The Secret Diary of a ‘Sustainable Investor’

By Tariq Fancy
August 2021

This essay shares how my thinking evolved from evangelizing ‘sustainable investing’ for the world’s largest investment firm to decrying it as a dangerous placebo that harms the public interest. It’s not short. But this topic is critically important: it lies at the heart of how we reform capitalism to address important environmental and social challenges with concrete action. I challenge business leaders who have advocated the ideas I question below to offer a serious rebuttal.

We’re running out of time: we can no longer afford to answer inconvenient truths with convenient fantasies.

I. How the system works

My father-in-law passed away at a hospice on a cold, dreary Sunday morning in March 2019. His brutal two-and-a-half-year battle with colorectal cancer reached its tragic conclusion. In his final days, in what now feels like a movie scene in my head, he reiterated to me his advice to travel less and focus more on family. After a quick Muslim burial and a couple of days with my wife and grieving family members, I left directly from a memorial event in his honor for the airport — sprinting through the terminal with my carry-on to just barely catch a redeye bound for Zurich. The next morning, after overdoing it with three espressos to combat the lingering grogginess of jet lag, I took the stage at BlackRock’s Annual Conference for Swiss Clients, suited, booted, and sufficiently caffeinated to wax lyrical about the most exciting growth-area in financial markets today: sustainable investing. Also known as impact investing, responsible investing, ethical investing, and environmental, social, and governance (“ESG”) investing, this area of finance makes you feel good. It’s based on the premise that in addition to getting a solid market return on your investments, your investment also makes the world a better place. This promise is what lured me to join BlackRock to begin with.

We left immediately after the conference to catch BlackRock’s private plane for Madrid, where we would perform the same rigmarole at the Annual Iberia conference the following morning. As a group of us trundled across the Zurich airport tarmac in a small, cramped shuttle bus, Larry turned to me. “So now that we finally have a minute, what’s the latest?”

The first time I met our CEO, Larry Fink, was in 2017 in his office at BlackRock’s Global Headquarters on East 52nd Street in Manhattan. Known simply as Larry within the firm, he made my job interview into a natural and flowing conversation. I instantly appreciated him as being different from other senior financial executives I had met before. Despite having led BlackRock from a startup in 1988 to the world’s largest asset management firm in under 30 years, he had the kind of healthy sense of self-doubt and fear of hidden risks that you’d expect from someone who began their career as a bond trader, making a living understanding the

risks of lending money to others. A comment he once made at an internal offsite for senior executives stuck with me: “It’s not the risks that we’re talking about that I worry about. It’s the ones we’re not talking about.” As a former bond investor myself, I knew he was right: it’s usually the risks we’re not thinking about that creep up and cause us problems. But his sensible caution seemed perfectly balanced with a burning desire to be ahead of the curve against the industry, not least by expanding earlier than competitors into growth areas such as passive “index” investing and financial technology.

I recall telling my wife about that first conversation in Larry’s office. He and I had agreed early on that her birthplace, Dubai, is generally overrated as a place to visit (doubts appeared on her face), then he shared that the first thing he did when he arrived at the office each morning was to call his wife (her face brightened), and finally we discussed how BlackRock was uniquely positioned to lead the world in the direction of a more sustainable version of capitalism (her millennial eyes sparkled yet more).

Larry’s leadership on sustainable investing was cemented in 2018, when in his annual letter to the CEOs of the world’s largest corporations, this time titled “A Sense of Purpose,” he introduced the idea that successful companies needed to serve a social purpose. As Andrew Ross Sorkin put it in The New York Times, Fink informed business leaders that “companies needed to do more than make profits — they need to contribute to society as well if they want to receive the support of BlackRock.” It wasn’t the first time someone had said it, but it was the first time that someone whose firm managed over $6 trillion in assets had said it. And thus, it got the reaction it deserved in the business world, bringing prescience to Ross Sorkin’s prediction that it may be a watershed moment in the debate about the future of capitalism. It was my second week on the job. The resulting roar of approval, some vocal critics, and a general buzz amongst the global elite was deafening. Soon after, Larry became in some ways the de facto leader of a new worldview that purpose and profits are not in conflict and that companies need to serve society rather than just their shareholders in order to prosper.

“Watch your step,” said a cheerful attendant as I stepped up onto the Gulfstream G550 that was taking us to Madrid. There was an interesting cast of characters aboard the jet that night in Zurich, a smaller subset of whom accompanied us on a much longer flight back to New York the following day. I chatted briefly with a former police officer-turned-security official who accompanied Larry on trips abroad. He calmly accepted his duty to take center stage amongst us boring suits in a casual area at the rear of the jet, telling a few animated war stories from his experiences in the aftermath of 9/11 before relaxing back into his seat, his body language making little secret of his preference for this cushier corporate gig.

Sitting across from me was an executive from our London office, who, after a few glasses of whatever was being served, embarked on a fifteen-minute diatribe to all within earshot against the “totally clueless” then-freshman Congresswoman Alessandria Ocasio-Cortez. “She’s a complete idiot — she doesn’t understand anything about anything!” His English accent was so posh that it sounded almost luxurious. Somewhere in the front of the plane, Larry was trying to see if folks wanted to play bridge with him. Knowing nothing about bridge I steered clear, but, given the palpable sense amongst those present that this was a way to get close to him, I wasn’t surprised when one senior executive downloaded a “how to play bridge” iPhone app and began hurriedly cramming, as if preparing for a final exam.

I'd arrived at this exact moment following what can only be described as a peculiar career path. After years of living someone else's dream — following a well-trodden path from a good school to an investment banking job to a cushy senior role at a private investment firm — I mustered the courage to leave the industry altogether to plow my savings into Rumie, an education technology non-profit I founded to bring free digital learning to the unlucky folks on the wrong side of the "digital divide." The decision to jump ship just as I entered my prime earning years thoroughly baffled some of my former colleagues. (One of them asked me to explain the decision to him multiple times, in literally the same words but slower, as if I were a foreign language teacher helping him learn a new dialect.) But when BlackRock came knocking with an offer to return to Wall Street, I knew I had to do it: BlackRock was then and remains today the world's largest investment firm. At the end of June, it had $9.5 trillion under management and was closing in on what the Wall Street Journal called the "once unthinkable": $10 trillion in assets. Managed well, that kind of firepower could create far more positive impact for the world than possible running Rumie. So I found a replacement and returned to the world of New York finance once more.

I vividly remember a conversation I had on the plane that night with two senior members of our iShares team. Through its iShares brand, BlackRock is the 500-pound gorilla in the exchange-traded funds (ETF) space, a marketplace of low-fee investment products that mechanically track market indexes such as the S&P 500. We had just launched a new range of "sustainability" funds, including a series of low-carbon ETFs. It offered investors the chance to get market-rate returns while tilting the underlying investments toward companies with lower carbon emissions footprints. To BlackRock, it provided the opportunity for differentiation, including a bump in what were otherwise plummeting fees as competition had grown in recent years.

The how-to-play-bridge-app executive was growing agitated. "All they need to know is that it has a lower carbon footprint — they should do it to fight climate change!" she repeated. Nodding approvingly, the second iShares executive, a sales guy from our Madrid office with a Mr. Incredible-like chin and a listless demeanor, agreed: my answer was too long and unclear. Asked a thoughtful question by a Swiss client on how these investment vehicles actually contribute to fighting climate change, I explained how high growth of these products might, in theory, find some way to indirectly increase financing costs for higher carbon-emitting companies, incentivizing them to lower emissions. "But didn't you see the talking points?" insisted how-to-play-bridge-app, referring to a set of oversimplified bullet points I had not seen arrive in my inbox of overflowing and unread emails the day before. They made clear their view: the key to selling the product was to keep it simple, even if that meant glossing over how it directly contributed to fighting climate change, which was always hard to explain and at best a bit uncertain.

I leaned back in my seat, my mind still switching back and forth between the quarterly sales targets that preoccupied my colleagues and the near day's worth of Whatsapp messages from family members that it suddenly occurred to me I hadn't even read yet. I reflected on my role and the impact I was having on the world. Naturally, it seemed a bit bizarre to be flying around on a private jet in order to hock, of all things, low-carbon investment products. But I was nothing if not practical and had come to believe that the emissions we could reduce with our size and influence would far more than offset the small costs to create

and distribute these products. I sincerely believed that while sustainable investing was not perfect, it was a step in the right direction in the critical question of how business and society should intersect in the 21st century.

Unfortunately, I now realize that I was wrong. If the COVID-19 pandemic has taught us one key lesson, it's that we must listen to the scientific experts and address a systemic crisis with systemic solutions. Reacting instead with denial, loose half-measures, or overly rosy forecasts lulls us into a false sense of security, eventually prolonging and worsening the crisis. And yet Wall Street is doing just that to us today with the far more dangerous threat posed by climate change, craftily greenwashing the economic system and delaying overdue systemic solutions, including those intended to combat rising inequality and the insidious political risks it creates. It's clear to me now that my work at BlackRock only made matters worse by leading the world into a dangerous mirage, an oasis in the middle of the desert that is burning valuable time. We will eventually come to regret this illusion.

Is Sweden the Future of Sustainability?

There is, of course, an opposite view to the private-jets-make-sense school of thought in fighting climate change, best represented by Greta Thunberg. The Swedish teen activist has galvanized people worldwide with her direct and unrelenting moral assault on an existing generation of leaders who, in her view, cling to models of society and business that are destroying the planet. Unlike me, her trans-Atlantic journey the same year to speak about fighting climate change was made on a sailing yacht. Even her detractors (some exist) concede that Thunberg is remarkable — a force to be reckoned with. Or, as a slightly drunk guy I met at a sustainability conference excitedly told me, just moments after introducing himself at the cocktail hour by explaining how his white privilege made him feel a need to give back to the earth: "She's like the white Malala!"

It's little surprise that Greta and those in her age range might care so much. According to a recent study in the journal *Proceedings of the National Academy of Sciences*, barely liveable hot zones may rise from 1% of the earth today to 19% by 2070, leaving billions of people with nowhere to go. It's not that far away: in 2070 Greta will be only 67 years old. Sylvester Stallone was six years older than when he filmed his latest Rambo movie installment, *Rambo: Last Blood* (yes, really — it came out in 2019). Judging by present energy levels, she'll not only be nowhere close to retirement by then but may live until close to 2100, at which point one study suggests higher temperatures in parts of India and Eastern China "will result in death even for the fittest of humans." (Rambo presumably included.)

"We're so happy to have you here with us in Stockholm!" said Clara Alderin, my liaison from the H&M Foundation, as she greeted me at a dinner the night I arrived. I was in town to attend the final ceremonies for an award I helped to judge, the Global Change Award, a set of cash prizes that the H&M Foundation gives each year to five global startups building fashion innovations for a more sustainable planet. Tall, blonde, and sharp-featured, Clara looked exactly what I was trained by 80s and 90s North American pop culture to

expect all Swedes to look like. As she led me through a rooftop restaurant with gorgeous floor-to-ceiling window views on either side of central Stockholm, I noticed that she somehow managed to stop briefly and turn, make eye contact, and smile at the end of every sentence, some of which sounded like they were sung to me, all in perfect, unaccented English.

"I decided to work in sustainability after I went to Sri Lanka with the Red Cross. I think there's this thing when you're young and you just explore the world outside of you... and you realize you're a part of it. Then I developed an interest in trade and where the products we have in Sweden come from." She had a certain idealism common amongst the growing throngs of young people working in sustainability these days. As the conversation continued at dinner, I noticed that her idealism was combined with Swedish common sense and level-headedness. "We've all read the articles online about supply chain issues. It's very important that big companies do the right things — it's the only way we'll get the big change we desperately need."

The award dinner was the following night at Stockholm's beautiful City Hall. A lavish affair, it involved dancers, performances, inspirational stories, and a host of other things that made us feel good that progress was being made against laudable goals, such as the United Nations 17 Sustainable Development Goals. A few young entrepreneurs heard I worked at BlackRock, and with Clara's help, hunted me down to pitch their business ideas to build a greener world. There was a bit of a buzz about the menu for the night, and I was told, with nervous anticipation and by more than one person, that we would be served the same dessert as the Nobel Prize Dinner, held at the very same venue just four months earlier.

Eventually, Clara introduced me to two sisters from Peru, whose startup was one of the competition's five winners. They had pioneered an innovative technique to build lab leather from Peruvian flowers and fruits, making it 100% vegan and biodegradable. In rusty and broken Spanish, I managed to agree with them that the dessert, some sort of chocolate soufflé, was unremarkable and never really stood a chance against the hype. There were lots of other winners, innovators, and experts all shaking hands, exchanging information, and discussing new ideas to build a more circular economy — one that eliminates waste and allows the continual use of resources, as opposed to our linear and unsustainable economic model today (make, use, dispose...).

I grew up believing that the warm feeling of saving the world generally only came through some level of selflessness and sacrifice, almost as a necessary cost, in line with the images of those supreme beings who had joined the Peace Corps and were in some faraway land working happily in the service of others. Yet it seemed that much of that same excitement and satisfying feeling of purpose was here too, in a chic venue with champagne and chocolate, and without quite as much sacrifice thanks to innovative new models of business, technology and finance. Change was in the air, and at the center of it all it seemed that a large multinational company was leading the way to build a more sustainable future.

Capitalism & Basketball

In most Western countries today, it's hard to do anything in business and not hear about exciting new

sustainability initiatives. They often seem to be defined most broadly as anything “good” for the world, whether contributing to the fight against climate change, diversity and inclusion initiatives, or philanthropic work. A host of organizations, conferences, industry bodies, data sets, standards, certifications, and yet more literature (both academic and marketing) has appeared in short order to surround this growing work. Many are meaningful and produce useful tools to help guide the direction in which we need to go as a society. A small minority of conferences seem to be mainly feel-good get-togethers for those looking for spiritual renewal. After the pandemic began, Nexus Global Summit, an organization that brings together social innovators, philanthropists, and impact investors globally, hosted the virtual session “How to be an Impact Investor During Covid-19” on a Monday. By Wednesday, the focus had shifted to “Tiger King: the Untold Story” — an intimate conversation with Carole and Howard Baskin. But while some part of the discussion around business and sustainability seems a bit more about entertainment, most of it is increasingly serious and draws the top leaders from not just business but across civil society as participants and thinkers.

Much of this growing unrest is simply a recognition of what we all know to be true: we need to change our ways. Other prominent CEOs have joined Larry in making this point more and more forcefully in recent years. “Companies have a responsibility to use their innovation and agility to lead on the climate crisis,” tweeted Tim Cook. The Black Lives Matter protests turned the focus to racial inequalities. “It is my fervent hope that we use this crisis as a catalyst to rebuild an economy that creates and sustains opportunity for dramatically more people, especially those who have been left behind for too long,” said Jamie Dimon, Chairman and CEO of JP Morgan Chase. It seems that everyone agrees: it’s now or never, this decade will make or break us on climate change alone, to say nothing of the risks of allowing racial and economic inequality to continue and even rise unchecked, so we need to do something about it.

Understanding how the economic system works can be tricky, so let’s use a simple analogy throughout this essay: capitalism is like professional basketball.

In capitalism, private firms compete with one another in fair and competitive marketplaces to maximize profit, all of which serves us (society) by fostering innovations and efficiency improvements that ultimately improve our lives and wellbeing. In basketball, players compete on a specially-designed court to score points, all of which entertains us (fans) through a fair and highly competitive game that fosters the best showcasing of skills and inspiration. The scoreboard for the competition is clear and quantifiable for both: profits in capitalism, points in basketball.

In capitalism, the private firms that act as “players” in the marketplace are formed as legal entities to allow groups of us to work together toward a shared purpose, employing us in different capacities to contribute. To keep our basketball analogy connected, let’s assume that the players on the basketball court are robots that are controlled remotely by groups of us fans sitting in the arena. Most of us work for different players, helping to control their various body parts, just as in the economy most people work in different functional areas of private companies. Senior managers, such as the CEO, control the player’s brain and, thus, all major decisions on how those body parts are used.

A high-quality professional game doesn’t magically appear out of thin air: there’s a league that helps arrange

the venues, scheduling, manages and updates the rules and regulations, and employs the referees who enforce those rules of the game. No rules, no game — it's as simple as that. Similarly, nothing exists in a capitalist society without a government to create the preconditions for private firms to compete and safely innovate, devising rules and regulations around private competition in a way that serves the long-term public interest, defining laws on everything from contracts to intellectual property to data privacy, managing court systems to handle disputes, and enforcing the laws on a daily basis. In other words, a competitive market, like a competitive sport, is based on rules. No rules, no game. In one case we pay the price of admission to the arena, in the other we pay taxes. Whatever we call it, in both worlds, we need to fund and staff the organizing bodies without which none of this would be possible.

This is where the basketball analogy gets interesting. Much of what people talk about in regard to making capitalism sustainable is related to what economists call *externalities:* side effects of specific business activities that affect all of us. They can be positive or negative. In the basketball example, think of externalities as things that are good or bad for the crowd but don't register on the scoreboard. A negative externality might be when one of the players jumps into the crowd to retrieve a loose ball and ends up seriously injuring a few fans: in that player's dogged pursuit of points they take on careless risks that endanger bystanders. In our economy, pollution is an example of a negative externality: an undesirable side effect from an industrial process for private profit that we, the broader public, did not choose to incur, but for which we collectively bear the consequences. With some highly dangerous and fast accumulating negative externalities, such as rising greenhouse gas emissions, the threat is becoming near existential: a bit like players engaging in behaviour that somehow damages the foundation of the entire arena. Too much of this endangers not just the game but the venue that is required to host it in the first place.

By contrast, a positive externality in basketball might be Steph Curry's off-the-court personality: aside from any points he scores, he has the positive side effect of being a likable role model for youth that engages in social and charitable work. In our economy, an example of a positive externality might be the private development of free software that creates side benefits for others, such as Google Maps (used anonymously).

In capitalism, the firms who compete are all technically owned by us, the public. This includes people who don't think they own anything: whether the lending that a commercial bank does with the deposits in someone's savings account or the investment portfolio of a pension plan managed on someone else's behalf, almost everyone has an indirect stake in various private endeavors. This is a bit like saying that the robot players on the basketball court don't just employ most of the fans in the arena; indeed, they were also built and are owned by the fans. Some fans own lots of shares in lots of players, whereas others own next to nothing, but ultimately the fans in the arena own all of the players.

But that leads to an obvious question: if society *owns* them, shouldn't we be able to control them and rein in their most dangerous and damaging negative side effects? We wouldn't just sit by and watch as robot players we owned and controlled started recklessly harming us, the fans, in a basketball arena. So how is it possible that we allow private firms engaged in market competition to contribute to climate change, evade taxes, and a host of other activities that most of us agree are undesirable?

This is a point best addressed by Leo Strine, until recently the Chief Justice of the Supreme Court of Delaware and, per The New York Times, "perhaps the most influential judge in corporate America over the past decade." In his view, the CEOs and the boards of large companies in the cockpit have a role to play, but they ultimately take direction from an even more powerful group: the owners, meaning, indirectly, all of us. But if you don't remember voting the shares in your retirement accounts recently, or picking a CEO and approving their strategy, you're not alone: most stock today is not held directly by mom-and-pop investors. We have "sports agents" that act as owners of the robot players on all of our behalf. This gives *them* the right to vote on hiring, firing, and directing the CEOs who control the players' actions on the court. Hence, Strine's path to a "fair and sustainable capitalism" goes right through these sports agents: called institutional investors, these agents wield over 75% of shareholder voting power. BlackRock is the largest of them — the super agent that invests more in players than anyone else, mainly through controlling our retirement savings.

But as our agent, BlackRock can't just do whatever it wants with everyone's savings. We, the owners, trust them, the agents, to control and supervise our property, and as such, they legally owe us what's called a *fiduciary duty* to act in our best interests. (This is BlackRock's first operating principle, which states that "your goals are our goals.") But what does it actually *mean* to invest someone's assets according to their best interests - what are you looking to *achieve* with investments made on their behalf? Put another way, if you're sports agent Jerry Maguire, what are you hiring the senior managers that control these players for their ability to do for us?

The voice of the late economist Milton Friedman has dominated this question for the last half-century. In his seminal 1970 essay entitled "The Social Responsibility of Business is to Increase its Profits," he argued that "a corporate executive is an employee of the owners" and that their primary responsibility is to maximize shareholders' profits. Since profits are to capitalism what points are to basketball, the Friedman doctrine, which has come to dominate and define Western shareholder capitalism, has led us to spend decades creating and training basketball players from the ground up to focus on a scoreboard that measures one thing *only*: points. And our agents, like BlackRock, who act as the owners of the players on our behalf, have spent decades training and directing those players to be point-scoring machines. Indeed, they've consistently hired the pilots in the cockpit based on their ability to do one thing: score points. Not only that, but we pay them directly linked to how many points they score and give them handsome bonuses for hitting high point targets. To deal with a competitive economy, we built winners.

That put our work at BlackRock in a curious position. We owned over 5% of nearly all of the companies traded on the S&P 500 market index, giving us an extraordinary amount of power. And besides our legal obligation to do so, we had also made an explicit promise to our clients to focus on generating investment profits. (BlackRock's second operating principle: "We're passionate about performance.") Like all other large and successful investment managers, we wanted our players to put points on the scoreboard. At BlackRock, our portfolio managers, who made the actual buy/sell decisions and managed the investments, were in turn paid based on their investment performance — which of course was driven by profits, meaning points scored.

Unfortunately, many things that are lucrative are also bad for the world. There's a reason that Exxon pollutes and Facebook tries to addict us to their apps: it makes money. In the face of this unfortunate reality, we led the way in popularizing a new and optimistic view: that companies with better performance on environmental and social issues would enjoy larger profits in the long-term, as there was no disconnect between 'purpose' and profits. It was kind of like saying that good sportsmanship in basketball is not at odds with scoring points. *Just look at Steph Curry!* But it was more than that: we argued that companies that embrace sustainability early create more profit for shareholders over the longer-term, which is a bit like saying that good sportsmanship on the court is linked with eventually scoring more points as a result.

Larry's 2018 annual letter made explicit the call for better sportsmanship: "Society is demanding that companies, both public and private, serve a social purpose." After that letter put Larry at the center of a new way of thinking about business, those in the sustainable finance space awaited his subsequent letters like fans awaiting their favorite artist's new album to drop: in 2019, it was "Profit & Purpose," in which he argued that "wrenching political dysfunction" meant that companies needed to step into the void to serve society, and in 2020 it was "A Fundamental Reshaping of Finance," in which he argued that climate risks would turn financial markets upside down. This past January he doubled down, arguing in his latest letter that the COVID-19 pandemic has presented an "existential crisis" that has "driven us to confront the global threat of climate change more forcefully and to consider how, like the pandemic, it will alter our lives."

His annual letter has become such an event in the industry that the 2019 version was spoofed by an environmental activist group, whose fake letter and website was so convincing that London's Financial Times newspaper first carried and quickly retracted a story about it. Larry said in an interview that he feared a "severe backlash" for his 2020 letter on climate risks. Instead, like its predecessors, it was well-received, so much so that Bloomberg even wrote an article on Larry's "sartorial nod to a warming world, " cooing that his climate-data themed tie at Davos signaled that "his newfound commitment to putting sustainability at the center of his strategy extends to his wardrobe." (To my knowledge, Greta Thunberg hasn't yet added a sartorial front to her war against rising emissions.)

The cloudy linguistics of sustainable investing

Sustainable investing is a confusing area of finance that often means different things to different people. Most of the time it means building investment portfolios that exclude objectionable categories, such as 'divesting' of fossil fuel producers in an apparent attempt to fight climate change. Unfortunately, there's a difference between excusing yourself of something you do not wish to partake in and actively fighting against something you think needs to stop for everyone's sake. Divestment, which often seems to get confused with boycotts, has no clear real-world impact since 10% of the market not buying your stock is not the same as 10% of your customers not buying your product. (The first likely makes no difference at all since others will happily own it and will bid it up to fair value in the process, whereas the second always matters, especially for a company with slim profit margins and high fixed costs.) If it's not obvious why there's little real-world impact, think of it this way: if your sports agent sells your interest in a dirty player who is known

for recklessly endangering fans, but that player remains on the court (under new ownership), have you really made any difference?

Since the early 2000s, many investors have moved past divestment to faster growing areas of sustainable investing, such as a newer focus on impact and ESG (environmental, social, and governance) products, all with a general goal of leaning toward or even creating positive and often measurable social impact alongside strong financial returns. Green bonds, where companies raise debt for environmentally friendly uses, is one of the largest and fastest-growing categories in sustainable investing, with a market size that has now passed $1 trillion. In practice, it's not totally clear if they create much positive environmental impact that would not have occurred otherwise, since most companies have a few qualifying green initiatives that they can raise green bonds to specifically fund while not increasing or altering their overall plans. And nothing stops them from pursuing decidedly non-green activities with their other sources of funding. (Imagine a basketball player letting certain socially-motivated sports agents claim credit for their more sportsmanlike activities: could we be sure that this was increasing their overall clean play?)

Another red-hot area in sustainable investing allows investors to own baskets of more "responsible" stocks, as Larry pointed out in his January 2021 letter: "From January through November 2020, investors in mutual funds and ETFs invested $288 billion globally in sustainable assets, a 96% increase over the whole of 2019." Since ESG products generally carry higher fees than non-ESG products, this represents a highly profitable and fast-growing business line for BlackRock and other financial institutions. (Imagine these as an agent helping you own shares in a group of players that are on average more sportsmanlike and may do extremely well if good sportsmanship does indeed help score more points in the future.) Since such products own some percentage less of polluters and low-ESG shares than the relevant market benchmark, the underlying 'theory of change' behind these tilts is the same as divestment: trillions of ETFs that adhere to this form of 'soft divestment' just aggregate into some fraction's worth of de facto market divestment. But because they collect baskets of shares *already* traded in public markets, investing in such a fund does not provide additional capital to more sustainable companies or causes.

A series of other sustainable products across the spectrum of financial assets — from debt to equity, public to private — have all grown in recent years, all with similar promises to also satisfy societal needs in the pursuit of profit, often even measuring a second "social bottom line." In other words, lots of sports agents have recently started selling lots of new products, all looking for our business and offering to get us more exposure to the "good" players and their actions — the more sportsmanlike ones that are not just competing well but doing so without creating a host of negative side effects for us. They even increasingly find ways to carefully measure some of this good sportsmanship so you feel good about how your money is invested.

The best-known market standard for "impact investing" thus far likely comes from the RISE Fund, a groundbreaking $2 billion impact investment vehicle that is managed by the TPG Group, a San Francisco-based private equity firm with close to $100 billion under management. According to the New York Times' Ross Sorkin in 2017, Bill McGlashan, the RISE fund's founder, "more resembles a Buddhist monk than a cigar-chomping banker in pinstripes." In an Icarus-like rise and fall, McGlashan momentarily

ascended to near pope status in the impact investing world — appearing complete with Buddhist prayer beads and African woven blankets at conferences where aspiring changemakers marveled at his newfound focus on social good — before being implicated in the college bribery scandal and then fired by TPG in 2019.

I met Bill at his office in San Francisco in 2016, when I was first starting to explore the sustainable investing industry. He had neither reached nirvana yet nor acquired its trappings, so more resembled a standard private equity guy in a suit — complete with the obligatory desire to appear far more interesting than that, something made clear to me the third time he name-dropped U2 frontman Bono, with whom he was in the process of creating the RISE Fund at the time. McGlashan gave me a pitch of what would later be described by the Financial Times as his attempt to save capitalism: "We think we can take this beast called capitalism and help to direct it in a way that is productive." Leaving aside whether or not the fundraise would be successful and create real impact or not, I wondered to myself: a $2 billion fund may be enough to bump Carole Baskin for a keynote spot at the next flashy social innovation event, but is it enough to make a difference if the majority of the global economy, with nearly $6 trillion in private equity alone and some $360 trillion of global wealth overall (3,000x and 180,000x times larger, respectively), continue operating business as usual? The RISE fund seemed like an ambitious effort that could help, but was ultimately a drop in the bucket against a tidal wave that was going in the opposite direction.

Addressing that larger tidal wave seemed like the real place that capitalism could in theory be "saved." Accordingly, while new green funds and products represent greater near-term profit potential, much effort in the industry is also focused on the idea of integrating ESG considerations into that existing tide, which for many seems to be a proxy for overlaying 'purpose' onto traditional models to extract profits. Given the boundaries of fiduciary duty, however, in most jurisdictions it can only be done if it helps, or at least doesn't hurt, investment profits — meaning, per BlackRock's first operating principle, you can't forego profits with someone else's money, even if you think it's for a good cause. And therein lies today the glowing promise of "ESG integration" in the industry: it offers better ways to pick out the more sportsmanlike players, and since those characteristics are now believed to eventually lead to scoring more points, this is a win-win for purpose and profits both. The Principles for Responsible Investment, a United Nations-supported initiative, has over 2,000 signatories representing over $80 trillion in investment assets that consider ESG factors in just this way. Unfortunately, there's no clear definition of what that means — and much of it is believed to be a surface-level, box-ticking compliance activity.

In late 2017, BlackRock revamped its sustainable investing efforts and doubled down, hiring a talented former senior Obama administration official as the new global head of sustainable investing and myself as its chief investment officer (CIO). Given the more applied focus of a CIO role at an investment firm, I led the effort to incorporate ESG activities across all the firm's investment activities. This was exactly where I wanted to focus: if we were successful in showing how we could invest trillions of dollars across different strategies and geographies in a way that achieved strong profits while also creating better environmental and social outcomes, the rest of the industry would follow — reforming capitalism in the process.

In 2019, CEOs from the US Business Roundtable, which represents nearly 200 companies such as Apple, JPMorgan Chase, Pepsi, and Walmart, broke with Friedman's view that only shareholders mattered, advocating a new focus on stakeholders, such as employees, communities, and the environment. This was a bit like the NBA Players Association releasing a statement that it was no longer enough to put points on the scoreboard: players now committed to consider other things too, like the safety of the fans. The New York Times' Ross Sorkin gave us another round of applause, declaring that Larry "deserves to be doing laps for putting these ideas into his annual letters years ago, when some of those who signed Monday's statement laughed at the idea."

We had started a trend. Unfortunately, the view from the inside was different.

II. Why we can't rely on 'good sportsmanship'

Trying to figure out whether a company's good environmental and social deeds actually translates into financial profits is a bit like trying to figure out how much purpose and profits truly overlap, which is a bit like trying to figure out if a morning coffee is healthy or not: the more work you do, the more confused you end up. I began really digging into the research when we were looking to hire a head of ESG research. The fundamental question is around whether or not better ESG performance creates better shareholder returns, which is the finance industry's jargony way of asking whether being a responsible and good corporate citizen truly helps profits or not. Does good sportsmanship actually help basketball players score more points?

Some say that ESG helps profits, some say it doesn't, and while for many researchers the views often seem predictably aligned with their existing political preferences, financial firms seem mostly in a race against one another to declare that ESG, like anything with the word sustainability in it, is good for business. *Of course we're doing it, everyone is!* Adding to the general sense of confusion, for the most part they compare financial performance to widely varying measurements of environmental and social performance. Often, everything ranging from levels of greenhouse gas emissions to supply chain labor standards and the diversity of the board of directors is mashed into a single "ESG score" for a company, which serves as a quick and convenient measure of corporate virtue.

I met Inessa Liskovich when she interviewed for our open research role. A Princeton and MIT-trained economist, she had studied ESG and was looking to leave academia. Besides being super smart — both analytical and quantitative yet also right-brained enough to know the right questions to ask of the data — she was also refreshingly candid, highlighting the uncertainties and conflicting theories in the space. As we chatted it started to become clear to me why studying ESG was becoming so popular at universities: many researchers are personally willing to spend money and invest in companies that are responsible, so they want to think about how it scales up more broadly and what it means for the market. Since you generally can't publish a "null" in academia — a conclusion that there's no real connection between causes and effects being studied — this meant more researchers with an incentive to find *something*, meaning for the most part highlighting specific, small ways that ESG may be good for long-term profits. The motivations were pure: to

encourage businesses to be more responsible.

Still, Inessa gave a sober and honest analysis about whether ESG and 'being responsible' really generated investment profits. "Does it actually make returns higher? Unclear — totally unclear." She floated the idea of it being what economists call a luxury good: "Something that does really well when people have money, and they love to spend on it because it makes them feel good, but it kind of goes away a little bit when there's less." In the end, she didn't really come out strongly for or against: "I think that there are a lot of unknowns in the space. It's super, super young."

Unfortunately, ESG data was also generally unreliable and the ratings were everywhere. A Wall Street Journal headline at the time pointed out that whether Tesla or Exxon Mobil is more sustainable "depends on whom you ask." To help sift through the data issues, many academics offered their services to us. And why not? There was money available from the private sector to jointly study sustainability issues. I can't remember seeing any such studies that were not pro-ESG. The story was always the same: that being a good corporate citizen was good for business, so obviously a no brainer in this new era of "social purpose." After reading a few pro-ESG papers whose methods and conclusions I found rather dubious, something occurred to me: there's always money to be made from telling people what they want to hear.

It was also interesting to see more grizzled, veteran investors whose principles I had learned and applied earlier in my career express far less enthusiasm for sustainable investing. Warren Buffett is famously skeptical about ESG, saying last year that companies should prioritize shareholder value over social causes, and pushing back against pro-ESG shareholder resolutions at Berkshire Hathaway's annual meeting this year. My work in technology with Rumie had brought me closer to the musings of Marc Andreessen, the famous technology entrepreneur and investor, whose impressively egg-shaped head produces many thoughtful musings, one of which was apparently that impact investing "is like a houseboat — not a very good house, not a very good boat." It's unlikely they're greedy or blindly pro-business. Andreesen and his wife are active in philanthropy and Buffett has pledged to give away over 99% of his wealth. In fact, in 2011 Buffett wrote an op-ed demanding the government raise his taxes entitled "Stop Coddling the Super Rich." Even so, he didn't seem to be on this newly fashionable "good sportsmanship leads to profits!" bandwagon.

The marketing and sales people at BlackRock were all about ESG — they couldn't get enough of it. The portfolio managers were often the opposite: many of them wanted to pass the "ESG test" and be left alone. In one chat with a portfolio manager of stocks, I noticed that his subtle dismissal of the latest research declaring *ESG-data-is a-godsend!* had a "thou doth protest too much" air to it. It wasn't hard to guess why: besides a few specific areas such as risk, they generally didn't have other parts of the firm politely insisting that they please consider this important data set they hadn't considered all that much before. The portfolio manager's view was that they're already focused on performance since it usually determines their compensation, so if ESG information was truly useful they'd use it without being asked. As a result, the internal dynamics at BlackRock felt a bit like sports agent Jerry Maguire telling himself and others that good sportsmanship is important; and then the part of his brain that actually makes the decisions on who to invest in and put on the court focusing almost entirely on who scores the most points and wins the most games.

Sustainable investing, minus the investing

According to Wikipedia, Benjamin Yeoh is a British Chinese playwright. His play *Yellow Gentleman*, which was his third work to premier in London, received four stars from *Time Out*: “Yeoh’s account of the immigrant experience of Tommy’s journey from Malaysia and his acceptance into the social whirl of the 1960s is cleverly played off against the generational conflict.” According to LinkedIn, however, Benjamin Yeoh is a Senior PM at RBC Global Asset Management in London. They’re both the same person, though fortunately his less interesting day job doesn’t pollute the extracurricular exploits that form the basis of his Wikipedia entry. “We manage global equities in an ‘integrated ESG’ fashion, or whatever you want to call it,” he told me when we first met in London. “This is a set of complicated sustainability trade-offs.”

I found him almost by accident: after meeting Inessa and reviewing the research, I started developing a thesis that stale accounting standards were obscuring the value of ESG to profits. Through a Google search, I landed on Ben’s blog. It seemed that he was the only other person thinking about ESG the same way as me. My unsolicited email to him resulted in a lunch meeting at a fancy Peruvian restaurant steps from our European headquarters near Bank station in London. “ESG screening is probably going to remain a minority sport,” he remarked as the server put down plate after plate, having advised us clueless non-regulars down a path that unsurprisingly involved ordering enough to feed us for days.

“Whether structured or unstructured, you could call it another data set.” His thoughtful, measured approach contrasted considerably with much of the cheerleading. Hearing about ESG as “another data set” was somehow less exhilarating than I was used to hearing. *But what about the purpose*? He finished with an anecdote that caught my attention. At a high-profile responsible investing conference a few years ago, he was on a panel on ESG investing and happened to ask the audience a question: “How many of you have actually made a professional investment?” No reaction. He piped in again. “I mean, as in, has anyone here ever made a purchase of shares on behalf of a client? For a few million dollars at least?” Nothing. No hands from his co-panelists. Nor the audience. He was the only one in a room of around one hundred people. It was like a software developer at an ‘ethical programming’ conference suddenly realizing that no one else in the entire auditorium had ever written a line of code before. “On the panels and in the policy area, there are few investors. In the early days, many ended up in the area by accident rather than by design and while not investment trained, saw it was growing fast and had a feel-good factor, and decided to stay. But they’re not investors or much interested in that, and they’re sometimes not really motivated that much by values either.”

I met Ben half a year into my tenure at BlackRock, just as I was really beginning to discover the difficulty of my task. Most of what the ESG cheerleaders wanted to believe should matter for portfolio managers did not matter in reality. It was no one’s fault: the reality is that much of what matters to society simply doesn’t affect the returns of a particular investment strategy. Often this is because of the timeline of the underlying investment: many strategies have a very short time horizon, meaning that longer-term ESG issues aren’t particularly relevant. Sometimes there are debt strategies that have various insurance and protections, and aren’t concerned with a period beyond the debt’s maturity date anyway. Most often, costly and long-term

sustainability-related investments are uncertain and take a while to bear profit potential, assuming there is any. And every so often, it's hard to even understand what good sportsmanship could possibly mean. How do you evaluate ESG for treasury inflation-protected US Government Bonds, and how does that have concrete value to investing — much less the world?

Like a vulture investor in a kumbaya shop

Quickly parsing the hype surrounding purpose and profit was a bit easier because I learned to invest in the distressed investing field. Distressed investors, also sometimes called "vulture investors" and "gravedancers," spend lots of time digging through lots of stale and irrelevant information to find hidden value in struggling or bankrupt companies. They also tend to get lied to a lot and see a lot of acrimonious situations, making them rather skeptical by nature. It was a mindset I learned well earlier in my career while at MHR Fund Management, whose founder, my old boss Mark Rachesky, had been billionaire corporate raider Carl Icahn's CIO in the 1990s.

Distressed investors are generally considered aggressive "activists" in pursuing their goals through legal means, shareholder votes, creditors committees, and pretty much any other tools at their disposal. When I lived in that world we regularly locked horns with our competitors. We were once sued by hedge fund Third Point after it objected to a deal that we made with the management of a company in which we had a controlling interest, arguing it unfairly treated minority shareholders. The day the deal was announced, Third Point's founder, Dan Loeb, called our office and got a 25-year old receptionist. After ensuring that she had a pad and paper ready to transcribe a message for Rachesky, he slowly spelled out: "Please tell him that the next time you fuck minority shareholders in the ass, use lubrication."

Prior to joining MHR, I was at the investment bank Credit Suisse, where I first got to know Rachesky and his then right-hand man, Hal Goldstein, a former bankruptcy lawyer who had also worked with Icahn. The banker running the deal allowed me, a lowly analyst, to deal directly with the client — a rarity at the time. Although we had little in common on the surface (I was a single analyst in my 20s, he had six kids and would leave early on Fridays to observe the Sabbath), I got to know Hal well enough that we soon shared inside jokes, including an interest in rap music. In a joke I figured he'd understand based on our last conversation, I once left a clip of a profanity-laden portion of Tupac's song *Hit em Up* on his voicemail. I immediately panicked afterward, convinced I had committed the cardinal sin every investment banking analyst from that era knew to diligently avoid — showing impertinence — and was going to be reprimanded, even fired for doing this to, of all people, an important client of the bank. Instead, MHR eventually hired me.

As I toiled desperately to make the investment mechanics of achieving both purpose and profit meet the world's lofty expectations, I would remember the things that Hal taught me over the years. Investment after investment was the same type of thing: tough scenarios where the rubber was hitting the road and companies had to make difficult decisions. It was like judging if players are clean or not based on what they actually do during the fourth quarter in close games, rather than what they say about the importance of showing good

sportsmanship in pre and post-game interviews. I reached out to Hal to see if his instincts remain the same today.

“My dogs are sitting here eating grass. And pissing all over the place." Reached by Zoom in his backyard, he pointed to a Maltipoo chewing on a bone. "His name is Sparky.” With a careful, lawyerly diction he slowly enunciated the next bit: “He is... *difficult*… at *best*." He paused and reflected a bit more. "But cute." As he balanced an iPad on his lap, whilst sat beneath a children’s playground that his youngest, who is 17, understandably hasn’t used in years, he paused intermittently to evaluate whether or not the spitting rain of the clouds that had recently appeared overhead were reaching him.

“The mission of the corporation is supposed to be to make money for the shareholders, right?” He got to the point for a reason: the vast majority of large US companies are incorporated in Delaware, which is perceived as shareholder-friendly and where the courts have been clear that a corporation’s reason for existence is to serve shareholders. As Nell Minow writes in the Harvard Law Forum for Corporate Governance, the foundation of capitalism is strict adherence to fiduciary obligation (“the punctilio of an honor the most sensitive,” per Justice Benjamin Cardozo in *Meinhard v. Salmon*). This adherence to fiduciary obligation “gives credibility to capitalism by addressing the agency cost risk of entrusting money to others.” In addition, shareholders get to vote on who sits on a company’s Board — and thus can hire and fire the CEO and management.

“But don’t forget the business judgment rule,” Hal piped in, responding to his own question. “They’ll be protected for making decisions that cost money but are good for the world as long as they have enough information, legal advice, and a strong rationale." According to the idea of shareholder primacy, good sportsmanship is okay, but only if it benefits owners. (Who, through our sports agents, demand points.) As an example, a CEO may decide to reduce her company’s carbon footprint, but she can’t do so because it’s “fair” or the “right thing to do”; it has to be justified in terms of *shareholder* interests. As we dug deeper on this, it became clearer and clearer how constricting this is, and how unlikely it is that “good sportsmanship’ can be defined, measured, and justified often and on a large enough scale to make a major difference on key social issues — ones where neutral or bad sportsmanship wins games.

“Still doesn't make any sense to me!” Hal eventually blurted out. “Listen, you know it's a marketing gimmick.” He waited for a response. “You know it. We all know it!"

Importantly, he was not necessarily saying that corporations are lying about their commitments to purpose, but rather that since it had to be neutral to positive for shareholder interests, it had to serve *some* function of the business and the long-term profit machine. And that function was, most likely, marketing. “The question always remains: are we helping the company? And helping the company could just be *marketing* helping the company, rather than substantively helping the company. Or substantively helping the world. Is that enough of a reason? I would think the answer is yes. If the CEO says he wants to give money to a fashionable cause, and the marketing people say that it'll be great for our company's image, isn't that all you need as a Director?”

While the business judgment rule gives them space to make decisions that aren't profitable in the short-term, such as investing in long-term environmental initiatives or raising wages, there's a limit to how far that will go before the exposure to overstepping vexes even the most socially-minded public company CEO — who anyway is personally incentivized to maximize near-term profits. (Emmanuel Faber, who made sustainability a key pillar of his strategy as CEO of European food giant Danone, learned this the hard way in March, when he was ousted by activist shareholders for a lagging share price.) As Minow points out, capitalism is named after the providers of capital (i.e., the shareholders) for a reason. The business judgment rule gives some room, but not nearly enough to pursue society's objectives at the speed and in the magnitude required to solve some of our greatest challenges.

Let's take a step back and summarize where we are. Players have collectively engaged in forms of dirty play for decades because it scores points and wins games. The rules generally haven't changed: in most such cases dirty play can still help maximize points, and players remain under strict instructions to score points and only partake in good sportsmanship insofar as it contributes to (or doesn't detract from) the scoreboard. And on top of that they're exceedingly focused on the short-term (think: today's game), a time horizon for which few believe that good sportsmanship has much of a link to points.

None of this sounded to me like a good setup for success.

Do purpose and profit really overlap?

Think of purpose and profit as represented by two separate circles in a Venn diagram. Where the circles overlap, it shows areas where doing the right thing is also profitable. Unfortunately, where they *don't* overlap most large companies have little concrete interest. I once sat in a small, near two-hour Diversity & Inclusion session for financial executives that was chaired by Ana Botin, Chairman of the nearly $2 trillion Santander Bank and scion of the Botin family that has controlled Spain's largest bank for generations. There was extraordinary enthusiasm for gender-related issues. "It's about time that we afforded equal opportunities to women in the industry!" exclaimed one executive, quite rightly. We all nodded our heads. Executives from the other major financial firms were assembled around a beautiful boardroom table on a high floor of Santander's midtown Manhattan headquarters, and one by one they all chimed in. All in favor of course, and all stressing correctly why it made good business sense. Most were older than me, and seemed to now truly believe what they were saying, unlike what I had heard murmured at the obligatory check-box diversity sessions that were crammed into my investment banking analyst training program twenty years ago.

By the time the fourth person at the table excitedly made the same point in different words — that gender-related diversity issues were now very clearly "good for business" because 50% of the population demanded it and the other 50% had apparently just discovered that they have mothers, sisters, wives, and daughters — something suddenly occurred to me. What about causes that were similarly just but did *not* happen to also be profitable?

I took part in lots of Diversity & Inclusion (D&I) events and activities at BlackRock. They always included

large numbers of younger, junior employees — most of whom, it seemed to me, were motivated to support D&I primarily because they felt it was a symbol of the just and fair society they wished to live in, not because it was profitable. How would they react to the notion that many D&I initiatives they believed in, such as support for the inclusion of marginalized racial minorities, might be de-emphasized if and when they didn't seem to also be quite as good for business? Are important social imperatives best left to companies to manage if they only care about purpose when it happens to overlap with profits?

It was also becoming clear that the degree of overlap between the purpose and profit circles was less than I had expected, or could possibly justify the widespread hype. As I moved through meetings with senior managers across the firm to explore how ESG data could improve their investment processes, I saw firsthand that for most investment strategies only a few ESG issues concretely mattered. It sometimes depended on the location: having an animal rights controversy is worse if you're based in California than if you're based in China. Some things are only important when public attention is squarely focused on them: think of how the #MeToo and #BlackLivesMatter movements have elicited hurried responses from companies acknowledging shortcomings in their D&I efforts. (And a number of promises that have not been met yet.) The idea of fickle public attention to preserve society's long-term interests is a prospect that should alarm us all: will voluntarily engaging in good sportsmanship be something we can rely on players to keep doing when the spotlight moves onto other issues and the overlap with profit thus recedes? And is a depressing social media feed rife with constant controversy and boycotts the best way to ensure that companies do the right thing?

Do you really want your banker redesigning society?

"He sounds a bit like Notorious B.I.G.," I remarked to the Head of Fixed Income. We were in the private area of a restaurant in Tokyo that night, having dinner with our Board of Directors at the end of a long day of meetings and presentations. Softbank's CEO Masayoshi Son, who was friendly with Larry and our President Rob Kapito, joined us for the dinner. Asked by Larry and Rob to say a few words, he stood in the front of the room and launched into a rambling 45-minute discourse that was shockingly immodest. "Larry was wrong, they're not above 50%. My returns are above 60%!" he exclaimed, pausing either for effect or because he expected others to laugh politely in response. As he rhapsodized about the supposed returns of his $100 billion Vision Fund and its groundbreaking fundraise ("I told Nikesh on the plane to the Gulf that thirty is not worth the effort — it must be one hundred!"), I looked around the room and reflected on the whole proceedings. Across the table from me was Bill Ford, CEO of Private Equity firm General Atlantic and a BlackRock board member. He had a quizzical look on his face. "Those returns are all unrealized," he grumbled under his breath, presciently noting that until you've sold your investment in WeWork, valuing it at the same level that freewheeling founder Adam Neuman sold it to you at may not be wise.

For my part I was more consumed by two rather different observations, the first narrow and intriguing, the second broad and weighty. First, I was slightly surprised that Son's rambling remarks had enough braggadocio to compete with the lyrics of Biggie's *One More Chance*, even accounting for the fact that Rob had, when introducing him, wryly acknowledged that meeting for drinks before dinner may not have been

the best decision. Second and more importantly, I started to reflect on the weight of the things being discussed by this small group of the world's most powerful people.

Earlier that day, during our board meetings at the gorgeous Shangri-La hotel in Tokyo, we presented our strategy to an impressive group, a snapshot of the Davos elite. Philipp Hildebrand, who served as head of the Central Bank of Switzerland until a scandal surrounding his wife's conveniently-timed currency trades in 2012 forced him out and into safe hands as Vice Chairman at BlackRock, beamed proudly as we presented our strategy and achievements to date. Hildebrand had put up his hand to serve as senior sponsor for this particular area and was rather taken by the symbolism of what we were doing. "We can show how finance can play a constructive role for society!" gushed the former Central Banker, who had a particular affinity for achievements that he could whisper to French President Emmanuel Macron and a host of other impressive-sounding European grandees.

Left unasked in all of the Board activities in Tokyo was a simple question that I mulled over as Masa Son continued a rap battle against no one in particular on the mic that night: was this where such discussions should be occurring in the first place? The size and scale of our efforts could make a major difference in driving key societal outcomes. But at such a critical time, should such important decisions for democratic societies be left to occur in a private forum like this — with decision-makers whose financial interests may not line up with the long-term public interest?

"There were times that I felt like Thomas Jefferson." So said Johnson & Johnson CEO Alex Gorsky, who led the drafting of the US Business Roundtable (BRT)'s groundbreaking statement on stakeholder value. It's easy to understand why he felt that way, given the weight of such lofty words about the future direction of not just business, but indeed society in general. But not enough people have asked a simple question: does it make sense that a CEO should feel like a famous US President? Only one of them is elected by the people, after all, unless by "the people" we somehow mean "voting shareholders of Johnson & Johnson."

This difference might help explain why the BRT's social aspirations seem rather far off reality. As Aneesh Raghunandan and Shiva Rajgopal point out in the paper "Do the Socially Responsible Walk the Talk?", relative to their peers, publicly-listed BRT signatories report higher rates of environmental and labor-related compliance violations, pay more penalties as a result, and spend more on lobbying policymakers. BRT signatories have been lobbying actively in recent years against a price on carbon, the elimination of tax loopholes, and a number of other initiatives designed to fight climate change and rising inequality. And a new report last September confirmed that since the global pandemic began, BRT signatories have proven no better than anyone else in protecting jobs, workplace safety, and labor rights, or doing anything to redress racial inequalities.

None of this should really come as a surprise, especially to the signatories of the BRT's statement. From top to bottom, from CEO compensation to divisional budgeting and P&L to managerial targets, structures, and incentives, we've built private firms from the ground up to do one thing really well: extract profits. The majority of America's largest companies today were founded after Milton Friedman's era of shareholder primacy began in 1970, and have thus developed into complex bureaucratic machines that are designed

primarily to extract maximum profits for shareholders within the rules of the game. (Think of it like levels of elite training to eventually play in the NBA: they're trained from their youth to score points, win games, and compete at the highest level.) It turns out that a large, multinational profit-making machine that's built to do one thing really well operates exactly as we should expect it to.

Between now and 2030, the stakes are so high that we should grant ourselves the right to be skeptical, even downright cynical, since we *have* to make this work. In light of that, the lazy prevailing attitude — that ongoing discussions around "stakeholder value" are automatically steps in the right direction — seems unwise. Given what we know about how the game is played, and the rate of progress we've seen over the last few decades, is it wise of us to spend the next decade treating life-and-death issues as if they're best left up to vagaries of good sportsmanship alone?

A faster moving curve needs flattening: COVID-19

The Monday following the private jet conversation described at the beginning of this essay, I gave notice that I planned to leave the firm. Officially, my reason for leaving was due to very real family business issues I had to help with following my father-in-law's passing. Unofficially, I had also privately concluded that there was no point continuing in that role: trying to create real-world social impact through sustainable investing felt like pushing on a string.

Anyway, Rumie's new free microlearning platform was promising, and provided a viable alternative to social media and its crack-like addiction engine. I knew I could do more for the world by making that freely available than I ever would selling a new 'green' story atop the largely unchanged economic system that had led us into this crisis in the first place. So I returned to my hometown, Toronto, just months before the COVID-19 global sucker punch landed.

My daily escape from sudden confinement at home came thanks to Ruff, a mixed Border Collie, German Shepherd and Siberian Husky mix who we adopted as a rescue puppy five years earlier. He demanded long and regular walks, which I happily obliged for my own sanity. Even before lockdowns, seeing his goofy, smiling face as he trotted excitedly down the street toward the park had a contagious effect on me and most passers-by. And fortunately, it was quite safe: most folks at that point observed the rules around social distancing, in part because Toronto had suffered a major SARS outbreak 17 years earlier, but also because of the quick actions of policymakers, who determined at all levels of government — municipal, provincial, and federal — to take the threat pretty seriously.

As March progressed, I noticed with each passing daily walk just how serious the city was: they were closing everything. It wasn't just restaurants and malls; even Ruff's favorite dog park was shut! While some of the decisions were ham-handed and seemingly arbitrary, one thing was clear: the experts who were advising our government did not think it wise to leave adherence up to the voluntary good graces of our better selves alone. So rather than relying on voluntary compliance to flatten the COVID-19 curve, our government actively ensured that lockdown measures were *mandatory* through forced closures and penalties. Those who

didn't adhere to the rules endangered us all, so we were generally fine with stiff penalties that applied to anyone caught flouting the guidelines.

The alternative to mandatory lockdowns was relying on individuals to be responsible. I recall receiving a Whatsapp forward of an image created by the Texas Medical Association that showed the relative danger of infection at different venues. Bars, which had just reopened in Texas, were the most dangerous on the list. I wondered how many people in Texas had seen this critical public information. Maybe 5%? 10%? And even if they did, many would still go and then take less precautions as the night wore on; bars are hardly known for bringing out the most responsible behavior in their patrons. Fortunately, in places like Toronto and New York we didn't have to think about that: someone in the government clearly had that graphic, probably received directly from the healthcare experts whose salaries our tax dollars fund. So rather than relying on others to circulate Whatsapp forwards, our policymakers decided for us: if we want to save lives and go back to normal sooner, bars should be closed for a period. The end.

A second major feature of the lockdowns also stood out: there was a clear and pervasive idea that the rules applied to *everyone*. People were generally quick to realize that health can rapidly switch from an individual pursuit to a public project, meaning we all need to work together on it — no exceptions. And the experts were clear about it: in a place like Toronto, adherence to social distancing needed to be *systemic*, meaning everyone, not just select groups of people who opted-in. A friend told me that she saw a pregnant woman getting a ticket for sitting on a park bench, which apparently counted as prohibited use of a park amenity. Much as that struck me as excessive, what occurred to me next is probably what also occurred to everyone else in the city of Toronto who heard it and was not pregnant. *If the city isn't making exceptions for pregnant women, then there's no way in hell I'm getting away with it.*

The COVID-19 response in Toronto was far from perfect, but for most of the pandemic it wasn't bad — and it helped us flatten the curve enough in the first and second waves that we could both save lives and also safely reopen parts of the economy sooner. Little to none of it was political. The elected leader of the Province, Conservative Party leader Doug Ford, who the New York Times called a "Canadian Donald Trump" in a headline in 2018, was quick to accept the need for lockdowns in early 2020. He made social distancing measures systemic and mandatory rather than individual and voluntary, and called anti-lockdown protestors a "bunch of yahoos." The benefits of a top-down approach led by government are worth it for the saved lives alone. A study on wearing masks concluded that mandatory mask-wearing in the United States could have saved 40,000 lives in just the months of April and May 2020 alone. Another study said masks could save as many as 130,000 American lives in total during the pandemic. That's over forty times the number of lives lost during the September 11 attacks. The subtext of the Bloomberg article describing the first study says it all: "Statistical analysis shows that personal choices alone don't defeat Covid-19."

A tale of two curves: climate change gets the shaft

Our experience over the last 18 months raises important questions on our long-term sustainability goals. We all get lots of advice related to individual action to make our lifestyles more environmentally friendly, mainly by lowering our carbon footprints by buying 'green' products, cycling to work, and eating local veggies. But a young person who is concerned about the future and is asked to buy carbon offsets for a student trip might wonder if it matters, especially when wealthy, older people don't bother with it, and large corporations generally opt out because this kind of good sportsmanship really doesn't translate into scoring points. (Technically, voluntarily paying money for carbon offsets actually *costs* them points.) If voluntary and individual measures are clearly not good enough to bend our society's COVID-19 infections curve downward, then why do the experts think that such measures will bend our society's greenhouse gas emissions curve downward?

And there's the rub. On climate change, inequality, and a host of other important issues, the experts are *not* advising us to leave it to individual, voluntary action. They know that it won't work. The issue is that we're not listening to them. Taking climate change as an example, every serious voice in the elite now claims to believe the science; but few are listening to the policy experts on *how* we must enact the changes the scientists are telling us we need immediately.

Four months before I attended that fancy gala dinner at the Stockholm City Hall, a Yale professor named William Nordhaus did the very same as recipient of the 2018 Nobel Prize for his work on the economics of climate change. While I don't know what he thought of the mediocre chocolate soufflé that the Peruvians and I panned, I do know what he thinks is the most effective tool for our economic system to reduce emissions. "Economics points to one inconvenient truth about climate change policy. And that is that in order to be effective, the policies have to raise the price of carbon, or CO2, and in doing that correct the externality of the marketplace," Nordhaus said in a lecture at Stockholm University, two days before the Nobel ceremony. "I think one of the insights of economics…" He pauses before continuing, at pains to emphasize this next point: "...one that I feel very strongly about… is that if you're going to be effective, you have to raise the price. Because putting a price on our activities is the only way…" He then cuts himself off to start all over again, almost realizing in real time how important it is that the audience comprehend the scale of what he's about to say.

"We have to get *billions* of people, now and in the future. *Millions* of firms. *Thousands* of governments… to take steps to move in the direction we want. And the only way you're going to do that effectively is to increase the price of carbon." The idea behind a carbon tax is simple: if you make the entity creating the negative externality pay the costs of it (say, through a pollution tax), their incentives change and thus their behavior changes — and our existing system of business, markets, and competition starts to innovate toward greener alternatives. It's kind of like making a basketball player pay fines whenever they cause harm to fans; if those costs are high enough, players will think twice before playing recklessly and instead find new ways to win cleanly.

While a carbon tax is not perfect, and must come accompanied by a broader set of sweeping policy measures,

Nordhaus' central point is worth noting: if you want to change the behavior of all of the players in the game, you have to change the rules of the game for everyone. Fixing outdated rules seems like an effective way to keep a competitive and productive game going while also minimizing dangerous side effects on the crowd. Instead, on sustainability issues we're currently being told that our hope lies in standing back and relying on some players sometimes deciding to pursue good sportsmanship, purely voluntarily, even if playing dirty helps them fulfill their legal duty to score maximum points.

For what it's worth, I tried to find examples where Nordhaus talks about low-carbon ETFs. I found none. Likewise, Thomas Piketty, whose groundbreaking 2013 tome *Capital in the 21st Century* highlighted the extent to which wealth inequality has risen and is continuing to grow unchecked, talks a lot about raising historically-low marginal tax rates on the highest earners. He does not talk about private equity funds that claim to fight inequality.

Think of it this way: imagine you were tasked with trying to reduce the number of three pointers in an NBA game. Would you ask players to do you a favor and try shooting from a few inches behind the line because you don't want to bother repainting it? Or just move the three-point line back by a few inches? It's safe to say that only one of those will work in the fourth quarter of a competitive sports game, since in that situation only points win games, and players are legally obligated and financially incentivized to score points. And no additional points are awarded for playing nice. I suspect that this is what it's often like for a CEO trying to hit quarterly earnings targets: in a capitalist system that has become excessively focused on short-term quarterly profit performance at all costs, they feel pressure to score a certain number of points in order to 'win' against expectations for the quarter, a pressure that is then pushed down through the systems they manage.

That's why experts like Nordhaus are telling us that the league needs to change the rules in order to change the behavior of the participants in the system. And those rules can't be voluntary (*hey everyone, look at this nice green thing we decided to do for Earth Day!*), they need to be mandatory (*think fuel efficiency standards for vehicles*). Nor can they be individual (*let us good and responsible folk do our part and see if that works!)*, they need to be systemic (*everyone must share the burden in order for it to work*).

Why do people talk about a 'free market' as if one actually exists?

At this point in the discussion, we're all brainwashed to say the same thing: *Gasp, but wouldn't that mean that the government is intervening in the free market?* Fixing the rules of this system so that it produces better societal outcomes is not "intervening in the free market" — especially as there *is* no such thing as a 'free market' in the first place. A market economy is at its core a collection of rules. No rules, no market. Just as every competitive sport has clear rules, competitive markets need rules: no rules, no game. Nor is there one set of preordained rules: every rule, ranging from the number of years a new idea gets patent protection to the corporate tax rate, is a deliberate decision that has implications for the outcomes of the system. If we change the rules of the game, we'll get different outcomes, all of which can be described as

market outcomes. Changing those rules is no more an "intervention in the free market" than it was for the government to create that rule in the first place, or for the NBA to decide to draw a line on the court behind which successful shots are worth three points.

The capital allocation processes that Wall Street manages connect our savings with the most productive uses of that capital in our economy. The people who make those capital allocation decisions are trained to react quickly to changes in expected yields and profitability of investment opportunities. If you were to tell a portfolio manager to lower the carbon footprint of their portfolio, most will nod their heads and agree it's important, but then return to allocating capital to the most profitable endeavors — exactly as they're legally obligated and financially incentivized to do. If, on the other hand, a negative externality is "internalized" by the government through, say, a pollution tax, thus lowering the profitability of heavy greenhouse gas emitters, capital allocators will *automatically* react as fast as they can, allocating less capital to these now less profitable opportunities.

Most portfolio managers intuitively know all of this to be the case. One PM at BlackRock was explicit with me: "I believe in climate change. If we had a price on carbon, I'd lower my carbon footprint overnight — and so would everyone else. But it makes no sense to do it alone and put myself at a disadvantage, and it's not what I'm legally supposed to do or paid to do." It was like a basketball player saying "I will happily play safer... if you change the rules for everyone. But as long as you leave the rules the way they are, what you're asking me to do is to forego points in the name of good sportsmanship. I'm both paid to and legally obligated to score points, and it's a competitive game, so I'll pass."

Updating the rules would make it easier for the players in the game to refocus on what they do best: scoring as many points as they can within a certain set of rules and regulations. It also removes business leaders from attempting to play a critical role on pressing social issues for which they have neither the experience, the democratic mandate, nor the financial incentives and legal latitude to carry out effectively. Updating the rules would mean players who already play clean finally get a leg up on their competitors as a reward for doing the right thing early. Much like the COVID-19 threat, the scale of the challenge means we need to define ourselves by the speed of the slowest and worst performers, not only the best. In a pre-vaccine world, so long as the bar down the street is packed with a raucous crowd that is ignoring all the guidelines, your efforts to wear a mask and social distance are partly wasted.

But there's an important difference between COVID-19 and climate change. You find out that you're infected by COVID-19 within a week or two of exposure; by contrast the worst consequences of the slow-moving accumulation of greenhouse gases in the atmosphere will arrive decades after we belch it out. The slower incubation period allows us to indulge in the fantasy that voluntary and individual action alone will somehow aggregate into the systemic change we desperately need right now. But if we can listen to science and change our behavior in order to flatten the curve of something that is killing us quickly, why can't we listen to science when it tells us to change our behavior to flatten the curve of something that is killing us slowly? In both cases, the experts are telling us that an ounce of prevention is worth a pound of cure.

But somehow the speed of implementing the systemic and mandatory changes we need to lower the COVID-19 infections curve has been both mediocre and yet somehow still far more impressive than the speed and political will we've shown to implement any such changes to lower the greenhouse gas emissions curve. We're ignoring the slower threat because we're still a while away from the severest consequences of answering inconvenient truths with convenient fantasies. So we're told that we should leave the rules the way they are, buy an ESG fund to make the world a better place *and* make money — all at the same time! Sounds familiar. *We can flatten the curve* *and* *keep all the sports bars open for the big game!* Just imagine how much more often that would happen if people only found out that they got COVID-19 a few decades later?

After the global pandemic began and its raw speed and destruction forced us to react, I realized that we were seeing a much slower-moving version of the same story with respect to climate change. We still had the metaphorical bars open. We'd eventually start closing them, reluctantly, in a completely ill-prepared response only fumbled together once the storm was already upon us. My work in sustainable investing was not really doing much to change that, beyond leveraging a short-term gold rush to market new 'green' products in every financial asset class from private equity to money market funds. If we want to see the kind of systemic change we need, we must remember the simple and obvious answer that appears curiously underemphasized at Davos and other meetings of the world's elite: to fix the system, we need governments to fix the rules.

Does this mean that sustainable investing is a *problem*? A low-carbon ETF can exist alongside a price on carbon — they're not mutually exclusive. Even if sustainable investing is not a substitute for the rule changes we really need, if it's doing a *little* bit of good, what's the problem — can't we have both?

III. The danger of fairy tales

Climate change campaigners have drawn links in recent years between tobacco and fossil fuel. Both industries have used dodgy science to muddy the waters and desperately downplay the dangers of their products, cancer and climate change. In some cases they've even used the same researchers and public relations firms to deceive us. Before government restrictions on tobacco advertising, cigarette companies had the gall to advertise that cigarettes are not only safe but also *good* for you. *They protect your throat from irritation!*

This should be a familiar theme by now. When our leading experts conclude that a certain highly lucrative business activity is a grave danger to society, the machine "innovates" to protect its profits any way it can. And why wouldn't it? Firms are built to score points within the rules that society lays down. And all the obligatory but meaningless business school talk of 'codes of ethics' aside, the fact remains that if the referees won't penalize players for doing business in a way that yields huge profits at our collective expense and then playing down those negative side effects, they'll generally keep on doing it. Yes, ethical customs and norms matter. Even Milton Friedman talked about them. But given the scale of the systemic change we need for time-sensitive environmental and social changes, ethical custom and business culture alone can't possibly

change fast enough to accomplish the task at hand in time.

Many of the rank and file employees at companies that create profit in ways that harm the public don't realize it themselves. Often it's because they work in silos. Or because the issue is complex. And long-term. Sometimes all of those things. For senior management, it can be tempting to believe a fantasy that happily aligns with their financial interests. As American writer Upton Sinclair once put it, "it is difficult to get a man to understand something when his salary depends upon his not understanding it."

As Ruff and I took our daily escape one day last summer, just after the first COVID-19 wave subsided and his beloved dog park reopened, an alarming new thought occurred to me. I started noticing that the more I explained the concept of sustainable investing to people, the more they seemed eager to believe that it would help — and slightly relieved that it might allow us to leave things the way they are. Many had nothing to do with the finance industry or financial assets, and definitely didn't understand the mechanisms by which it could in theory help solve our problems, but grasped lovingly onto the idea. Pipe dreams are particularly alluring when they're easier on our wallets: if fighting climate change were cheap we'd have dealt with it already. Morgan Stanley estimated that preventing climate change will cost $50 trillion, or close to half of the world's annual economic output. As far as incentives go, that's a large enough one to sustain a collective denial fantasy for at least a while — costing us a *lot* more over the long-term.

A new research paper published in the scientific journal Nature in 2019 showed that 'quick fix' solutions to address the climate crisis may have a 'pernicious effect' in that they seem to "decrease support for substantive policies by providing false hope that problems can be tackled without imposing considerable costs." This set of observations led me to wonder: what if the work I had been doing at BlackRock was actively *harming* society, by misleading the public and delaying overdue government reforms?

Sustainable investing is becoming a deadly distraction

The idea that sustainable investing and a set of related ideas that business will voluntarily lead the way on sustainability was a "deadly distraction" worried me enough that I decided to test it out. So, working with Ryerson University and the Strategic Council, a polling firm, we conducted a study at the end of the summer 2020 to better understand public attitudes on building a more sustainable society. The poll included three thousand people of all ages in the US and Canada. In one key section, we showed respondents a headline related to Larry's 2018 letter on purpose and seven other similar headlines around new sustainability initiatives — mostly to do with businesses voluntarily taking the lead and other headlines in the sustainable finance space — and asked them to indicate whether they thought each was helpful in driving social change or not. All eight headlines were generally believed to be helpful. This is even though a number of them were decoys that I asked the polling firm to include in the study, knowing full well that they were window dressing with little to no real-world impact.

One such area was a headline around former UK and Canadian Central Bank governor Mark Carney warning against climate change risks in investment portfolios. I suspected that every time people read the latest such

headline about guarding against climate change-related risks in the financial system, they mistakenly believed that these efforts were helpful in the fight against climate change itself. In fact, the survey found that not only was that true, but that most people think that this kind of work is just as helpful as any other pledge, such as large-scale organizational commitments to become net zero carbon emitters. Unfortunately, protecting an investment portfolio from the disastrous effects of climate change is not the same thing as preventing those disastrous effects from occurring in the first place. It was a bit like reading that people who live near forest fires in California feel safer because one of their neighbours purchases wildfire insurance on their home. But wait — what does that do for you? And what about all the people that can't get insurance on their homes? And shouldn't we be trying to prevent the fires from burning down our neighborhoods in the first place?

Unsurprisingly, most didn't know that fossil fuel divestment campaigns have little real-world impact. A headline about the Norwegian sovereign wealth fund deciding to phase out its fossil fuel exposure, which has no proven impact on emissions, was viewed as roughly as helpful to society as a concrete commitment of $100 million to combat racial inequality, which will presumably achieve at least something. One headline discussed the decision by the UK's Guardian newspaper to refuse advertising dollars from fossil fuel producers: noble, yes, but ultimately of such a small and limited scale that it's unlikely to do much besides make a bit of noise. But that bit of noise was eagerly believed by people to be just as helpful as anything else in the headlines we tested.

The truth is, most people have no idea what works and what doesn't. These are complex issues, but instead of having dedicated policy experts carefully tweak the system, we're leaving it up to the general public to figure it out on their own. It's like letting them decide whether or not they want to go to the sports bar during the pandemic — without even bothering to send them the Whatsapp forward with the basic facts required to make that decision. Besides the slowness of rapidly changing billions of economic interactions that way, we forfeit the advantages of being able to quickly adjust the levers of the system, carefully measure the results, and optimize things in a way that efficient management by a democratically elected government would allow for.

This is also where the basketball analogy breaks down. It turns out that people don't even know what good sportsmanship looks like. They're busy with their everyday lives and making ends meet — and besides a few hardcores who spend hours researching the details online, the vast majority can't tell what counts as clean play and what doesn't. Relying on personal choices alone is even more ridiculous if most people have no idea what helps and what doesn't.

Unfortunately, it gets even worse: the deadly distraction is real. For half the respondents we removed the headlines entirely, and then compared the views of both groups — those who had seen the headlines and those who hadn't — on who should lead the way in building a sustainable society. In Canada, it didn't make that much difference: people generally trust their elected representatives to lead the way regardless. But there was a large and statistically significant difference in the US. Exposure to the headlines made people 17% more likely to say that business, not government, will lead the way in building a more sustainable economy.

Think of it this way: the more they saw isolated anecdotes of a few players playing clean (many of whom actually weren't), the more they wrongly believed that good sportsmanship, not effective refereeing, is the large-scale solution to the dirty play we've seen in the game recently. Never mind that relying on good sportsmanship is nowhere near enough to meet the scale of the challenges we face, or that those same respondents barely know what good sportsmanship looks like. A few anecdotal examples of Steph Currys doing the right thing will not magically aggregate into the kind of mandatory, systemic change we desperately need right now to protect the well being and long-term interests of the youngest and the poorest in the world.

Government acts in many forms, including as both provider and regulator. As provider, it administers things like free public education and funding for science and innovation. Major innovations such as the iPhone wouldn't have been possible without public investment, as the economist Mariana Mazzucato has argued. As regulator, it sets and enforces the rules of the game — incentivizing the kind of private commercial activity that aligns with the long-term public interest. This is less about the size of government and more about what rules and regulations it uses its extraordinary systemic powers to set. In Canada people generally trust the government to lead the way for important social issues. But after decades of being told that government is always the problem rather than the solution, many Americans today fail to appreciate the critical functions that only a government can deliver and without which society has no backup.

Immediately after leaving BlackRock, I had reached the conclusion that our work in sustainable investing was like selling wheatgrass to a cancer patient. There's no evidence that wheatgrass will do anything to stop the spread of cancer, but it's tempting to believe it, especially when the doctor is advising chemotherapy.

Unfortunately, I now realize that it's worse than I originally thought: the evidence around the deadly distraction made it clear that we weren't just selling the public a wheatgrass placebo as a solution to the onset of cancer. Worse, our lofty and misleading marketing messages were also delaying the patient from undergoing chemotherapy.

And all the while, the cancer continues to spread.

Does this sound like 'responsible business' to you?

Back when I worked in distressed investing at MHR, I remember carefully watching my boss Rachesky operate in meetings with bankers. They would all be thinking about whatever they were discussing, the topic of the meeting. One or two had started thinking about the next step. But Rachesky was usually silently and correctly reading what was going to happen three or four steps down the line. Today, a small subset of business and civil society leaders seem to have outsized voices, resources, and influence, and set the tone of the debate. A few of them may be suckers who got lucky, but most of them got to that level because they're sharp enough to see a few steps ahead. They know where things are going. And they're not telling us the truth right now.

Firstly, they *must* know that they're exaggerating the degree of overlap between purpose and profit right now. Across virtually every industry, hitting short-term profit targets very often comes at odds with doing what's right for society over the long-term. In response, we have the BRT's lofty words on a page entailing vague promises to target "stakeholder value" instead of continuing to focus only on shareholders. *Take that Milton Friedman!* What's most galling about the entire debate is how Friedman's own message has been mangled. Yes, he said that the sole purpose of a business is to generate profits for shareholders. But that didn't mean that he thought no one should look out for the public interest: in the very same paper he argued that the responsibility for protecting society fell to civil servants, whose authority business executives should not usurp as such roles "must be elected through a political process." In fact, he called the idea of business executives taking on this role to be "intolerable" on grounds of political principle.

Virtually no one who has heard about the BRT's heroic divergence from Friedman's shareholder value viewpoint has heard this second part. We're made to believe that he offered us an economic model where society had no one at all in its corner — at least until the CEOs of some of the world's largest corporations magnanimously put us under its wing that is. Friedman, also a Nobel Prize winning economist, is somehow reduced to a now-vanquished gremlin toward whom we should direct our ire. *But don't worry, big business has defeated the evil Friedman curse!* It's kind of like the NBA Players Association responding to calls for cleaner play by taking the last rulebook printed in 1970, stripping out all the bits on rules and referring, and handing us an updated section on good sportsmanship. Not only is it not the right answer, it's grossly misleading.

Second, these leaders must know that there is no way the set of ideas they've proposed are even close to being up to the challenge of solving the runaway long-term problems that we desperately need solved. A hodgepodge of voluntary commitments and non-binding words about caring more for all stakeholders in society will not give us what we need to solve the massive systemic problems we face. Inessa Liskovich, who was careful and measured on every thought she offered, was clear on this point: "There's absolutely no reason to believe that societal demands, whether from consumers or employees, would ever get to exactly the right level that we'd want for ourselves from a policy perspective." Yet at a time that we need leadership to make necessary changes before it's too late, we get bland words intended to preserve the status quo.

Third, it's not like these leaders don't know what the right answer actually is. They're the most highly educated and well read in society, and take full advantage of the latest medical science for their own life and death. Likewise, they fully understand climate science and economics — and have access to the best minds in both areas. The general public may not know who Nordhaus is, partly because his production quality isn't very slick (he wraps up his Stockholm lecture after his iPhone timer app rings aloud) and also because they're distracted by billions of dollars in ads to convince us to buy the latest 'green' product from the latest new responsible brand. But the elite definitely know who he is. They all went to the same schools, attend the same high-society events, and read many of the same publications. And they know well what he and other policy experts are saying we need to do. Yet as it stands they appear happy to cover their ears and ignore what's inconvenient to their own short-term interests, as Larry epitomized with his confounding assertion in January that we should rely on 'free markets' to address market failures: "I prefer capitalists self-regulate."

I knew for sure that Goldman Sachs CEO David Solomon knew all of this after reading an op-ed he published in the Financial Times in December 2019. After long passages that proudly list various new Goldman initiatives to be greener, he included a curious near-caveat toward the end: "To give us the best chance of combating climate change, governments must put a price on the cost of carbon, whether through a cap and trade system, a carbon tax or other means." Perhaps in Solomon's side gig, as an EDM DJ at fancy parties in the Hamptons and elsewhere, he also saves the best for last. But if DJ Sol, Larry, and other business leaders really want to show true leadership to their fellow citizens, they must find a way to rise above their short-term interests and stress clearly to the public that we need new rules that are mandatory and systemic, because with the way the game is currently set up there's no way that good sportsmanship will ever save us. And right now all of the other stuff they're saying — the marketing gobbledygook — is actively misleading people and drowning out the experts' warnings.

Fourth, observing the positions of many of these leaders on climate change and COVID-19 reveals a worrying hypocrisy. The very same US Business Roundtable that believes stakeholder capitalism is the answer to growing social and environmental problems reacted to COVID-19 by quickly imploring federal and state governments to make masks mandatory indoors. Too many business leaders quickly supported mandatory and systemic measures to flatten the COVID-19 infections curve, which directly affects them today, but still seem fine with only individual and voluntary measures when it comes to flattening the greenhouse gas emissions curve, which indirectly affects someone else tomorrow. Why is that? It doesn't seem due to a calculation about the relative risks and rewards of dangers that science warned us to prevent early rather than try to cure later, since the ultimate effects of climate change are hard to predict but will almost certainly be far worse than COVID-19. Rather, it seems a reaction to the *timeline* of those risks and rewards. What's good enough for climate change was definitely not good enough for COVID-19. I wonder how much has to do with who is bearing those risks and who is collecting those rewards?

OK boomer, enough with the double standards

In early 2020, as COVID-19 landed on our shores, a video did the rounds showing Spring Breakers partying in Miami and ignoring the risk, famously summarized in viral video form by a seemingly inebriated student named Brady Sluder: "If I get corona, I get corona. At the end of the day, I'm not going to let it stop me from partying." Older folks recoiled in horror, rightly reminding everyone that they were most at risk, and imploring young people to act responsibly for everyone's sake. The backlash elicited a social media apology from Sluder in which he reminded his peers that his generation has a duty to follow the recommendations of scientific experts.

But instead of apologizing, the 22-year old Sluder could equally have asked a tut-tutting 68-year old Larry and the rest of the BRT signatories a question: if you favor top-down, government-led action to protect against something that's a greater risk to your generation, why don't you favor the same approach for something that's a greater risk to my generation? Or do our current crop of business and political leaders really believe that we need aggressive government action to address threats to baby boomers, whereas

bankrupt free market theories are good enough for Gen Z?

In finance, there's a saying that "everyone talks their book," meaning they promote what's in their financial interests (such as telling people to buy a stock you own, or sell a stock you're betting against). The reason everyone in finance says it is that it's generally true: read people's incentives and you'll understand their behavior. And when I look at many political and business leaders today, I'm not sure I know whose book they're talking. Is it society's or their own? A long enough timeline of risks and rewards crosses generations. Most of the wealth in the economy is controlled by the baby boomer generation. Will the elites of their generation voluntarily sacrifice a system that has made them fabulously wealthy?

We all know the standard objection to this line of questioning: they're in the same boat as everyone else on sustainability issues, since they have their own children and grandchildren and have to care about the planet and future generations and so on. Yes, but don't forget: those least capable in society will bear the highest costs of climate change, whereas those getting vastly richer right now and their kin will generally be okay, especially if they have a lot more in the bank by then, and have no real incentive to fight inequality or other social ills today if it might mean higher taxes. Since the year I was born, 1978, CEO pay has risen 1,167% while worker pay has risen only 13.7% in the same period. CEOs now get paid 320 times as much as the typical worker in their industry. If you pay someone enough to retire after a year, do they really need to worry about the long-term?

In the United States in particular, the high-growth, inclusive capitalism of the post-World War II period bears little resemblance to the capitalism we see today — one in which marginal tax rates on the richest have plummeted, inequality has skyrocketed, entire regions have been decimated, competition has declined considerably, and the natural environment has been ravaged. I've lost count of how many times I've heard baby boomers complain that younger generations don't believe in capitalism. Yes, and there's an obvious reason for that: a generation of leaders that has done extremely well in recent decades is refusing to let go of a particular version of capitalism that has made them rich and powerful but is increasingly damaging society. And instead of reforming the system, they're feeding us dangerous placebos intended to preserve the status quo. Has anyone ever bothered to ask how capitalism had better outcomes in the post-World War II period, even though the acronym 'ESG' didn't exist yet? Or how we achieved those outcomes despite having no parallel financial system of premium-priced 'green' products that claimed to help undo the damage done by the regular financial system, or to address issues that are clearly in the remit of elected politicians and government?

This would be less irresponsible were it not so obviously clear that business leaders *must* know that what they're peddling won't work over the long term. Most of them absolutely *must* know by now that the incentives of the system do not, in the aggregate, lean toward the outcomes they claim to want and need from that system. As it stands, the system is so focused on squeezing out profits as fast as possible that the private sector, which has aggressively lobbied for less rules and referees, is now reacting to society's growing angst about our direction by selling a host of overpriced 'green' products with little to no real-world impact into the resulting void: good for profits in the near term but terrible for society in the long run. And faced with

growing public doubts about the wisdom of self-regulation, especially after their pursuit of self-interest has damaged society for decades, business leaders are now arguing that, in this wonderful new world, profits and purpose now magically overlap all by themselves.

Make no mistake: athletes arguing for self-refereeing in 2021 know well that this may be met with skepticism from the public, especially if said athletes have been playing dirty for decades because it wins games. Is it any wonder that those athletes would feel pressure to begin claiming that good sportsmanship is the new key to winning games? It's easier to convince someone that you'll adjust course and start doing the right thing if you can convince them that it's now in your self-interest too. *Don't worry, things are different now — you're preaching to the choir!* Having once drank the Kool-Aid myself, I understand exactly why it's an alluring idea and cast no aspersions on those who work in the industry or believe many of its claims. But as a trained investor who tried to drive what the Guardian newspaper recently called "arguably the biggest, most ambitious, effort ever to turn Wall Street green," it's an idea that I can confidently say is now more a marketing narrative than any reflection of reality.

It's hard to avoid connecting this back to the global financial crisis just over a decade ago. Back then the incentives of many in the financial services industry was to take on excessive and imprudent risks to juice near-term profits, allowing them to collect fat bonuses year after year. Strategies like that were often described as picking up pennies in front of a steamroller: small gains for years until the whole thing comes crashing down and you lose everything. But when the risks they took eventually caused the entire edifice to collapse, they avoided any kind of punishment and kept all their prior years' earnings and bonuses, leaving the public with the bill to fix the mess afterward. Many later claimed that the bankers were stupid for bringing this onto themselves. They weren't stupid: they kept the pennies and left the public to get run over by the steamroller. Today, given the short-term financial incentives of many business leaders, they profit most from maintaining a status quo in which they can delay tax increases and overdue regulation in order to squeeze out as much in share price appreciation and bonuses as possible. And all of this creates a long-term mess that someone else — meaning the public and future generations — will have to pay the bill for later on. Pennies in shareholder value today, steamroller for someone else tomorrow. Sound familiar?

Saving capitalism from so-called capitalists

If you actually believe in capitalism, you should be upset: a generation of leaders is ruining everything by defending a skewed version of the system that has disproportionately benefited the few at the expense of the many, irreversibly damaged our natural environment, 'captured' regulators to serve their narrow interests, and loaded the government with mountains of debt that future generations will have to deal with, destroying the public's faith in politics and democracy and raising the risk of not just climate shocks but political ones too.

For years now we've been buying a cheap knockoff placebo and calling it the 'prevention' — and all that's really happening is that the eventual bill we'll need to pay for an actual 'cure' is silently rising. And when

that bill comes, we'll have no money left because everything has been milked dry. This is not limited to business leaders only. Politicians, who tend to face reelection every few years, don't have an incentive to tell people that Santa Claus doesn't exist if they can point to a vaguely plausible (but ultimately ineffective) way to maintain our current way of life. Greenwashing a product is one thing, but this amounts to something far worse: this is greenwashing our entire economic system.

In 1954, the tobacco industry paid to place a one-page "Frank Statement to Cigarette Smokers" in major US newspapers. The statement argued that the science linking cigarette smoking to cancer was inconclusive, and then offered people a reason to trust them: "We accept an interest in people's health as a basic responsibility, paramount to every other consideration in our business." As we know now, the main goal of that publication was to delay long-overdue government regulation, protecting existing lines of profit at the public's expense.

Similarly, a recent study on the Business Roundtable's 2019 statement on 'stakeholder value' showed that of the companies who responded to the researchers' request, 98% disclosed that they had not sought or received Board approval for signing onto the 'all stakeholders' statement. A recently updated version of the study adds that 85% of the signatory companies didn't even mention joining what they called a 'historic' statement in their proxy statements to shareholders, and none of the 19 companies that did mention it suggested that it would change how they treat stakeholders. This led the authors, both professors at Harvard Law School, to conclude that the statement was most likely "a mere public-relations move rather than a signal of a significant shift in how business operates." As Mark Twain once wrote, history doesn't repeat itself but it does rhyme.

After a tumultuous few years, most will accept that we need to reform the system. But it's important that we're fully aware that the system will react the way we've learned it always does, trying to protect profits at all costs, including by convincing us that we don't need to change the rules. At its core, the BRT's statement is little more than that, whether its architects admit it to themselves or not. And it's causing precisely the placebo effect that it's designed to have: the deadly distraction works across the board, pretty much across all major segments we tested. But whereas younger progressives, who are increasingly skeptical of business, weren't really affected by seeing the sustainability headlines, older progressives were a whopping 57% more likely to latch onto the idea that there's no need to fix the rules — 'good sportsmanship' is just fine.

In fact, older progressives suffer from the deadly distraction more than any other group we identified. Their age is a hint why: those most invested in the status quo are the least likely to want to change it. But when they're progressives, they also need a way to feel better about maintaining a status quo that benefits them, so any fantasy that combines business as usual with moral satisfaction flies off the shelves. It turns out that everyone really does talk their book. Should we really be surprised that there's a temptation to answer a very inconvenient truth with a set of rather convenient fantasies?

I decided to speak out about it because somewhere out there, a kid in Bangladesh is going to bear the consequences of our inaction. Increasing cyclones, floods, and extreme weather conditions will cause her and her family to lose their livelihood and turn into economic migrants - even though they have next to no carbon footprint themselves. I thought that in returning to the finance industry with BlackRock I would be helping to

change that.

Instead, I was contributing to a giant societal placebo that was *lowering* the likelihood that we'd ever implement the kinds of concrete reforms that she and billions around the world need right now, and then working to protect wealthier people's investment portfolios from the carnage that would unfold as a result. And somehow this was being sold to the public under the guise of responsible business. In sounding the alarm, my hope is to expose this illusion for what it is: a dangerous fantasy that primarily serves the interests of the oldest and the richest, and all at the expense of the youngest, the poorest, and the most diverse and historically underserved communities in the world today.

To fix the system, we need to fix the rules

A popular meme doing the rounds late last year involved the *Back to the Future* movie series. Doc Brown, played by Christopher Lloyd, is wearing his characteristic eyes-bugging-out crazed-scientist expression as he looks off into space and shares an important warning about using their makeshift DeLorean time machine with Marty McFly: *WHATEVER YOU DO, DON'T SET IT TO 2020!* The most important decade so far in the fight against climate change began with a thud, ushering in 'the Great Lockdown' and the economic downturn that it entailed.

It didn't start out that way for most of us. I kicked off 2020 in West Africa. Joining friends from college, I made the trip to Ghana as a part of the *Year of Return* initiative championed by Ghanaian President Nana Akufo-Addo, who invited those of African descent to return to the continent in 2019. The date was chosen for its symbolism: it was the 400 year anniversary of the date that the first slave ship left the coast of Africa bound for Jamestown, Virginia, in 1619. Though I don't think I counted in the way Akufo-Addo meant — my parents were born and raised in Kenya but are originally of South Asian descent — I felt privileged to join close friends as they retraced their roots and explored the rich history and origins from which their ancestors were unjustly wrenched. We made a day trip to visit one of the slave castles along the coast, seeing firsthand how up to 1,000 males and 500 females were shackled in dungeons littered with human waste as they awaited transport to a land in which they would be treated as private property. No light, no ventilation, no water, no sanitation, no space to lie down, and absolutely no human dignity. While it's possible to read about it from afar, visiting in person meant not being able to look away or change channels when it became uncomfortable, and thus appreciating fully just how vile the crime against humanity really was.

We also had less sombre events planned. This included various music festivals, including one called Afrochella that was poorly organized but still a blast thanks to the energy of the crowd. The Ghanaians in general were jovial and friendly, and frequently in possession of a trait I'm not as used to seeing all that commonly elsewhere these days: a dogged ability to see the brighter side of things. After attending a concert for Nigerian afrobeats artist Burna Boy on our first night, we were stopped by multiple police checkpoints on the way back to the hotel. Even they eventually smiled as they inevitably shook us down for bribes. I ended up building a rapport with a police officer named Winsom, who was around my age and couldn't hide very

well that he was actually a decent chap beneath the whole act. I'm not sure how surprised I was that they set up checkpoints, searched people, and looked for any opening to extract a bribe. Their pay is a pittance. It seemed like so many other locals were benefitting from the massive and historic influx of well-heeled foreigners — hotel workers, wait staff, merchants, and so on. It's not hard to imagine that when everyone else is making out like a bandit, the guys with automatic weapons strapped to their chests all day long eventually wonder why there's nothing in it for them too.

From Winsom's perspective, the honor of the badge and a sense of civic duty didn't matter as much when no one else believed in or lived by those things either, including corrupt government officials and businessmen who play the system to their advantage at any and every chance they get, dodging taxes, regulations, and rules and norms intended to protect the public whenever they become inconvenient. While it didn't justify corruption, I understood why, in that situation, Winsom decided that it was his big chance to make sure he could afford holiday gifts for his wife and his mother. And the fact is, given how the rules of the game are designed and enforced there, doing this was probably a fairly rational economic choice for him.

When the rules of the game are drawn and enforced in such a way, how much at fault are the players for playing the game the way they do? In a recent Netflix comedy special, Dave Chappelle brings up an important but often underappreciated point around the anti-apartheid struggle in South Africa: that Mandela and other figures of the resistance supported the Truth and Reconciliation Commission because they believed that the system of Apartheid was fundamentally corrupt and at fault, meaning the participants in that system were to some degree also victims. Most people just play the game based on the way it's laid out for them, and generally pursue what's in their self-interest. To radically change that, the system itself needs to be held to account and changed.

These thoughts were all in the back of my head when I was introduced recently to yet another bright young person who was interested in talking to me about sustainable investing. This time it was a Harvard Business School student in her second and final year. She was President of the Impact Investing Club and had just interned with BlackRock, focusing, of course, on impact investing. Her CV read like someone who was more into purpose than profits: social impact is referenced 16 times and poverty alleviation scores three mentions, whereas profit isn't mentioned once. In many ways, she reminded me of Clara from the H&M Foundation. Both struck me as intelligent, capable, and passionate above all else about creating a more sustainable and just world. And both ended up connected to private sector initiatives that arguably only serve to delay overdue rule changes by encouraging a dangerous illusion; that the changes we need will be led voluntarily by businesses, all acting of their own accord based on a vague promise to be responsible and focused on a broader set of stakeholders.

Sweden's H&M Foundation divides one million euros annually to the five winners of the Global Change Award. By contrast, I wonder how much H&M saves by not paying the negative environmental costs of their business activities? The comedian Hasan Minhaj gave a hint on an episode of his award-winning Netflix show *Patriot Act*, in which the comedian laid into Zara, H&M, and the rest of the fast fashion industry for the dubious sustainability claims they make in order to mask the growing environmental damage their

business models cause. "In 2015, textile production created more greenhouse gases than international flights and maritime shipping combined. Do you understand what that means? The clothes in your suitcase are screwing up the planet more than the flight you put them on." It turns out that not even the envied Swedes, who sometimes seem like they've got it all figured out, can escape the ill-effects of an economic system that currently rewards appearing sustainable more than it does actually being sustainable.

Every year, companies invest more and more in sustainability initiatives. The tools, such as ESG data and reporting standards, can be useful since they help us to start measuring the side effects we need to manage better, and the people, who bring sustainability expertise, are also critically needed. But the overarching narrative that these alone will matter without rule changes risks rendering all of these efforts meaningless or even counterproductive. Having coaches who teach clean play doesn't do much if cheating and dirty play still wins games. Should we wait for profits and purpose to magically overlap on their own, or does an outside and rather visible hand need to enforce new rules of the game to make it happen faster?

The nine words we need to hear right now

The film *Independence Day* was released when I was 17. The 1996 summer blockbuster starred Will Smith as a fighter pilot and Bill Pullman as US President, depicting the two as leaders in the world's fight back against ruthless alien invaders. A few friends and I eagerly took the bus to the local mall and got prime seats for one of the first showings. It was epic. One had to ignore the kinds of odd and implausible things that occurred regularly in 80s and 90s movies like this one and *Back to the Future*, particularly the ones that caught the attention of early computer geeks like us. *Wait, how did they upload a virus to the alien mothership? Were the aliens using Microsoft Windows 95 too? How advanced could they possibly be?*

The scene I remember most was when the US President, a former fighter pilot himself, gives a riveting speech just before leading a final aerial assault to bring down an alien vessel. People in the cinema cheered after his speech — it was electric. We instinctively knew that an alien invasion was a large-scale systemic problem, the kind that required an all-hands-on-deck coordinated response of the type that only an elected government can and should provide.

Global pandemics are a lot more like alien invasions than you might think. Both are macro, systemic risks that endanger all of society, and therefore ones against which you'd expect the US President to assume center stage in leading the response. All of which made President Trump's press conference last March, as COVID-19 first hit American shores and at the height of uncertainty, all the more bizarre. Having to this point appeared largely in denial about the threat, the President now seemed to almost recognize a growing lack of public confidence, so he stepped aside to let big business speak. One by one, the CEOs of America's largest corporations stepped to the podium and outlined how they would help in the response: Target, Walmart, Walgreens, CVS, and others. As the American people stared down the barrel of a crisis for which their government was thoroughly unprepared and whose death toll may double that of World War 2, the US President, himself a former high-profile CEO, made way for a group of corporate CEOs to outline their

plans. "Celebrities in their own right!" he proclaimed.

We would definitely not have cheered if *Independence Day* had depicted a President who was unprepared or incapable of using the democratic legitimacy and special powers of their elected office to organize our collective efforts, public and private, to fight a grave systemic threat. And if anyone were to join him on stage at this critical moment, we'd have accepted Will Smith in air force fatigues. The CEO of Walgreens, not so much.

The press conference was in some ways the logical conclusion of a key line in Larry's 2018 letter, in which he argues that because governments are "failing to prepare for the future… society increasingly is turning to the private sector and asking that companies respond to broader societal challenges." He was right, that is indeed happening. But another line should have followed it: "However, for the most critical systemic challenges we face, corporate executives cannot and should not take the lead. The business community will necessarily have a critical role to play, given that the private sector accounts for most of the capital and jobs in our economy, but it cannot lead. It is neither structured to serve this role effectively nor does it have the democratic legitimacy required. Instead, we must work together to fix rather than bypass our public institutions and democratic processes." That political deadlock makes this path difficult does not change the fact that it's the most important route for the systemic solutions we need, nor does it absolve business leaders from the responsibility to make that point loud and clear, even if it feels uncomfortable and does not suit their own short-term interests. If not, what on earth do they mean when they talk about leadership and business ethics?

There's no question there are many problems that governments cannot solve, and in which its involvement can muck things up and erode efficiency. But climate change, inequality, building a truly inclusive economy, and a wide range of other issues under the "sustainability" umbrella have something in common with alien invasions and global pandemics: they are broad, systemic problems for which we require shared, systemic solutions that must be decided through democratic processes.

In my role at BlackRock, I was helping to popularize an idea that the answer to a sustainable future runs through ESG and sustainability and green products, or in other words, that the answer to the market's failure to serve the long-term public interest is, of course, more market. A bit like the NRA's traditional answer to mass shootings and related concerns around public safety — the answer is more guns, of course — we were pushing solutions and products that would result in no real change, and only served to distract us from what actually does work. (Ironically, one of the first high-profile projects I worked on involved building new investment vehicles that helped investors divest of gun makers after the Parkland School shootings. In the end, practically no one bought them, there would have been no real-world impact if they had, and gun violence in the US reached the highest level in twenty years in 2020.)

I believe in the power of the market. But we're not only allowed to act as active rulemakers, we're *supposed* to. No rules, no market. Like professional basketball, every rule is intentional. And those rules, and the market economy that results, serve society, not the other way around. Asking the close to half of Americans who don't have $400 in the bank for an emergency, or those most exposed to the effects of climate change, to

indulge the market's attempts to fix itself all by itself in 2021 is a bit like the wolves who have eaten half of the sheep over the last few decades proposing a plan to self-police themselves going forward. Exhortations to good sportsmanship won't convince Exxon to voluntarily forgo the short-term profit potential of extracting fossil fuels, Facebook to stop using data and algorithms to create addictive behaviours that damage the mental health of youth in order to sell ads, or Walmart and McDonald's to stop paying their employees so little that large numbers of them need government support to feed their families. If we really want results, it's time we gave new marching orders to the referees who work for us.

The goal of this essay is to clearly communicate the dire need for urgent government action to address systemic problems, not to spell out the specific policies any government must enact: there's no shortage of expert policy ideas to address these problems, and most will vary in the details from country to country. But our experience with COVID-19 provides a useful template for action with respect to the climate crisis: flatten the curve with one hand, assemble an escape plan with the other. To address the pandemic, governments followed expert advice, flattening the curve by restricting travel, closing high-risk venues, and making masks mandatory indoors. To bend down the greenhouse gas emissions curve, governments should immediately adjust system-wide market incentives, such as replacing fossil fuel subsidies with a price on carbon, and institute new performance standards to guide industry, such as vehicle emissions limits and energy efficiency standards for buildings. And while flattening the COVID-19 infections curve with one hand, governments aggressively spurred the pharma industry to rapidly produce safe vaccines through direct R&D funding, massive pre orders and emergency approval processes. Similarly, to help us avoid the more extreme and unpredictable warming scenarios, governments must implement a version of 'Operation Warp Speed' for new technologies that address the climate crisis, including investing in base research in key areas and creating the incentives for private industry to invest in renewable power and technologies that remove carbon from the atmosphere and store it underground.

For all of the scars that COVID-19 will leave on this decade, there is a brighter side, the Ghanaian view, if you will: it offers a blindingly obvious hands-on lesson of Benjamin Franklin's aphorism that an ounce of prevention is worth a pound of cure. Now that we've seen that a laissez faire approach to individual behavior doesn't effectively flatten the COVID-19 infections curve, we have no excuse to indulge in the fantasy that a similar approach will bend the greenhouse gas emissions curve downward. If we can see the wisdom of mandatory and systemic approaches in response to something that science tells us is spreading and kills quickly, then we can do the same for something that science tells us is spreading and kills slowly. As the history of the 21st century is written, COVID-19 may be the warning we needed, like stepping on a pinprick — extremely painful, yes, until you realize if it hadn't happened you wouldn't have looked down and noticed a landmine a few steps later.

But it wasn't my place to say any of this when I represented BlackRock. There's no doubt in my mind that organizing politically to enact aggressive climate legislation is a better route to fighting climate change than buying a low carbon ETF. But only one of those helped our next quarterly earnings report and would be the focus of our massive sales and marketing push, drowning out the boring experts and their repeated warnings. And for what it's worth, I'm not sure any of that is surprising on the part of BlackRock or any other major

financial institution, just as I'm not sure how much I could blame Winsom for the decisions he made. That's just the game.

That's why people desperately want the game fixed: in the United States, seven in ten people believe that the economic system is rigged to benefit the wealthy and powerful. (And that was *before* the pandemic.) And their views on who can help them solve that are evolving fast: our study found that nearly two-thirds of Americans were looking more to government to lead the fight against COVID-19 by August than they were six months earlier. Nearly half of Americans felt that government should be playing a "much larger" role. I have a hunch that this occurring concurrently with the Trump administration's response to COVID-19 is less a reflection of the "great job" the former President claimed to have done and more a growing recognition of the unique powers of government to deal with a systemic crisis of this nature. In the face of a broad and shared risk, people want a leader who steps up and leads — that long-awaited *Independence Day* moment.

We need political leaders who are competent, evidence-based, and sufficiently non-partisan to focus primarily on how we can *fix the rules* of the game. Most politicians and business leaders would agree with this if they only first accepted a key prerequisite that many have been avoiding for many years now: creating the systemic change we claim to seek means shedding a love affair that has persisted for decades with the illusion that, left to its own devices, the market will magically serve the long-term public interest. The market will not solve rampant and rising inequality all by itself. Nor will the market somehow self-regulate to solve the problem of climate change — a ludicrous idea, given that climate change is widely considered the greatest market failure the world has ever seen. It's time we all finally accept that only a supreme, overarching authority with democratic legitimacy can and should be leading the way in coordinating our efforts to solve these problems, beginning with uncomfortable rule changes — ones that don't all have to be bad for business, but can certainly no longer remain business as usual.

Fortunately, we already have such an entity in place. Just as no professional basketball game would magically spawn from thin air without the league setting up rules and hiring referees to enforce them, we too have a structure in place that has enabled us to move from political philosopher Thomas Hobbes' nasty and brutish "state of nature" to a carefully regulated system of competitive markets and free enterprise through a legal system, property rights, courts, and other structures to protect our shared interests. We all have an equal say in how these rules and enforcement mechanisms are devised, building trust and enabling millions to act primarily in their own self-interest yet collectively align around a shared public interest.

It’s time to accept that there are nine words that we need to hear, because we can only build a sustainable future once we’re no longer terrified to hear them.

I’m from the government and I’m here to help.

This essay was made freely available to the public in order to spark an important and overdue public debate. If you find it interesting, please share it with others. It is also available online at this link.

(And if you somehow thought it was awesome enough to pay something for, please direct charitable donations to Rumie, a US 501(c)(3) non-profit and Canadian registered charity that pioneered mobile-first microlearning for youth around the world. This includes programs that allow girls and women in Afghanistan to safely continue learning in local languages from anywhere on a mobile phone via darsx.org.)