiency and labor costs. Then I can choose what information matters to me, ignore the information that does not matter to me, and freely make a purchase. The same thing applies to investing. If I value investing in a company that prioritizes energy efficiency, I cannot make that free choice. If Republicans limit information on the company's environmental footprint, what kind of freedom is that for me as an investor?

Let us call this hearing what it is. It is an attack on economic freedom. Republicans apparently do not want investors to know if a hugely profitable company outsources to China, if they have a huge carbon footprint and are unprepared for climate change, or if they treat their workers horribly. It is a lot more comfortable for them to just cover up all that information so that they can get what they really want, big corporate profits at all costs, rather than what investors really want, which is more information about their investments.

The uncomfortable truth is that withholding ESG information from the market means denying investors the freedom to decide where they want their dollars to go. A couple of minutes ago, nobody said that they wanted to reduce economic freedom, so let us not be hypocrites. Let us not use this hearing to reduce economic freedom for investors. I yield back.

Mr. FALLON. I am pleased to welcome today's panel of witnesses. First, I would like to welcome Mandy Gunasekara—yes, did I get it right, all right—Director of Center for Energy and Conservation at the Independent Women's Forum. Our second witness today is Jason Isaac, an esteemed veteran of the Texas House of Representatives, who I served with for four years, I believe, together, the Director of Life:Power at the Texas Public Policy Foundation in Austin. And then our next witness is Stephen Moore, who currently serves as a distinguished fellow in economics at the Heritage Foundation. And our last witness is Dr. Shivaram Rajgopal—close, yes—who is the Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing at Columbia Business School. I welcome all of the witnesses here today, and I look forward to hearing your testimony on this issue.

Pursuant to Committee Rule 9(g), the witnesses will please stand and raise their right hands.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

[A chorus of ayes.]

Mr. FALLON. Thank you. Let the record show that the witnesses all answered in the affirmative.

We appreciate you all being here and, again, look forward to your testimony.

Let me remind the witnesses that we have read your written statements and they will be appearing in full in the hearing record. Please limit your oral testimony to five minutes. As a reminder, please press the little button on the microphone in front of you so that we can all hear you. And it will be green for four minutes, yellow for one minute, and then read, zip it, wrap it up, finish that sentence, and let us move on down the line, like a carrier landing, you know, hit the cables.

I recognize Mandy Gunasekara to please begin her opening statement.

STATEMENT OF MANDY GUNASEKARA
DIRECTOR
CENTER FOR ENERGY & CONSERVATION
INDEPENDENT WOMEN'S FORUM

Ms. GUNASEKARA. Thank you. Chairman Fallon, Chairwoman McClain, Ranking Member Bush and Ranking Member Porter, as well as Members of the Subcommittees, thank you for the opportunity to participate in today's hearing discussing the consequences of ESG. My name is Mandy Gunasekara, and I'm the director of the Independent Women's Forum Center on Energy and Conservation.

As American families continue to struggle under rampant inflation, increased energy costs, and an economy on the verge of recession, a subset of financial elites and their allegiance to environmental, social, and governance, or, rather, ESG investing, are making matters worse. While branded as an investment strategy for good, ESG manipulates markets as well as access to markets in order to advance a leftist political agenda.

The "E" standards result in higher cost to energy, unreliable electricity grids, and stand to undermine environmental progress. The "E" standards also enrich high-end asset managers at BlackRock, State Street, and Vanguard at the expense of retirees and pensioners as standards force companies to engage in controversial political issues, such as campaigns to defund the police or promoting gender transitions in children, cultivating division in the workplace and the marketplace. "G" standards give the appearance of diversity while restricting freedom of thought and competing viewpoints in the work force.

Now, ESG standards are purposefully complex and convoluted in the hopes that the everyday man and woman will not catch on. Well, I want to highlight four important perspectives and how they are impacted by ESG. First, the bill payer; second, the entrepreneur; third, the retiree; and fourth, the worker.

First, the bill payer. The most economically devastating policies of ESG fall under the E-rubric. The goal is to phaseout fossil fuel energy by 2050, despite the fact that over 80 percent of the energy we need to fuel our economy and modern way of life comes from oil and natural gas. ESG is also a contributing factor to high-cost gas, expensive electricity prices that hit low-income households the most, forcing some to choose between food or electricity. Additionally, 1 in 6 American families is currently behind on electricity bills. The cost for an average household has risen approximately $10,000 over the past two years, and these costs are squeezing the middle class, making it virtually impossible for low-income Americans to ever cross the middle-class threshold. In sum, ESG is a barrier to upward mobility.

Next, the entrepreneur. ESG does not just target oil and gas companies, which is bad enough, it is also used by progressive activists to defund and constrain the growth of other politically disfavored—that is, politically disfavored from the left—companies, including firearms manufacturers and animal agriculture. These misguided efforts create a range of perverse outcomes beyond lost jobs and economic growth to companies deemed bad by ESG standards. It makes the realization of the American Dream contingent on acquiescing to the demands of the woke left.

Next, there is the retirees and the pensioners. Asset managers at BlackRock, Vanguard, and State Street, which collectively manage over $21 trillion, including a large portion of U.S.-based retirement funds, subscribe to ESG. Numerous reports have found that ESG funds consistently perform worse than non-ESG funds, producing lower returns for the retirees and the pensioners that have been planning for them. And even though the retirees and the pensioners are losing out, the high-end financial advisors at these investment houses are making bank. They get paid their premium fees no matter what and essentially have nothing to lose.

Finally, the worker. Some analysts have found that oppressive governance policies that prioritize checking superficial boxes results in decreased viewpoint diversity. It forces employees to curb free speech and to stay silent on matters of which they fundamentally disagree. Also concerning are some companies will incorporate diversity language solely for marketing benefits, undermining actual progress in the workplace.

Now, by design, ESG has been developed to achieve leftist goals that have failed to gain traction in Congress and state legislatures and are increasingly being shut down by the courts. It is designed to circumvent the role of voters, to circumvent the democratic process, and to use the might of the financial sector to force Americans into accepting an agenda of which the majority disagree. As awareness of ESG increases so, too, does the opposition.

So, I thank the Subcommittee for the opportunity to testify today and your willingness to educate the public on what ESG is and its harmful downstream effects. I look forward to your questions.

Mr. FALLON. Thank you. I do not think this is your first time. You landed almost exactly at five minutes. Thank you very much. Very well done.

The Chair recognizes Mr. Jason Isaac for his five minutes.

STATEMENT OF THE HONORABLE JASON ISAAC DIRECTOR, LIFE:POWERED TEXAS PUBLIC POLICY FOUNDATION

Mr. ISAAC. Thank you, Mr. Chairman, Members. Again, I'm Jason Isaac. I'm the director of Life:Powered, a national initiative of the Texas Public Policy Foundation to raise America's energy IQ. And I live a high-carbon lifestyle, and I think the rest of the world should, too. It is truly where you have human flourishing.

Look back to 2019 and then candidate for President, the first-ever candidate on the face of the earth to run as a net-zero candidate, ran and was elected as president of Sri Lanka. In 2020, he began his efforts to decarbonize. At the time, Sri Lanka was a near-perfect ESG-rated country, 98 out of 100, one of the highest ESG-rated countries on the face of the earth. And he began to implement his ESG policies, which might be better known as everyone's suffering guaranteed, or what it does to energy and food, makes it expensive, scarce, and government-controlled.

But in 2020, he made his push toward net-zero and pushed it onto the people of Sri Lanka that were once prospering, that were actually exporting food and other commodities around the world, lifting them up to prosperity for the first time in their existence. He banned the use and importation of nitrogen-based fertilizers. That resulted in a 40-percent decrease in food production and 80-percent increase in cost. And today, 9 in 10 families in Sri Lanka are facing hunger every single day, making energy and food expensive, scarce, and government-controlled.

Now, in 2019, shortly after I joined the foundation, I was visiting with some energy producers, and they were telling me stories about how they were having trouble getting access to capital because they produce oil and gas, and I thought, no, this cannot be the case, not in America. We produce energy more responsibly than anywhere else on the face of the earth. Why would we want to shift production away from the United States into places that have lax environmental controls or human rights standards? Certainly, we would not want to do that.

But as I dove into this and started visiting with more and more energy producers that were being kneecapped, having their energy resources taken away from them, I thought, we need to write some policy in the state of Texas. And so, in 2020, I began writing and drafting a bill that ultimately became Senate Bill 13 that says, if you are going to boycott, divest, or sanction companies that produce energy in Texas, then you are no longer welcome to do business with the state of Texas, the 9th largest economy on the face of the earth. That legislation passed with overwhelming broad bipartisan support in both the Texas House and the Texas Senate. They took America first.

And today, there are 11 financial institutions that are on the boycott list in the state of Texas, one of them being the largest financial institution on the face of the earth, BlackRock, who does invest in fossil fuels, who does invest in oil and gas, but forces companies to sell assets much like Exxon. They replaced board members with activist board members that want to decarbonize a business that produces hydrocarbons. That is like de-fooding a restaurant. That does not work out too well for anyone, not the employees, not the consumers, not the owners, not the shareholders, no one, but yet they have done that. And Exxon sold assets in Southeast Asia where they were going to produce oil and gas, and I argue, again, they would probably produce that oil and gas more responsibly than anywhere else on the face of the earth, and who do they sell it to? PetroChina.

That is why I refer to the ESG agenda as the China ESG agenda. It does very little to help Americans. It does everything to help the Chinese Communist Party, and, again, making energy expensive, scarce and government controlled. And the numbers show that this ESG agenda, the China ESG agenda, has been extremely effective at cutting off capital for businesses here in the United States.

From 2015 to 2021, look at the chart that I provided in my written testimony. There has been an 81-percent reduction in the number of funds that provide private capital raised for oil and gas exploration in this country, a 94-percent reduction in dollars raised for oil and gas production. This is just making energy more expensive, not only here in the United States, but around the world.

Expensive energy hurts the poor. And today, this energy-driven inflation caused by ESG and other factors, demonization of hydrocarbons, is leading to an increasing number of Americans getting their utilities disconnected, as Mandy pointed out. Electricity disconnects have increased 30 percent. Natural gas cutoffs have soared 76 percent, and globally, 345 million people are on the brink of starvation. The China ESG agenda is not about emissions or pollutions. It is about control.

Thank you for the opportunity to testify. Look forward for your questions.

Mr. FALLON. Thank you. And now, the Chair recognizes Steven Moore for his opening statement.

STATEMENT OF STEPHEN MOORE DISTINGUISHED FELLOW IN ECONOMICS HERITAGE FOUNDATION

Mr. MOORE. Mr. Chairman, thank you so much for allowing me to testify. By the way, in conjunction with the truth-in-testimony, I do not take government money, and none of the organizations I work for take government money. I want to just make four or five quick points.

No. 1, ESG is surprisingly prevalent in the U.S. investment industry today. We just completed a study that has been widely covered in the Wall Street Journal and others that looked at the 40 largest investment firms in America, every company from BlackRock to Charles Schwab to Fidelity, Vanguard, and so on. And these firms have trillions, literally trillions, maybe even tens of trillions of dollars assets under their management.

And what we found was that of the thousands and thousands of shareholder resolutions, these companies are basically doing proxy voting based on their clients' money. And out of the thousands of proxy votes, we looked at what we consider to be the 50 most invasive and the 50 most harmful to the company. And by the way, all of these were opposed by the management of the companies. And what we found is that in most cases, these large fiduciaries were actually voting for these resolutions even though they were contrary to the interests of the shareholders. That is a big problem and it has to change. So, it is highly prevalent, and the majority of the companies are doing it. The name of that study, by the way, is called "Putting Politics Over Pensions," and it is ripping off America's savers and America's retirees.

The second point I want to make is that when fiduciary companies are voting for these ESG resolutions, they are violating their fiduciary because these are not in the interests of shareholders. And so, if you look at my testimony, I am not going to get into these studies now, but the predominant number of studies show that ESG investing underperforms the market. And by the way, this is not a controversial point. As the Congresswoman spoke about earlier—social investing has been around for 50 or 60 years. There are pro-life funds, there are anti-pro-life funds, there are pro-gun funds. There are funds for every single kind of cause. And by the way, I am very much in favor of people being able to make their own decisions about how they want to invest their money. If people want to invest in ESG, I have no problem with that whatsoever. I am talking about fiduciaries doing this without the knowledge of their clients.

And so, what we found is that the predominant numbers of studies show an underperformance, which means this is costing people retirement income. Now, this has to be the case, by the way, if ESG funds actually outperform the market, then everybody would invest in the ESG funds, right, because everybody wants to get the highest returns. And the reason that these kinds of funds underperform is very simple because they limit the number of companies that you can invest in, and that is why they underperform index funds.

The next point I wanted to make is just that ESG funds are really costly to the economy, and this is a point that you were making. And I'll just add one statistic to this, which is that if you look at what has happened to U.S. oil and gas production in the last two-and-a-half years, we peaked out at 13 million barrels a day under Trump. Today we are at somewhere between 11 and 12 million barrels a day even though the price is higher, so we should actually be producing more oil at a higher price than we would.

And so, we estimate—I did the study with Casey Mulligan, economist at University of Chicago—that we are probably producing, thanks to Biden's policies, two million less barrels a day of oil here in the United States at $70 to $80 a barrel. This is imposing about a $200 billion cost on the American economy. Think of that, $200 billion because we are not producing our energy here at home.

And then finally, I just wanted to make the final point that all of this is for nothing. The fact is, that if you look at the U.S. energy production, and this is a point that you made, it is not that we are producing less oil. The world is not consuming less oil. The world is consuming the same amount of oil. It is just that instead of producing it in Texas or Oklahoma or North Dakota or Alaska, we are really stupidly getting the oil from Saudi Arabia, from Russia, from Iran, Venezuela, and countries that hate us. That just does not make a lot of sense to me as a consumer. And so, we need to really realize that this is not reducing greenhouse gas emissions or pollutions because these countries have much worse environmental records than we do. So, all of this is for naught, and I hope that the Committee really starts to look at how we can solve this problem.

Mr. FALLON. Thank you, and now I recognize Dr. Shivaram Rajgopal for his five minutes.

STATEMENT OF SHIVARAM RAJGOPAL
ROY BERNARD KESTER AND T.W. BYRNES PROFESSOR OF ACCOUNTING AND AUDITING
COLUMBIA BUSINESS SCHOOL

Mr. RAJGOPAL. Thank you. Thank you to Subcommittee Chairs Fallon, McClain, Subcommittee Ranking Members Porter and Bush, as well as the other Members of the Committee for the opportunity to testify here today on a topic of utmost importance—how companies allocate resources, who are they accountable to, and how. So, it is an honor to be here.

My name is Shiva Rajgopal and I am the Kester and Byrnes Professor of Accounting and Auditing at Columbia Business School. To me, ESG is really about material factors that affect future cash-flows and the cost of capital of a firm. So, I think of "ESG" as a term that covers data that is not adequately disclosed by our financial reporting model and by our mandated disclosure rules.

So, let us consider a few examples to illustrate the argument. So, climate and extreme weather events already affect the cash-flows of insurers, travel companies, tourism companies such as cruise lines, agricultural firms, theme park operators, energy companies, transportation companies, to just name a few. Yet the current reporting rules in the U.S. require no systematic disclosure of the impact of such climate-related physical and transition risks on the affected firm's future cash-flows and cost of capital.

Now, turning to the "S" in the ESG related to workers and labor, it turns out that barely 15 percent of U.S. public companies even disclose compensation costs in aggregate paid to workers, and companies are required, as of now, just to disclose the number of full-time employees. We rarely see them talk about part-time employees, contractors, compensation paid to these workers, let alone important information about employee tenure, abnormal turnover, training, gender, age composition of the work force, and how much of these operations are outsourced or conducted via other contractors. And appreciation of the firm's work force would actually enable an investor to get a better sense for the corporate culture, the quality of human capital in the company, which has been shown to be robustly associated with several aspects of value creation of a firm, including productivity, ethical behavior, compliance, and innovation.

Now, let's talk about another "S," which relates to the taxes a company pays and the grants and subsidies that it gets, and the conditions associated with earning of these grants and subsidies, such as, say, the minimum number of jobs that a firm needs to create for such assistance. Corporate disclosures in this area are vague and sketchy at best. In fact, some of my research shows that the expected payoff to a dollar of lobbying for a firm far exceeds the expected payoff to, say, a dollar of R&D investment. Yet there is virtually no disclosure of the extent and the scope of lobbying activity that a firm undertakes.

And let us talk a little bit about the "G," or the corporate governance of a firm. To me, that describes the process of assessing what the CEO has done with the shareholder capital, natural capital, human capital, and the taxpayer resources entrusted to such a CEO by shareholders, society, workers, and taxpayers. However, as mentioned before, the data available to assess how well the CEO has delivered a return on these sources of capital is often missing or vague. Even CEO compensation disclosures do not fully reveal whether shareholders actually got the so-called pay-for-performance that a lot of proxy statements talk about.

So, to me, ESG, in essence, is a free market, organic, investor-driven movement to ask firms to disclose more information about their described factors associated with their future cash-flows or cost of capital. In fact, I would argue investors would be derelict of their fiduciary responsibility to their stakeholders if they did not consider the material factors while making that investment decision. Prohibiting consideration of material ESG factors simply interferes with the provision of data to make asset prices efficient such that markets can price these risks and returns. In fact, there is evidence to suggest that substantial losses will be incurred by the constituents of states such as Texas, where legislation that infringes on the public pension's freedom to invest have been passed in recent months.

In closing, I want to reiterate that investors and asset managers cannot afford to ignore material financial risks posed by overlooking material ESG data that is relevant to understanding a firm's future cash-flows and risks of stocks, bonds, and other assets. So, thank you again for listening to my testimony, and I look forward to your questions.

Mr. FALLON. Thank you very much to all the witnesses. I now recognize myself for five minutes of questions.

Mr. Moore, when it comes to managing retirements and investing, do investors, money managers legally owe a fiduciary duty to their clients under Federal law?

Mr. MOORE. So, this is a really important point, and I just want to make sure that we are not talking past each other. ESG funds are fine. If people want to invest their money in ESG funds, Congresswoman, I could not have said it better than you did. I mean, it is a free country, certainly if investors want to.

What I am talking about in my testimony is companies like BlackRock and State Street voting on these resolutions without the knowledge of the clients and without their approval. That is a big problem. And that is where the fiduciary duty problem arises because they are lowering the return that these companies, you know, they have in their retirement fund or whatever it might be, so that, I think, is the heart of the matter.

One other just quick thing. When it comes to risk, of course there is risk with climate change, but you know what? There is a risk of running out of energy, right? I mean, look at what has happened in California where you have brownouts or blackouts. That risk, you could make the case, is five times greater than the risk of what the planet's temperature is going to be 100 years from now. So, we have to balance these risks in a way that I think is best for the economy and best for the investor.

Mr. FALLON. So, what you are saying is if the person that is investing has knowledge that the investment firm that they are entrusting their money with, knows about the fact that they are using an ESG score, that is not limiting anybody's economic freedom, right? But they have to know, and if you do not know, it is limiting your freedom.

Mr. MOORE. And that is, frankly, why we did the study we did because people do not know and now they do know. And so, if you look at our testimony, you can see the companies that were the worst in terms of protecting fiduciary duty were companies like BlackRock, companies like State Street, companies like UBS, and the best were companies like Vanguard, and Dimensional, and Fidelity.

Mr. FALLON. Yes. Ms. Gunasekara, my understanding is you were the Chief of Staff for the EPA?

Ms. GUNASEKARA. Yes.

Mr. FALLON. All right. In your opinion, when it comes to advancing environmental goals, can we justify the green-at-all-cost approach that permeates not just the Federal Government, but now our financial systems that threaten to wipe out the use of our most, really, reliable energy sources?

Ms. GUNASEKARA. No, not at all. We in this country, when the government essentially gets out of the way and lets U.S. oil and gas workers do what they do best, we know how to cultivate, refine, transport and deliver energy resources in the cleanest, most efficient manner compared to any country out there. So, suppressing the type of energy that we actually need to live the lifestyles that we have become accustomed to, which, as Jason pointed out, has lent itself to massive human flourishing, when we suppress those energy resources, that demand does not go away, it is just transported typically overseas to places like China or India, and Russia, that do not ascribe to the same level of environmental standards that we do in this country, which ultimately undermines environmental progress that we have made over the past few decades.

Mr. FALLON. Mr. Rajgopal, do you think that ESG scoring is consistent?

Mr. RAJGOPAL. Say again?

Mr. FALLON. Do you think the ESG scoring, the agencies are consistent?

Mr. RAJGOPAL. So, you know, one has to, I think distinguish——

Mr. FALLON. Button.

Mr. RAJGOPAL. Sorry.

Mr. FALLON. I am going to give myself 10 more seconds. Go ahead.

Mr. MOORE. Is the red light on, 15 more seconds.

Mr. RAJGOPAL. So, one has to distinguish, I think.

Mr. MOORE. You have to move your—up, mic.

Mr. RAJGOPAL. Oh, sorry.

Mr. FALLON. A little closer. There you go.

Mr. RAJGOPAL. Thank you. Thank you. So, one has to distinguish the idea with ESG the practice. So, you are right, the practice of ESG, which is I think what you are alluding to, the rating agencies, you know, that is a work in progress for sure.

Mr. FALLON. OK. Yes, because when you look at, like, traditional competing rating agencies, like Fitch, and S&P, and Moody's, they reach a similar credit evaluation 99 percent of the time. But when you look at the large ESGs, they are only—come up with the same correlative ratings 54 percent of the time. So, that leaves a lot to be desired, particularly when you are talking about billions if not trillions of dollars at stake.

Work-in-progress scares me, and there is a hell of a lot more risk in work-in-progress than it would be when you have professional agencies that come up with the same conclusion over and over again. And we are talking about folks' money and economic freedom and economic security that is of vital import.

Sorry. I have one more. I am going to yield myself that 20 seconds from the microphone deal. One quick question. Mr. Isaac, you focused much of your work at Life:Powered on telling our Nation's energy story, and part of that story is the impact that policy has on consumers. What should Congress be most worried about when we think about ESG and the future of American energy? And if you can do that in 30 seconds or less. Thanks.

Mr. ISAAC. Yes. I think energy independence is probably the most important thing as we continue to see this demonization not only from financial institutions and politicians alike. These anti-American energy policies are crushing the least among us. As I mentioned in my testimony, we are seeing increased number of disconnects from utilities, something that 1 in 6 Americans are experiencing over the last 12 months, and I think that is what policymakers need to focus on. And ESG is just this discrimination against American energy producers, the most responsible producers on the face of the earth.

Mr. FALLON. Thank you very much for being quick. I appreciate that, and I want to yield to Ranking Member Bush for her five minutes.

Ms. BUSH. Thank you, Chairman. St. Louis and I are here today because my colleagues across the aisle have convened another hearing to demonize ESG. While Republicans called this hearing under the pretense the Biden Administration is risking hard-working people's retirement funds, research proves that the consideration of ESG metrics is beneficial to workers who invest their earnings. We know ESG is demonstrably a more effective investment strategy for the average worker. Dr. Rajgopal, why do you think it is important for ESG metrics to be publicly available?

Mr. RAJGOPAL. So, as I said in my opening remarks——

Ms. BUSH. Pull it a little closer to you, the mic. Straighten it out a little.

Mr. RAJGOPAL. At some point, I will get this right. So, as I said in my opening remarks, the current reporting disclosure model is, in my mind, woefully inadequate. You know, it goes back to the earlier conversation about just showing the price of a car as opposed to the holistic idea of where the car is made, you know, the energy efficiency, et cetera. The idea is that these ESG metrics are related to future cash-flows, not necessarily current ones. So, think of these as leading indicators of what is to come in the future.

And, you know, going back to the earlier conversation about the credit rating agencies and so on, the credit rating agencies have a far easier problem to forecast. Will the company not pay interest or will it probably stop paying principal? The ESG conversation on the other hand, you know, is a deeply idiosyncratic, complicated exercise where you have to look at a mosaic of factors for the 4,500 stocks out there. That is why you do not get the convergence that was referred to earlier. And more data, you need a more robust conversation about these idiosyncratic factors that help raters, investors, institutions, whoever, the free market, to just do its thing and figure out what that might mean for future cash-flows and risks. So that is why I think we need to have these things public.

Ms. BUSH. Thank you. Let me also ask you, Dr. Rajgopal, the "S" in ESG stands for social factors. How does the availability of ESG data impact workers across industries?

Mr. RAJGOPAL. So, one aspect, an important aspect, as you rightly mentioned, is worker data. And again, as I mentioned in my testimony, barely 15 percent of U.S. public companies even tell you their compensation costs, let alone all the other stuff that we are discussing in terms of, say, turnover, training, you know, gender composition, age composition, what portion of the work force is part time versus full time versus subcontracted.

So, all this, as an investor, one would care about this, as I mentioned before, because this tells you about the quality of human capital that the firm has. And I think there is no dispute that there is a strong association with the quality of human capital you have and your outcomes, such as productivity, innovation, et cetera, which again affect future cash-flows of the company.

So, you know, worker groups, whoever makes investments would simply be better off with this data. Right now, it is opaque, sketchy, you know. I would say almost non-existent.

Ms. BUSH. Yes. Thank you for those insights. Corporate transparency is a priority. We know that adherence to ESG principles protects workers and protects our communities.

I ask unanimous consent to enter a Washington Post op-ed by David Webber on "Protecting Public Pension Investments." Mr. Chairman?

Mr. FALLON. Without objection, so ordered.

Ms. BUSH. In the op-ed, Mr. Webber tells the story of state workers who suffered financial harm when their pension funds were invested in private sector companies that the state later hired to take over the very agencies where these employees worked. These workers lost their stable state jobs, earning a decent wage and benefits when these private sector companies took over. In some cases, the private companies then rehired the workers at lower wages with fewer benefits.

This type of anti-worker privatization has negatively affected teachers, school bus drivers, janitors, firefighters, and more. My colleagues across the aisle might call these anti-worker policies good business because these companies showed a positive short-term return on pension investments, but good business, it should not come at the cost of hardworking families in the long run.

So, Dr. Rajgopal, would you agree workers are undermined when their hard-earned money is invested in companies that then turn around and take away their jobs?

Mr. RAJGOPAL. You know, I again say I am just pushing for more data and more disclosures. It is up to them to take informed decisions, whether it is investing decisions or whether they want to continue working for the firm.

Ms. BUSH. Again and again, Republicans value only the corporate bottom line and short-term profits. I am proud to support workers by protecting their jobs and their retirement. Thank you, and I yield back.

Chairman FALLON. I now recognize Chairwoman Lisa McClain of the Health Care and Financial Services Subcommittee for her five minutes of questions.

Mrs. MCCLAIN. Thank you. Just to be clear, Republicans are not demonizing ESG. It is a free country. If you want to invest in ESG, invest in ESG. I do think we are talking about being honest and transparent. I think that is really the gist of this hearing.

So, I would like to start with you, Mr. Isaac. In your written testimony, you tell a story about how a Credit Suisse pressured a client to make a positive public statement about the Paris Climate Accord in return for facilitating their transaction. Is that correct?

Mr. ISAAC. Yes. I have got a copy of the actual text from the email here that Credit Suisse First Boston was enticing, coercing, forcing this business entrepreneur that if they wanted to do a business transaction, if they wanted to fund another business to create more opportunities to create more jobs, that they were concerned about his social media and that he needed to tweet some things. And I was most concerned with their alignment with Paris. This body, the U.S. Congress, has not ratified the Paris Treaty. It is not the law of the land here in the United States, but to force an American entrepreneur to admit that his company will comply with that is just mind blowing to me, but they put it in writing in order to complete a transaction.

Mrs. MCCLAIN. So, who is "they?" Do we have names that——

Mr. ISAAC. This is the Global Energy and Transition.

Mrs. MCCLAIN. But is this a person? I am looking for, like, Susie Smith? Do we have a name associated with this, because this is amazing to me.

Mr. ISAAC. Yes, it is the Credit Suisse First Boston, I would imagine now, former, because of their collapse that they experienced, and I do not have a name. It is the chairman of Global Energy and Transition.

Mrs. MCCLAIN. I mean, that is pretty aggressive to me.

Mr. ISAAC. Yes. And to list four bullet points of things for this entrepreneur to tweet.

Mrs. MCCLAIN. I mean, could you imagine if this was some other function other than ESG, we would be going wild right now?

Mr. ISAAC. Absolutely. It is bend the knee——

Mrs. MCCLAIN. Yes. Again, I am not really sure that that is the fund manager's job, but at any rate, I would like to ask another question. Who exactly enforces ESG compliance at these companies?

Mr. ISAAC. That is arbitrary. There are multiple different companies that do ESG ratings, and as you and Chairman Fallon have alluded to, the ratings vary by company. You will see Chevron with an A rating from one company, a C, and then an F from another.

Mrs. MCCLAIN. Perhaps, do you think it has something to do with maybe coercions if they tweet positively or negatively?

Mr. ISAAC. Absolutely. Yes. The climate cartel is at full work, and that is why companies like FTX had no board. They did not have a governing board, but had a higher ESG rating than ExxonMobil, where we know the story——

Mrs. MCCLAIN. Interesting. Do not let the facts get in the way of a good story. Are these ESG compliance officers, so to speak, is it an internal to the company, or are there outside groups that they are coordinating with?

Mr. ISAAC. You look at companies like ISS, the Investor Shareholder Services, and Glass Lewis, these are the duopoly of proxy voting firms that control over 90 percent of the market, have become major ESG promoters. So, these are the companies that are actually voting the shares for the largest institutional investors, which 19 of the largest 20 institutional investors are public pensions, and ISS and Glass Lewis are voting their shares and aligning with their personal ESG political agenda.

Mrs. MCCLAIN. OK. I am going to switch gears for one moment because I want to piggyback and stick with the facts because, again, return on investment is supposed to be factual. There is risk mitigators in there, right? It is not an idea or ideology. One of my colleagues earlier said that ESG is a more efficient investment strategy. Mr. Moore, would you like to comment on that? Because I would think it is the opposite. In fact, the data that I show is ESG is not a more efficient strategy. Do you have any comments on that?

Mr. MOORE. There are scores of studies. Look, there are studies on both sides. But the predominant number of studies show that ESG investing, just like any social investing technique, reduces return because you are just limiting the number of companies you can invest in. And so let me just give you one little example.

Mrs. MCCLAIN. Please.

Mr. MOORE. What do you think was the top returning industry of the Fortune 500 last year? Oil and gas. Guess what the ESG companies did? They divested in oil and gas as their stocks went way up. Now, oil and gas is not doing so well this year, I mean, so you can always cherry pick the data, but over time, these social investment ESG policies reduce returns to the shareholders. Look, you know, I cannot tell you how many people I have heard from since we did our study saying, you know, look, this is my retirement money. You know, I have worked my whole life to, you know, maybe buy a home in Florida or Arizona when I retire, and this is costing me thousands of dollars. And so, people are upset about it, and they are upset that they did not even know about it.

Mrs. MCCLAIN. And therein lies the problem: just be honest. And I am going to say it again, if you want to invest in ESG companies, by all means, you have every right to do so, but let us just be honest and transparent. Thank you.

Mr. FALLON. OK. The Chair recognizes Ms. Brown from Ohio.

Ms. BROWN. Thank you, Mr. Chairman. Once again, we sit here in this hearing room wasting our time, our constituents' time, and the Nation's time discussing a Republican-manufactured crisis. Our last hearing in this Subcommittee was focused on the Republican narrative of gaslighting people about a ban on gas stoves. And here we are, again, now discussing a real Republican attempt to ban information and the freedom to choose how to invest your savings. As I said during our last hearing on environmental, social, and governance investing, ESG is a critical tool that businesses use to make financially smart investments. This type of investing emphasizes corporate models that are both financially smart and socially good, which is truly a win-win.

Investment companies and asset managers developed ESG factors for responsible investing to attract financial backers and better assess long-term risk from challenges like climate change. ESG is not a liberal conspiracy. It is common sense, which apparently is not so common these days. Nevertheless, Dr. Rajgopal, why do investors and asset managers want to consider ESG factors?

Mr. RAJGOPAL. So, your question is how do they consider it? How do they consider it? Is that——

Ms. BROWN. And why.

Mr. RAJGOPAL. Yes, and why. So, let us kind of go back to the fiduciary discussion that we had. As a fiduciary, if there is a robust body of signs that raises potential risks, let us say climate as an example, at the very least, I think it is your responsibility to look at those things. You might decide what you want to, but at least you have to look at them. It would be the first premise.

And second, lots of comments have been made about how ESG funds underperform and so on. You want to look at specific aspects of the "E" and the "S" and the "G." That is where the action is. It is not running regressions of ratings, et cetera, on returns. So, if you want to look at "S," quality of the work force. If you want to look at "G," are CEOs overpaid? What is the composition of the board? How many insiders do you have? When was the board appointed? If you want to look at specific aspects of "E," we can talk about physical and transition risks. So that, to me, is the way to think about the investments you have, and look at the mosaic of factors. To me, it is no different from, say, accounting risk.

One of the issues that is often not considered carefully in this ESG, it does not correlate to performance debate, is that ESG is a lot about tail risk. What does tail risk mean? To me, it is like accounting fraud. Maybe 5 percent of your portfolio companies probably have some probability of going through an accounting fraud, but if they do, it is going to wipe out the principal and that principal is going to wipe off years of returns. So, think of ESG as a way to think about the tail risk associated with future cash-flows of the stocks that you hold if you are a fiduciary. So hopefully, that gives you some granularity in——

Ms. BROWN. That is helpful. So yes or no, do you think the use of ESG data is politically motivated?

Mr. RAJGOPAL. It can be, but it need not be.

Ms. BROWN. Yes or no, would you say that the banning of ESG data is politically motivated?

Mr. RAJGOPAL. I think it is regrettable. We should just let the free market decide what it wants to. Markets cannot be efficient if you stop access to data.

Ms. BROWN. Thank you. Well, unfortunately, my colleagues on the other side of the aisle throw out their support of free market principles when it does not fit their narrative. Apparently, recent abortion and book bans have not satisfied Republicans, so now they are moving to ban basic logic and data and interfering in the private market. It is truly disheartening to see my colleagues do everything they can to drag even the most commonplace issues into their manufactured culture wars. So let me close by saying this. Transparency, information access, facts, and truth are not conspiracies or a political agenda, and with that, I yield back.

Mr. FALLON. The Chair recognizes Mr. Grothman from Wisconsin.

Mr. GROTHMAN. Yes. We are focusing here on funds, but obviously the funds are made up of many individual businesses, right? And I wonder if there is a data base or a place where I could look up the ESG scores on, say, any publicly traded company. Is that a public thing, or do the scores vary by mutual fund by mutual fund?

Mr. ISAAC. Yes, there are. The scores are going to vary, but I know Schwab has a tool that shows ESG ratings. We had a piece published within the Texas Public Policy Foundation that showed that an American business that owns minerals—that is all they own is minerals in the United States—actually had a lower ESG rating than three Chinese companies, one of which has "coal" in the name. The China Coal Energy Company has a higher ESG rating than an American——

Mr. GROTHMAN. Why is that?

Mr. ISAAC. It is just because I believe it is political in nature. And I would imagine this Chinese communist-controlled company has probably signed on and said that they are going to meet the terms of the Paris Accord while they have their fingers crossed behind their back.

Mr. GROTHMAN. OK. I see guns is one of the things. Does that include retail or just manufacturing of guns?

Mr. ISAAC. Manufacturing and retail, you have got both of those that are being targeted by financial institutions that are denying access to capital and insurance.

Mr. GROTHMAN. So, in other words, there are individual retailers out there who get a higher ESG score if they do not sell guns?

Mr. ISAAC. Correct, and then they are losing access to credit card processing. There are companies out there that will not allow credit card transactions to take place at retail gun stores.

Mr. GROTHMAN. OK. Well, that is an interesting thing. It looks like there is a lot of diversity. I take that that diversity means employees' diversity by race, presumably diversity by gender, diversity by sexual preference. Is that so?

Mr. ISAAC. I would say that leans heavily into the "S" in the ESG. Yes, and DEI is a close cousin of ESG, if not directly related.

Mr. GROTHMAN. OK. So, a company that gets a higher score is more likely to discriminate against, I do not know, discriminate against certain ethnic groups, I will put it that way.

Mr. ISAAC. Yes, and basically to have policies that they are going to employ people not based on merit.

Mr. GROTHMAN. OK. Is there any reason why these companies are not publicized? They think they make themselves more popular. I mean, I would like to know if companies are hiring or promoting not based on merit. Is that something that anybody is making an effort of getting out there?

Mr. ISAAC. I cannot recall. It seems like there are a couple of companies out there. Maybe 2ndVote Advisers is one that is doing a list. And I know there is some other lists. I will be happy to followup with some information on that.

Mr. GROTHMAN. OK. And I know some of the things in the notes here imply that some of these policies will and may be popular with the fringe element in our society, maybe popular with wealthy people who do not have to worry about what their rate of return is, that overall, a lot of these policies that the companies have to implement are unpopular with the American public. Is that true?

Mr. ISAAC. Absolutely. Yes.

Mr. GROTHMAN. Could you rattle off a couple of examples?

Mr. ISAAC. Well, I mentioned in my opening remarks about the president of Sri Lanka. When he fled his country, he was a wealthy individual and was able to take a government plane, and where did he take it? He took it to Singapore, a place with the second highest per capita CO2 emissions on the face of the earth. But here he is pushing in, he is wealthy, he has got access to military equipment, he can go wherever he wants to go. He didn't go to Malawi, which is at net zero. They were suffering a cholera outbreak at the time. He went to one of the wealthiest countries with high CO2 emissions, that has no goal and will never meet CO2 or net zero CO2. You have got other people, Al Gore, John Kerry, and others, that fly around in private jets and profess——

Mr. GROTHMAN. Well, he is just a hypocrite. We all know that, the millionaire, the limousine liberal. I mean, I hope people are familiar with that ilk. I guess the question that I am looking for here, though, are there any large companies where you could go through and say that you are hiring not based on merit, you are rewarding a company that won't sell guns, we, on energy front, we are rewarding people who harm American energy? Is there a place where these companies are easily accessible, and we could publicize them?

Mr. ISAAC. I know there are some public records of that, and I'll just have to followup with the specific lists and locations of that list.

Mr. GROTHMAN. And one other thing, with regard to discrimination, with pride, discrimination on the basis of race, which is all illegal, have these companies who pride themselves on this discrimination, do they ever open themselves up to lawsuits, or is this something the Department of Justice or EEOC ought to be looking at?

Mr. ISAAC. Yes, I believe that the New York City pension fund is under lawsuit from some of its pensioners because of poor performance, and you——

Mr. GROTHMAN. No, not poor performance. I am saying the company that gets the high ESG score, if they are getting a higher ESG score because they pride themselves on discriminating against White people.

Mr. FALLON. Sorry. The gentleman's time is expired.

Mr. GROTHMAN. OK.

Mr. FALLON. The Chair recognizes Ms. Porter from California.

Ms. PORTER. Dr. Rajgopal, first, can you straighten your microphone out? Let me just be very clear. Bend it like this so it is dead straight toward your mouth. Thank you.

As far as I can tell, and I am really on the struggle bus here, what Republicans seem to want is they do not want companies or investment managers to use ESG. Why?

Mr. RAJGOPAL. Ask them. I do not know. I would imagine, as I said earlier, if there are signals that inform your view of future cash-flows and risks, as a fiduciary, you would actually fail in your responsibility if you did not look at those signals.

Ms. PORTER. Right. So, I mean, investment managers have fiduciary duties to make good investments. If they find ESG useful, then they find ESG useful, and if you disagree with them and you think they are mismanaging your money, sue them. What am I missing here?

Mr. RAJGOPAL. Or shed the stock, you do not even have to sue them, right? I mean, if you have a view that, just shed the stock, make money, you can be an activist, right? That is how capital markets work, and that is where the discipline comes from.

Ms. PORTER. Right. So, I mean, I am really struggling here to understand what Republicans want to have happen. From your understanding here, it seems like what they want is they want companies to do things that they like. I, too, by the way, would like companies to do things that I like, and I sometimes choose to invest in companies whose practices I like more. But Ms. McClain, my colleague on the other side of the aisle, is saying that if companies want to use ESG, they should be free to do it. Did you hear her say that?

Mr. RAJGOPAL. I thought so, yes.

Ms. PORTER. Then what is the point of this hearing? I, too, I am with Mrs. McClain. I think companies should be free to decide for themselves whether ESG practices are beneficial to their bottom line and their business model and help them attract customers or do not. I, too, think that asset managers should be free to decide that ESG data helps them make good valuation decisions and good investment decisions, and if they do not, they should be able to ignore it. I cannot believe this is part two when part one was actually the stupidest hearing I have ever been to, and now we are having a part two. Please, God, let there not be a part three.

Dr. Rajgopal, is it better for pension fund managers to have more options for investing people's retirement savings, or is it better if they have fewer options?

Mr. RAJGOPAL. More, obviously.

Ms. PORTER. What is the pension fund manager's primary responsibility?

Mr. RAJGOPAL. To make sure that they can deliver a return commensurate with the pension benefits that have actually been promised to their workers.

Ms. PORTER. Great. Will limiting pension fund managers' investment options increase retirement savings?

Mr. RAJGOPAL. Not that I can think of.

Ms. PORTER. And by the way, you are not just thinking about it. The Kansas Division of Budget did a study. They found that limiting pension fund managers' investment options would cost the retirement system $3.6 billion in reduced returns over 10 years. When we cutoff companies and asset managers from choices, investors lose money. We are sacrificing the freedom to invest, and we are all poorer. We are poorer because we have fewer choices, and we are literally poorer because we have lower returns.

In 2021, the Texas state government passed a law prohibiting municipalities from signing loans with banks that they believe boycott fossil fuel companies, I believe, also guns. Is it better for municipalities to have more options for loans or fewer options for loans?

Mr. RAJGOPAL. It is a simple supply demand kind of issue. If you cutoff a few suppliers of a product or service and if demand stays constant, the price of their good or service goes up.

Ms. PORTER. Thank you. I yield back. I literally am out of ideas here, Mr. Fallon. I appreciate the extra time.

Mr. FALLON. The Chair recognizes Ms. Norton from Washington, DC.

Ms. NORTON. Thank you, Mr. Chairman. This hearing highlights the partisan divide over what information investors should have access to when making financial investments. I think we all understand that. My Democratic colleagues and I believe that investors should be free to make their own choices using available data. We think workers seeking to invest in their futures should have the information they need to make evidence-based decisions.

My Republican colleagues want to restrict investors to certain types of investments that show short-term profitability by withholding data on the long-term financial sustainability of a company. The issue at stake today is whether individuals and families will have the freedom to invest responsibly by considering all relevant factors in making investment decisions, including environmental, social, and governance principles. Mr. Rajgopal, how does considering ESG offer more choices to investors?

Mr. RAJGOPAL. So, if you were to just go by what an income statement or a balance sheet or the footnotes of a financial statement tell you, you would perhaps not have a full appreciation for all the risk factors related to the future sales, future costs, and future earnings of a company. So that is what ESG gives you.

Ms. NORTON. Well, Mr. Rajgopal, would you agree that restricting the consideration of ESG data also restricts the ability of investors to make choices?

Mr. RAJGOPAL. I fully agree.

Ms. NORTON. During the last ESG hearing, Illinois Treasurer, Michael Frederick, made a compelling case that short-term profit should not necessarily be the principal factor for making investment decisions. For example, Purdue Pharma's financial returns showed a very profitable company earning billions of dollars. Purdue, however, eventually went bankrupt because they made those profits by manufacturing an opioid epidemic resulting in numerous lawsuits and contributing to hundreds of thousands of deaths across this Nation. The inherent risk in a company that sells a product that kills a considerable percentage of its consumers through drug overdoses seems like a very relevant factor to consider for making investments. If Republicans had their way, investors would not be able to consider such risks.

So, Mr. Rajgopal, when Purdue Pharma filed for bankruptcy, how did that affect its investors?

Mr. RAJGOPAL. They lost all their money. They lost their principal.

Ms. NORTON. That is clear and simple. Mr. Rajgopal, should asset managers have been able to choose whether to consider the inherent risks associated with investing in Purdue because of the opioid epidemic?

Mr. RAJGOPAL. Absolutely. I mean, any good analyst should have asked these questions, yes.

Ms. NORTON. Well, Democrats are for transparency and against limiting what data families and investors can consider in investment decisions. I yield back the balance of my time.

Mr. FALLON. The Chair recognized, Ms. Stansbury—oh, there she is, perfect timing—from New Mexico for her five minutes.

Ms. STANSBURY. Thank you, Mr. Chairman, and I want to say thank you to all of our witnesses for being here today. I am delighted to have a second opportunity today to talk about sustainable investing. But I do have to say that I am a little perplexed about why we are having exactly the same hearing that we had just four weeks ago. And I think what is particularly strange to me about this hearing is that we already established a few weeks ago that the topic that we are here to discuss today and the attacks on ESG investing are wildly out of step with the American people, with American corporations, with the market, and with our basic freedoms as Americans.

You know, I think it is clear to say that, and I think we have heard today in the rhetoric, that this is yet another crusade and the culture wars against American freedom, but, you know, quite strangely against the market itself. And what I find particularly strange about this conversation is that over 63 percent of American voters actually directly oppose any kind of government interference in investing strategies, and the vast majority of Republicans oppose it as well.

And, you know, when you look at the bigger picture, when you look at what the American people are actually asking Congress to do, asking businesses in the private sector to do, almost 70 percent of Americans are in support of actions to address climate change, to transition to a clean energy economy. And for our younger Americans, for young people, they are two-and-a-half times more likely than older generations to say this is their No. 1 issue. So, why are we having a second hearing on this topic when we have already established that it really has nothing to do with anything that the American people want us to be working on?

But I think it is a good opportunity to talk about the things that we do care about, which is climate action. That is what the American people are asking us to do. And in fact, that is what Democrats did this last year when we passed the Inflation Reduction Act, which we have said time and time again is not only the most significant investment in climate action that this country has ever taken, it is the most significant action on climate change that any country has ever taken in the history of the world. And that is why the President went to bat to protect the Inflation Reduction Act last week when Republicans threatened to tank our economy over the debt ceiling. So, it is just completely outrageous to me that we are here talking about this once again.

But I think the other aspect of all of this that I find particularly troubling is the veiled commentary about wokeism as it applies to issues of diversity and inclusion because what we are actually talking about is women and people of color participating in the board room, being in leadership positions, having meaningful jobs, investing in companies who care about that. Why wouldn't we care about that? Do we think that our Fortune 500 companies are actually struggling right now with retaining the kind of historical leadership that they have had? No, they are not. In fact, only 30 percent of Fortune 500 companies have members that are women, and their boards are disproportionately White and non-people of color compared to the rest of the country.

So, for those of you who are opposed to ESG and opposed to diversity, you know, I think we have a important message here to say, which is, thankfully, the American people and American businesses disagree. And not only do they disagree because it is the right and ethical thing to do, it is also good for the bottom line because more diverse businesses, more diverse boards actually lead to more successful businesses. So, as a factor in investing, it is not only important to advancing social justice and equity in our society, it is also a factor that we have to be considering when we are making investments and our fiduciary responsibilities.

So, we have heard a lot here today, but, Mr. Rajgopal, I want to thank you for being here. Can you please just help us drive home the point here? Tell us why investors and businesses take ESG into account, and why is ESG important not only for advancing our goals as a society, but also for investing.

Mr. RAJGOPAL. So, as I have said, you know, quite a few times, ESG simply gives you a richer toolkit of signals and risk factors that might affect a firm's future cash-flows and risks. Just a very quick comment on the diverse board's idea. One of the big issues with boards is groupthink, and, you know, by and large it becomes socially very difficult for a board member to question a CEO because the elephant in the room is usually left out. The hope is that people with diverse life experiences, even if, you know, 10 or 15 percent of their groupthink fell, I think, you know, that would actually add to corporate accountability, governance, and actually release more firm value.

Ms. STANSBURY. Thank you. And, you know, just in conclusion, I want to say it is very clear Americans want climate action. They want sustainable investing. They want diverse work environments and leadership, and the American people want their freedom. And so, I appreciate all of you for being here today and those of you who are doing this important work. And with that, I yield back.

Mr. FALLON. The Chair recognizes Ms. Balint from Vermont.

Ms. BALINT. Thank you, Mr. Chair. Earlier in the hearing, one of my colleagues went out of her way to say this hearing is not about demonizing ESG and that, in fact, we are just here really to get to the truth. And so, I just wanted to go through some of the language that was used by some of the witnesses earlier. We have got words like "infiltrated," "weaponized," "collusion," "cartel-like, conspiracy." What else do we got here? "Force compliant," "climate cartel," "wrecking ball," "coercive." Yes, these are really neutral terms. We even had "anti-American" and "anti-capitalist," "driving the woke capitalism." These are not neutral terms. These are not neutral terms.

So, like my colleagues have said, this is a colossal waste of time. We have already been here before. We have already established that if we, in fact, believe that we live in a free society and we have the opportunity to make investments, we should have all the information that we need to make those investments, and we should not be interfering with that. So that has already been established.

And, you know, I stepped out of the hearing to go visit a different hearing for a little while, and I just have a question. I apologize. I do not know exactly how you say your name. Is it Gunasekara? Can you pronounce that?

Ms. GUNASEKARA. Gunasekara.

Ms. BALINT. Thank you. Gunasekara. I was looking at some of the materials you supplied here. And one of the things that you said in your information here that you provided was that the dangers of ESG include promoting gender transitions for children. And I want to know, do you really believe that garbage?

Ms. GUNASEKARA. It is not about believing. It is a matter of fact.

Ms. BALINT. Oh, so you believe that investing strategies, it is weaponized to support and promote gender transition for children. Is, essentially, that what you are saying, or do you just use it as another opportunity to beat up on children? So, do you believe this?

Ms. GUNASEKARA. I am not the one beating up on children. It is the people who are promoting gender transition in children that are potentially harming them. If you just walk into——

Ms. BALINT. Well, so let me tell you, if I could, let me tell you where I was, where I stepped out, and this is why I am bringing it up. I stepped out to sit down with parents of trans kids from states that have come after their kids. And now their kids cannot get the level of care that they deserve and need. And they literally said, when you leave this room, could you please, the next time you are in a room with someone bringing up yet again our children and our families as some kind of boogeyman, that you will actually stand up for us. And literally, I did not think it would take less than a half hour, I left that hearing, here I am. I did not know I would have such an opportunity.

But it feels like every single hearing that I am in, whether it is in Oversight, or whether it is in Budget, or whether it is in a subcommittee, somehow the witnesses find a way to bring trans children into whatever conversation we are trying to have here. And all I will say, before I finish is, if you are a parent or you know parents that you love, I want you to think really carefully about whether you think those parents are making decisions for their children that are not in their children's best interest. That is what we are talking about here. I do not think it has any place in this hearing on investments to once again be beating up on Americans and their children. I yield back my time.

Ms. GUNASEKARA. I do not think it has any place in investing, and, frankly, the problem is this is not about a choice. This is——

Mr. FALLON. Yes. OK. I got it.

Ms. BALINT. I yield back my time. My time.

Mr. FALLON. The Chair recognizes Ms. Lee.

Ms. LEE. Thank you. We have heard a lot about how pointless a hearing this is, again, so much so that I would just like to quickly point out that the other side of the aisle that called the hearing did not even bother to show up, but we are here. So, I guess we will carry on with the hearing so as to not waste your time as much as our time is being wasted here.

But we are currently facing a climate crisis, right? That is not an opinion, it is a fact, and we cannot just sit around and do nothing though. Sometimes we do worse to nothing. Propping up the fossil fuel industry with these fabricated anti-ESG policies, or whatever acronym we are going to use, is actually worse than doing nothing. It is harmful to Americans' health, their quality of life, and retirement funds. Our future is at stake, and instead of holding a hearing on that actual real crisis, we are wasting our time again on this nonsense.

We heard in the last hearing how vital it is to look at the big picture for investments and that long-term growth is the ultimate goal. The anti-ESG policies do nothing more than force blinders on investors and prevent them from considering legitimate risk factors. This past February, a Norfolk Southern train derailed just outside of my district in neighboring Ohio, causing hazardous chemicals to be released into the air and the soil and water in East Palestine. The EPA has since issued an order directing Norfolk Southern to pay EPA's response costs and has filed a complaint, along with the U.S. Attorneys' Office, against the company, seeking penalties and injunctive relief.

Dr. Rajgopal, will any potential imposed penalties by the EPA affect the bottom line of Norfolk Southern?

Mr. RAJGOPAL. No. Most penalties tend to be fairly small compared to the social laws imposed by the company, unfortunately. So, I would say it is probably a blip on the stock price, if anything. Not even a blip.

Ms. LEE. Why is it so important for asset managers to be able to consider factors, however, like climate change, and to make investments in clean energy technologies when making decisions?

Mr. RAJGOPAL. So, let us go back to the BlackRock, Vanguard, State Street idea. These are so-called universal owners, meaning they hold the stock for 20–30 years until the stock gets probably displaced from the index. So, if the firm misses a quarter, they are not going to sell the stock. So, they have to worry about, you know, factors that might affect the future cash-flows in the stock 10, 15, 20 years out. That is why you need to have a conversation about climate risk.

Ms. LEE. Thank you. Republicans want us to look the other way to ignore when a company is poisoning our ecosystem. Banning ESG investing is the opposite of doing responsible investing, and why is that? What is motivating Republicans to create a problem out of nothing? I think we can find the answer right here on our panel of witnesses. The Heritage Foundation, Texas Public Policy Foundation, and Independent Women's Forum all get their funding from the fossil fuel industry.

Dr. Rajgopal, why do you think the fossil fuel industry would fight so hard against ESG factors being considered in investing?

Mr. RAJGOPAL. Well, changing business models is very hard. So, if you ask an oil and gas company to suddenly become or think about a different line of business, the history in corporate America of companies changing course is not very good. Blockbuster had a chance, I think, to buy Netflix twice, still passed on that, and I can go on and on. There is Xerox. There is Kodak. There are so many, so change is hard.

Ms. LEE. Let me just add that not only is change hard, but change is, in fact, inevitable, right, whether it is hard or not. Current fossil fuel assets are facing an estimated $1 trillion loss over the next 15 years. Their need for a paycheck is apparently more important than ensuring our planet is usable for the next generation. I came to environmental justice not through education, but through necessity. Pittsburgh has some of the worst air quality in the Nation on any given day. Allegheny County, specifically, the Mon Valley where I grew up, suffers from some of the highest rates of asthma, of cancer, and of other respiratory illnesses. We see corporate polluters sacrifice the health and well-being of our communities for their own financial gain over and over. Yet, when we want to consider the environmental impacts in how we invest our money, they lobby and they throw money around to stop us. Every person deserves clean air and a livable future.

My Republican colleagues need to wake up and get with the majority of Americans who are demanding action on climate change. I yield back.

Mr. FALLON. The Chair recognizes Mr. LaTurner from Kansas.

Mr. LATURNER. Thank you, Mr. Chairman. Thank you all for being here.

When President Biden introduced his new ESG rule earlier this year allowing fund managers to invest American's retirement savings into ESG funds without their knowledge, the House and the Senate took bipartisan action to block this reckless proposal from moving forward. Unfortunately, the White House did not get the message. President Biden used the first veto of his tenure to give large financial institutions the ability to advance his political agenda, which the vast majority of Americans would never endorse at the ballot box, through forced investment, skirting due process.

The truth is, most Kansans do not want any part of President Biden's ESG agenda, much less with their hard-earned retirement savings at stake, and why would they? The ESG movement forces financial entities and investors to ignore real-world fiscal value for the sake of pie-in-the-sky climate change initiatives. Does a bank comply with ESG practices or prioritize as they should delivering value to their stakeholders?

Energy was the sole sector in the S&P 500 to rise last year, but ESG-aligned funds which spurned fossil fuel companies by design unanimously underperform the S&P 500. Despite this reality, my colleagues across the aisle seem to be just fine with policy which conditions behaviors of our financial institutions upon arbitrarily contrived ESG scores and puts woke climate change policies over the financial security of hardworking Americans.

Mr. Moore, the Census Bureau estimates 25 percent of Kansans will be 60 or older by 2030. Retirement funds constitute nearly half of mutual fund assets nationwide. Can you briefly elaborate upon the financial liabilities my constituents' golden year savings are exposed to under the Biden Administration's ESG standards?

Mr. MOORE. Congressman, like I outlined in my testimony, the preponderance of the studies show that ESG investing reduces investor return. It reduces the value of the fund. Not hugely, but it does. And so, someone who has put a whole lifetime savings, maybe quarter million or half a million dollars in, you know, over the course of their 30 or 40 years of work, you are talking about reducing, you know, perhaps $10,000 or $20,000 the value of their lifetime savings, and that is a real cost to retirees.

Now, I think one of the things that has frustrated me a little bit about this hearing is that we keep talking past each other. I do not think anybody in this room is against ESG investing. I mean, are you? Are you? We are just saying that you cannot force people or have them in ESG funds when they do not even know about it, when it is being done without their knowledge. And that is what a lot of these firms are doing, and that is what the Biden Administration requirements are doing. They are basically saying, you have to get a lower return on your investment.

Look, I have a big problem because when I talked to clients, you know, who are, people who are clients with these firms, they say, look, I do not want to save the world. I do not want to save the whales. I just want to have a good retirement income. I worked my whole life, and that is what they deserve. And, frankly, these firms do have a fiduciary duty to provide them the highest return possible.

Mr. LATURNER. I am going to stick with you. Two companies control over 90 percent of all proxy advisory services. Do you harbor any antitrust concerns over their combined market share?

Mr. MOORE. I am sorry. I missed that.

Mr. LATURNER. It is OK. I am talking about antitrust concerns over combined market share when we are talking about Glass

Lewis and ISS control over 90 percent of all proxy advisory services. Anyone can comment on that if they would like.

Mr. MOORE. Well, I do not believe in antitrust, but I do believe we need a market solution to this. We need to have another firm out there that presents a more free-market review. When we graded, yes, we graded the top 50 money management firms.

Mr. LATURNER. Yes.

Mr. MOORE. But we also graded the ISS, and what is the other one?

Mr. LATURNER. Glass Lewis.

Mr. MOORE. Glass Lewis, they got a D-minus and an F-minus. They are recommending the firms that they vote for all of this ESG stuff. So, we probably need an alternative because they are not really advising these firms in a way that maximizes shareholder value.

Mr. LATURNER. To your personal knowledge, are climate change activists using the threat of political action to pressure banks from lending to certain energy and industrial sectors like the fossil fuel industry?

Mr. MOORE. Here is the point about this. The U.S. economy cannot operate without fossil fuels. So, the idea that we are going to, you know, eliminate fossil fuels over the next 20 or 30 or 40 years is extraordinarily economically dangerous. And I mentioned earlier that, you know, there is a state that is trying to do that. That is California, and California has had brownouts, blackouts. Even my friend here in Texas, you have problems because of some of this, you know, these environmental initiatives that are moving away from not just oil and gas, but nuclear power. I mean, that makes no sense.

And by the way, the single factor that has reduced carbon emissions the most is not this Inflation Reduction Act. The thing that, by an order of magnitude, that has reduced carbon emissions has been shale gas. Shale gas is like a wonder fuel. It has dramatically reduced greenhouse gas emissions.

Mr. FALLON. The gentleman's time has expired.

Mr. LATURNER. Thank you. I yield back, Mr. Chair.

Mr. FALLON. The Chair recognizes Chairman Raskin.

Mr. RASKIN. Mr. Chairman, thank you very much, and I feel with this last round of statements we have reached some enlightenment here. Mr. Moore stated that he was not opposed in any way to ESG investing or ESG companies. He invited his fellow panelists to disagree with him, and they appeared to assent to it. He said he is only opposed to affirmatively forcing people to invest in ESG, but, of course, that does not happen anywhere.

The Department of Labor rule, which I think is the target of their attack, does not impose a mandate on anybody, but permits fiduciaries to consider responsible investing factors if such factors are shown to be prudent and consistent with fiduciary principles. So, the Department's rule just represents a return to neutrality, precisely what the anti-ESG people do not want in the states. They want to try to exclude ESG companies from consideration.

Representative McClain said at the beginning that, well, if investors and asset managers are going to be able to consider environmental and social and governance factors, a company could decide to just make its decisions based on abortion. But what do you know, this is America, and we have got economic freedom, and you go online and you can find the Catholic investment portfolio which excludes abortion. You can find the Timothy Plan which excludes abortion. You can find Ave Maria Mutual Funds. That is the marketplace.

So, if you think that your asset manager is violating your rights somehow, you obviously have the right to exit. You have the right to have some kind of shareholder proxy election about it, or you can sue them. You can bring derivative shareholder litigation. Are there examples of any lawsuit where shareholders have said you pulled the wool over our eyes and you decided to take into account more data about environmental and social governance factors that we want you to consider? Does anybody have any cognizance of any lawsuit like that where someone has won?

I mean, so I am with my colleagues who are just baffled that we are having not one but two hearings. And I hope we are not going to have a third hearing and then we will have no Republicans show up at all because I think they have absolutely abandoned the field here because they are going up against market freedom, consumer sovereignty, environmentally conscious and socially conscious decision-making that people want and where the market is taking us. That is where we are right now.

Well, in 2022, Morningstar surveyed 500 global asset owners controlling $32 trillion, and they found that 85 percent of those 500 see ESG factors as material or even essential to prudent financial investment policy. And that makes perfect sense because it has been shown that investments that consider ESG data offer greater long-term resilience and lower risk than investments that do not. I mean, if someone came to you in 2016 or 2017 and said, I have got a great pharma investment for you with this great company called Purdue, it is producing 30 percent, 40 percent, 70 percent, 80 percent returns in the last couple quarters, would you want to know that their business model was getting people addicted to drugs? It is not just that it is socially pernicious. Maybe you do not care about that. You say all you care about is the financial bottom line. But if you care about your financial bottom line, you are going to want to know if that company is going to go bankrupt because of its socially predatory practices.

Same thing with—take the Massey Energy Company in West Virginia. Someone said to you, invest in Massey Energy. They are getting staggering profits in 2007, 2008, before the Upper Big Branch Mine disaster which took the lives of 29 workers. And someone said, well, why don't you consider the fact that they have got hundreds of mine safety violations and OSHA violations? And then someone says, well, no, you cannot do that. You cannot take into account the social factors are the environmental factors. Just look at the bottom line. That would be a ridiculous way to invest, but that is precisely what we are being invited to endorse today. Look only at the money and not include the ESG factors, which are just data, more data for the investment managers to figure out whether it is a good investment or a bad investment.

So, these ham-fisted efforts of the carbon kings are projected to dramatically raise costs for state and local governments by tens or hundreds of millions of dollars annually.

[Chart]

Mr. RASKIN. If you could just take a look at this. A Sunrise Project study estimated the cost for six southern states, if they pass legislation limiting responsible investing, these bills would pull state funds from investment managers if officials deem their investment strategies are adverse to certain industries, most prominently, of course, fossil fuels and the firearm industry, which are the ones that have gotten this whole anti ESG crusade going.

I ask unanimous consent to submit this analysis to the record, Mr. Chairman.

Mr. FALLON. Without objection, so moved.

Mr. RASKIN. Thank you very much. I yield back.

Mr. FALLON. Thank you. The Chair now recognizes Ranking Member Bush for a close.

Ms. BUSH. Thank you and thank you to all the witnesses for being here today and to the Democrats who showed up two to one to this hearing that was called by the Republicans. Thank you so much.

And let me also say, it is astounding how often we hear about wokeness, wokeness, wokeness from people who have no idea what "woke" actually means and where it stems from. But let me just say, as Black folks who stood up to say, that no more will we allow these injustices to continue to happen on our communities. We spoke up, and I can speak to it because I am one of those folks that was on the ground for more than 400 days after the killing of Michael Brown. When that came about, we said we woke up because we will not allow anyone else to do this to us without us fighting back.

And so, when you say, "I am anti-woke," when you talk about wokeness, you are saying "I am anti-Black and I do not want Black people to speak up for themselves. I do not want equality and justice for Black folks." So, I say to those that say wokeness, wokeness, wokeness, "we are anti-woke," this is not wokeness what we talked about in here, and you should be on the side of folks who are woke because we are saying no more oppression against our community.

So, whatever else is being thrown around, unless you are saying "I am racist, White supremacist, and I am bigoted," stop talking about wokeness. And you cannot tell me that I am wrong because I am from the very movement where this came about. Do not let a fascist tell you what being woke means.

Now, responsible investing, which has nothing to do with wokeness, depends on ESG data to facilitate planning for long-term challenges, requiring firms to disclose more data about their risk and returns and how that helps to protect our future by investing in climate resilience and clean energy. And this is good for our planet, it is good for business.

Climate-and extreme-weather-related events already affect both small and large businesses every single day. Investors deserve to know which companies are taking appropriate steps to mitigate climate threats to their bottom lines. This is not about wokeness.

ESG also helps workers, ensuring that their pensions are not going to companies that will later privatize and degrade jobs.

Democrats are working to protect the public's access to data and make responsible investment choices. The Biden-Harris Administration's Securities and Exchange Commission and Department of Labor's rules allow for more information to be provided to investors. They are not mandates to consider ESG.

Republicans' attacks on ESG, they hurt taxpayers by raising costs, like in Texas where anti-ESG bill, that bill cost the public an additional $300 million to $500 million in interest in just eight months. Republicans' anti-ESG crusade, it protects their fossil fuel donors to the detriment of people's retirement security and their freedom to invest. Republicans' political crusade against responsible investing and calling it "wokeness," be woke. Do not be anti-Black.

It is against responsible investing in an attempt to manufacture a culture war that you know nothing about and you are not standing up to fight against, and interfere in free market trends and protect corporate interest. And with that, I will say, do not speak about something that you do not know about. Learn about it from the people who are the ones that are most directly impacted, and change your language. Enough is enough. This is not about being woke. Being woke is the side of history you should be on.

Wake up to the fact that other people are burdened differently than you, that other people have issues that you do not even understand but you should be sensitive to. Wake up to that, and with that, I will yield back.

Mr. FALLON. The Chair recognizes Chairwoman McClain.

Mrs. MCCLAIN. Wow. I am going to get back to the issue that we are talking about, so thank you, Mr. Chairman. My colleagues on the other side of the aisle are quick to identify as free market capitalism as soon as it benefits their agenda. What we discussed here today is not a problem of the free market. Anti-competitive ESG practices, where banks and money managers are colluding with climate activist forces, force business to adhere to enormous compliance costs. And again, I am a business owner. I have had to live in this realm. This is not a free market, and that is capitalism. That is what we believe in. The free market rewards businesses that account for the interests of their customers and investors. It is simple.

In a free market, consumers are free to reward companies they agree with by patronizing their business. This is not the case with ESG because many of these decisions are being made without the customer's knowledge. If an investor does not know that their funds are being used to finance ESG initiatives, they cannot make informed decisions. When you contribute to a pension fund, you are putting your hard-earned savings in the hands of a fiduciary who may not have your financial interests at heart. And we now are seeing these investors get a green light from the government to prioritize their desires over Americans' financial best interest.

Like I said at our last hearing, I do not think my colleagues would be so quick to support this level of stakeholder capitalism if the "S" in ESG was investing in pro-life causes or pro-Second Amendment businesses. My goodness gracious, we would be all up in arms, and we would be talking about everything but the issue at hand because what I find interesting with my colleagues across the aisle, when they cannot beat you on the issues, they go into name-calling. So, I would prefer to just stick with the issues and the facts, right? That is why economists do so well because it sticks with the facts. Rates of return are pretty simple. We do not get into the ideology.

You know, to me, it is hypocrisy, and it is a tool to advance the left-leaning policies without the say of the American people, and they try to bully you with the labeling and the name-calling. Well, I am, for one, not going to be bullied. The facts are the facts. You can call me any name you want to call me, but let us look at the facts, and let us be honest and let us be transparent. So, after all your name calling is done, that is good, let us just look at the facts.

We have seen today that there are other downstream impacts, plain and simple. Workers are facing situations where they may be fired for not complying with their companies over prescriptive DEI measures. From what we have heard today, those measures are not doing much to improve the viewpoint or employee diversity in these companies. Unfortunately, and ultimately, forced ESG compliance is harming American workers and business. And I am going to say this again, forced, not free market, not free to choose because when, again, I cannot beat you on the issues, I have to go to name-calling. I have to go to bullying. All of a sudden, I am a White supremacist and I am racist. And, no, I am just talking about the facts, but if you cannot beat me on the facts, I guess call me names. So, this Committee will continue to investigate this matter.

And in closing, I want to thank our panelists once again for your testimony and your commitment to the facts and transparency. And with that, Mr. Chairman, I yield back.

Mr. FALLON. The Chair recognizes Chairman Raskin for close.

Mr. RASKIN. Thank you, Mr. Chairman, for that kindness. I think I pretty much said what I had to say, but I want to thank you for having this discussion. I think it has been clarifying that nobody is opposed to ESG investing. Nobody is opposed to those who want to invest only in companies with a pro-life agenda, and we found a bunch of those. That is the free market. And really, we do not need congressional hearings or congressional action to interfere with the free market because people control their own assets, people control their own investment.

And I agree that we need more corporate transparency. I would think our next hearing should be about whether corporations are giving campaign contributions and engaging in campaign expenditures without consulting the shareholders because I think that is a real problem with transparency. There is a lot more transparency in what we are talking about today, than there is with what companies are doing in terms of involvement in politics. But thank you for having this very illuminating and productive hearing, and I yield back to you.

Mr. FALLON. Thank you, Mr. Chair. So, several things. We heard adjectives and pejoratives, very incendiary, unfortunately, “gaslighting,” “MAGA extremist or MAGA insurrectionists Republicans,” “big corporate,” “profits at all costs,” “anti-Black,” “fascist,” et cetera. I can tell you what I am personally. I am anti-socialist, I am anti-Marxist, I am anti-communist, I am pro-merit, pro-opportunity, pro-liberty, pro-American, and I will never apologize for that, because the most important diversity we have is the diversity of thought.

I do not care what you are. I care who you are, and it is about opportunity in this country. And yes, we have in our time fallen very short, obviously, in our history, but we are getting so much better. And the things that some of these folks that use these pejoratives that are worried about are, fortunately, incredibly diminishing phenomena every single day.

So, what we are talking about here is using ESG. We do not want it to violate Federal law. We do not want to put it before maximizing returns, and that is just not about profits, it is also about prospectus. That is written into the law, and we do not want to restrict investments. If you want to invest in mermaid freedom, knock yourself out. You want to invest in carbon free cookie monsters, knock yourself out. You want to invest in a unicorn ranch, knock yourself out. It is just about putting and not disclosing to the investor the criteria they are using that violates Federal law.

Are we a country that is a rule of law Nation? Or are we going to let rules become more powerful than the law because if we are, the 535 of us should just damn well resign right now, hire a bunch of Federal bureaucrats and let them run the government. That is what we are really talking about, in theory, because even if there is a rule that is made that I agree with, I do not want it to trump law because then we are going to be in anarchy, in chaos, and we are going to lose the greatness that we have had as a country. It is very important to recognize.

So, and then one of my other colleagues said about, we want to ban books, probably talking about banning books. I am about banning books in elementary schools that have explicit pornographic material, and that is about it. I do not ever want to see Catcher in the Rye banned again. So, and then we talk about this country, is it a great country, is it not, and are there opportunities out there? Well, you know, for people of color and women, well, in this country, if you break us down demographically in the five major categories, not going to include everybody, but the No. 1 most successful ethnic group in this country are Asian Indians, economically, second is Asian Pacific Rim, and then White, then Hispanic, and then Black. So, if there is White privilege, it is extraordinarily not used well.

And then if you look at those five same categories with education levels, it matches perfectly. On average, the most educated Americans ethnically are Asian Indian, and they are the most successful economically. What a shock. And who is second? Asian Pacific Rim, what a shock, third, White, third Hispanic, fifth Black. It exactly overlays, which indicates a meritocracy.

So, what we heard here today should concern all Americans, regardless of your political affiliation or what you believe in. Your hard-earned money is used to fund projects and global initiatives that were never meant to provide a return on your investment. The ESG is a sham, and it is being forced on people. We all know it, and we are seeing the damaging effects playing out right here before our very eyes. It is pretty much not really up for debate that the ESG funds underperform over time. And this Committee is leading the charge here in Congress to pull back the curtain on what is happening behind the scenes that massive financial institutions never wanted you to know about.

And worse, what does this government and this Administration not want you to know? I do not want the politicization of the FBI and, by extension, Justice. I do not want the politicization of our military. I don't want a Republican general and a Democrat general, and, more specifically, I do not want our money being politicized, and to point, in fact, specifically your financial investing.

And you know, and that is the scariest part. We need to ask these questions. What if we continue down this path letting leftist activists, asset managers use their clients' funds to pursue a political agenda and decide what is in the best interests of the business without having any practical understanding of what it takes to run that business? And at best, you have less money in your pocket and a warm, fuzzy feeling about the brands you may choose to purchase. And again, if you want to invest in ESG funds, invest in them, but there needs to be proper disclosure.

Mr. RASKIN. Mr. Chairman, could I pose one question to you?

Mr. FALLON. I yield for a question.

Mr. RASKIN. You are very kind to do it. I just wanted to give you the opportunity to clarify one thing you said. You sort of elucidated a racial hierarchy in terms of success in America, and you said what does that indicate. It indicates a meritocracy. And I would just give you the opportunity to amend that to say would also indicate the legacy and the persistence of racism in America, slavery, Jim Crow, and the history that we are all aware of, of anti-Black laws in the country.

Mr. FALLON. Well, clearly, we have had problems. I mean, our greatest original sin has been slavery, obviously. That is not up for debate. I do not understand your question, but I think it illustrates the point of when somebody says "White supremacy" or "White privilege" or what have you. I find this country to be incredibly inviting to all comers. The communists build walls to keep people in. We do not keep walls to keep people in. People are welcome to leave if they want. People from all over the world and every continent would love to come here because of the opportunity that is here.

Now, I am not talking about America in 1865 or 1965. I am talking about an America in 2023, and racism is, fortunately, a diminishing phenomenon. I know we will always disagree on that, but this is my time. And to answer your question, people of color, Asian Indians, and they were less than 1 percent 40 years ago, and they are the most successful ethnic group, which is remarkable because if racism truly exists to the extent that a lot of people argue, they would not be. They would be fourth, fifth, sixth, but yet, they are first. Why? Education is so important, and I think that is far more than just an emphasis. And the real root to this cause, and we can have discussions and more hearings on these things, is if you have to have whole families, fathers in the home.

If I did not have a father in my home—my father passed away a year ago—I would not be in Congress right now, for sure, because when you are a 14-or 15-year-old, you are just not afraid of your mom, and it is hard to raise kids, as we all know when raising kids. And that is why it is easier when you have the two-parent home, and that is the symptom. We want to really treat these things. It is not White people hating on Black folks. It is not that at all. You have to focus on the opportunities that this country provides you.

And again, it is about diversity of thought. I sat here the entire hearing listening to things I disagreed with, patiently, quietly, respectfully because I am not going to learn from people that agree with me. I am going to learn from people that may disagree with me, but as you just saw, somebody just wanted to walk out but that is fine. After all, the end of the day, I do believe in American exceptionalism. I do believe this country is the greatest one history has ever known. And I do believe that in 2023, we should take every opportunity to prosper and make sure that the best days of this country have yet to be counted, and we have that right here.

So, back to this topic and to close. You know, the American public has every right to understand what their investments are really going toward, and we are here to get to the answers.

Without objection, the Members will have five legislative days to submit material and submit additional written questions for the witnesses, which will be forwarded to witnesses for their response.

Mr. FALLON. If there is no further business, without objection, the Subcommittee stands adjourned.

[Whereupon, at 4:27 p.m., the Subcommittees were adjourned.]

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