OPINION

BlackRock hired me to make sustainable investing mainstream. Now I realize it's a deadly distraction from the climate-change threat

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Tariq Fancy left BlackRock in 2019, after he began to doubt the social value of sustainable investing.
FRED LUM/THE GLOBE AND MAIL

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As COVID-19 landed in Canada last year, we quickly learned the importance of having an effective government take charge when a systemic crisis hits. We couldn't rely on the free market or the best efforts of individuals. We needed fast and sweeping government action to keep the pandemic from raging out of control and taking tens of thousands of additional lives. Unfortunately, the crisis was also a sharp reminder of what science and policy experts have told us for decades: that similar government action is desperately needed to avert the far more dangerous threat posed by climate change.

Yet that action is still being held up by the illusion promoted by many global business leaders that the free market will somehow correct itself and the climate crisis without government action. I know, because I helped contribute to this fantasy.

I thought that I was doing something to help solve the climate problem by joining BlackRock Inc. in late 2017. The world's largest investment firm had approached me to become its first chief investment officer (CIO) for sustainable investing. Sometimes called responsible, ethical or impact investing, this new field is Wall Street's answer to society's growing demands for action on climate change and other social ills. BlackRock manages nearly US$9-trillion in assets and owns interests greater than 5 per cent in a substantial majority of companies in the Standard & Poor's 500 Index.

In 2018, in my second week on the job, our CEO, Larry Fink, wrote a public letter in which he argued that in order to prosper, companies needed to embrace a "social purpose" and encouraged them to focus on improving their performance on environmental, social and governance (ESG) issues because doing so would help, not hurt, their long-term profits. In the letter, he argued that governments are failing to prepare for the future, so "society increasingly is turning to the private sector and asking that companies respond to broader societal challenges." Companies should, in effect, try do the right things for society, rather than just aim to maximize profits.

But one lesson COVID-19 has hammered home is that systemic problems – such as a global pandemic or climate change – require systemic solutions. Only governments have the wideranging powers, resources and responsibilities that need to be brought to bear on the problem.

To flatten the curve of COVID-19 infections, we didn't leave it to individual choices. Instead, governments restricted travel, closed high-risk venues, made masks mandatory indoors and instituted other measures to protect public health. As these measures helped our health care professionals cope with the deluge of sick patients, governments also kept the economy afloat and procured and evaluated safe COVID-19 vaccines for all Canadians. The private sector played various critical roles along the way, all in response to the leadership by our elected officials.

Climate change presents us with similar challenges. We have to quickly change our daily behaviour to flatten the curve of greenhouse gas emissions. Unfortunately, with climate change, governments in Canada and most other countries have not taken any significant action to address the crisis – whether drastic measures to curb emissions or aggressive efforts to find new technologies and solutions.

This is not because the threat posed by climate change is any less than that posed by COVID-19. Climate change is certain to be far worse for humanity and far more expensive to fix. And as with the pandemic, the scientific community is telling us we need to act immediately, because an ounce of prevention is worth a pound of cure. But COVID-19 proved to be far more immediate: Its incubation period was weeks, versus decades for climate change, which spreads slowly, like many forms of cancer.

My responsibilities at BlackRock included incorporating ESG into the investment processes that govern the world's largest pool of investment assets. The firm is a microcosm of capitalism itself.

But I quickly learned that ESG isn't as useful to investing as I had hoped. Acting responsibly is not as profitable as advertised. Moreover, going through the investment process is a bizarre place to try to create social impact in the first place. Investment professionals are like competitive athletes: They're trained to chase yield and profits.

For many investments and strategies, such as highly liquid ones with short holding periods, being responsible was largely irrelevant. And investment managers are legally obligated – as well as financially incentivized – to focus on dollar values, not social ones. Without effective government regulation, that often means pursuing activities that harm society over the long term.

The vast majority of our work at BlackRock helped the bottom line, but showed no demonstrable positive impact on society. I realized that the only way providing more ESG information and launching ESG funds would create any real-world impact was through a slow, plodding and highly uncertain "free market self-corrects" mechanism – a ludicrous response to the greatest market failure in history.

At their core, companies are still profit-seeking machines, built from the ground up as a collection of legal and financial incentives to make a healthy profit. Ideally, they are responsible to all stakeholders – investors, employees, regulators and more. Unfortunately, Western capitalism has become distorted in recent years. Incentives are skewed to the short term – far too short to care about the long-term public interest – and there is lax or no regulation in areas of critical importance.

In that context, waiting for the market to figure itself out is absurd. It's like leaving bars open during a pandemic and hoping people will be responsible. It won't work – it will spread infection, cost lives, prolong the pandemic and force bar owners to wait even longer before they can safely reopen. Yet the speed, decisiveness and extraordinary tools governments used quickly to bend down the COVID-19 infections curve are nowhere to be found in dealing with the climate crisis.

To some extent, this is the inevitable result of misinformation on how the market system works. No "free market" truly exists. A market economy is, at its core, a collection of rules. No rules mean no market. Nor is there one set of standard rules. Every rule, including corporate tax rates, patent protection and fines against pollution, is a deliberate decision that has an impact on the system. If a government changes the rules, we get different results – all of which can be defined as market outcomes. Changing rules is no more an "intervention on the free market" than creating them in the first place.

Setting the rules correctly is essential. Through taxes and regulation, governments can create incentives for businesses to pursue activities with positive side effects for society and discourage activities that harm us – such as emitting carbon and exploiting workers.

I left BlackRock in late 2019. I left for family reasons, but I also privately started doubting that sustainable investing would create much social value. If society was indeed a cancer patient and climate change was the cancer, the financial industry's response was like prescribing wheatgrass: a nice and well-marketed idea that would have no effect on the cancer. Still, I reckoned it was ultimately harmless and well intended.

But after I left the industry, marketing efforts around sustainable investing ramped up significantly in 2019 and 2020. Financial firms raised record new amounts for ESG assets. Given that there was next to no real social impact, I wondered: Could sustainable investing and the narratives that surround it be harming the world by creating a societal placebo that delayed overdue government reforms?

The idea that this is a "deadly distraction" that is actively harming society troubled me. Giving wheatgrass to a cancer patient is medically harmless; but if that wheatgrass convinces the patient to delay chemotherapy, it's a complete disaster. So I decided to test the idea that responsible investing is a "deadly distraction."

Working with Ryerson University, in 2020, we enlisted a market research firm to survey 3,000 people in North America. It turns out the deadly distraction is real. Half the respondents saw a series of business and financial headlines about environmental and social initiatives, mainly by large corporations. U.S. respondents who saw the headlines were 17 per cent more likely to say corporations, not democratically elected governments, should lead the way in building a more sustainable future. But in Canada, the deadly distraction did not work: Whether respondents saw the headlines or not, they still believed government should lead the way.

Rumie, the education technology non-profit I founded that is now used in more than 100 countries, including Canada, could not have gotten off the ground in 2014 without the support of the Canadian business community. Leading companies and executives stepped up. I believe the world needs Canadian leadership now more than ever.

Business leaders need to take a stand: If you believe in capitalism, then you know that market failures cannot be addressed with silly markets-self-correct theories. Claiming so in 2021, 13 years after the financial crisis and decades after we've been told that climate change is the great market failure in history, is an abdication of our responsibilities to the youngest and the poorest in society, who will bear most of the burden of continued inaction.

Business and markets serve society, not the other way around. So, why do some Canadian business leaders still think it's reasonable for governments to take action to bend down the

COVID-19 infections curve, but not to bend down the greenhouse gas emissions curve? The answer cannot be that we believe in government action for baby boomers, but bankrupt free-market theories for Generation Z.

Victor Hugo wrote that "no army can stop an idea whose time has come." COVID-19 was a life-changing lesson – painful, yes, but it also forced us to look down and notice a land mine a few steps later. The time for aggressive climate action is now, before memories of the pandemic fade and we return to answering inconvenient truths with convenient fantasies. This aggressive action will only come if democratically elected leaders work together with the private sector – but with governments leading the way.

Canadian business executives must find the moral clarity to make clear to the public that systemic problems require systemic solutions led by democratically elected leaders. Truly averting the climate threat requires governments and the private sector to come together to rapidly transform our economy into one that doesn't have to be bad for business, but can no longer be business as usual.

This is an issue of global significance and it comes at a crucial moment in history. Canadian business leaders should help guide this debate – let's be on the right side of history.