# The Secret Diary of a 'Sustainable Investor' – Epilogue

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*Ten months ago, in August 2021, I published a three-part essay entitled "The Secret Diary of a 'Sustainable Investor'" that went viral and sparked a debate in the press and the business community. I challenged business leaders who advocated the newly-packaged but mostly bankrupt free-markets-self-correct ideas I questioned to offer a serious rebuttal. None did. As a former insider, I have a good idea why: none exists for most of what I questioned.*

*We're running out of time. Yet many business leaders continue to feed us convenient fantasies under the banner of 'responsible capitalism' that fail to address the inconvenient truths that our scientific community has warned us about for decades. In doing so they not only destroy the planet; they also destroy the political foundations of capitalism and democracy amongst the young, who will most suffer the consequences of inaction.*

*This needs to stop. As I explained in a recent TEDx talk in Toronto, we must move quickly to fix the rules of the system—before it is beyond repair.*

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## IV. Epilogue: The hero we deserve

"As soon as a coin in the coffer rings, the soul from purgatory springs."

So said Johann Tetzel, an enterprising German Friar who helped popularize the medieval Church practice of taking payments from the pious to ensure that their deceased relatives would experience a better life after death. The sale of indulgences, which grant the full or partial remission of the punishment of sin, had existed for centuries. But at the end of the 15th century, Tetzel and other entrepreneurial men of the cloth stumbled upon the ecclesiastical equivalent of a disruptive innovation: taking payment to help dead relatives escape from purgatory, an unpleasant holding place before the next stop in the afterlife.

In the past, indulgences were only sold for the benefit of the living, who were required to first express contrition or confession for the sins in question. Selling indulgences for the dead, however, necessarily meant removing this pesky requirement. Tetzel went from town to town, beating loudly on a drum to draw locals in for what presumably resembled a darker, medieval version of the ice cream truck ritual. A naturally gifted salesman, he made potential buyers feel guilty for not seizing the opportunity to aid their dead relatives, who he assured them were "clamoring for help" as they awaited a generous payment from us in the here-and-now to unlock their ascent to Heaven in the hereafter.

Tetzel's talent for seizing on an unexploited market opportunity was remarkable. Had he lived in the 21st century, he would almost certainly have figured out social media well enough to hock IndulgenceCoin, the latest new and worthless cryptocurrency. But for his time he wasn't bad either: the dead cannot confirm to us whether or not they've received a good or service we purchase on their behalf, so in exchange for hard currency he was hocking something that no buyer could be sure was even real. Tetzel expertly exploited the dangerous combination of desperation and faith to sell something whose only clear outcome was not really in service of the dead but instead to assuage the guilt of the living.

If the receipt of the good or service you pay for cannot be confirmed as real, what's to stop the sale of ever more extravagant, unrealistic and undeliverable items? I was in the financial services industry as investment banks happily sold dodgy mortgage-backed securities in the run-up to the financial crisis in 2008, even as they were actively betting that those securities would fall in price. I highly doubt they would have any qualms about giving the middle class doorcrasher sales and massively discounted rates on private jets, mansions, and other luxuries for collection sometime in the afterlife.

Today, Tetzel's financial innovation would surely be dressed up in the garb of marketing virtue. It would be classified as an 'impact investment' with strong social virtue attached, a high environmental, social and governance (ESG) score, and glossy marketing materials that target those looking for more 'purpose' in their everyday lives and commercial transactions.

The practice of paying to assuage guilt did not begin with Tetzel. Nor was it to be stopped by Martin Luther's "95 Theses" decrying such practices in 1517. Variations exist across cultures and religions, and today it infuses how our economic system has responded to dangerous, time-sensitive environmental and social challenges. Our economy consists of many players, some even less scrupulous than Friar Tetzel; the greater the schism between what we know we need to do and the sacrifices we're willing to make in order to make that happen, the greater the ability to sell people dangerous fantasies that we're helping even when we're not. This is especially true in an economic system that, like Tetzel's indulgences for dead relatives, either cannot or does not verify that the 'impact' one pays for is actually occurring.

There's a growing sense of guilt amongst people in wealthier countries due to the massive negative side effects that our lifestyles cause to the planet and to many of the poorest people who live on it. The obvious answer, changing our ways, is not the easy one. Why? Because it requires sacrifice. The easy answer is plunging our heads into the sand, ostriching ourselves and finding ways to justify business as usual. The consequences of inaction are high, but they generally accrue to others — future generations, the poor, wildlife and the planet. In that context, we shouldn't be surprised that the gears of our economic system have responded with a Tetzelian solution: excusing us of guilt without really changing much.

Consider the example of Caroline, a recent Brown University graduate in environmental sciences. Desperate to help the planet avoid further ecological disaster, she puts her growing savings into low-carbon investment funds, so she can grow her wealth while simultaneously fighting climate change, and buys only ‘sustainable’ branded detergents and other supplies to reduce damage to the environment. Yet her well-intentioned actions achieve little besides making her feel better about the status quo. The financial mechanics behind the vast majority of low carbon funds mean that they just move money around but do not lower real-world emissions, though socially conscious investors usually pay higher fees for the privilege of being attributed less emissions on paper. (Make no mistake, in a society that too often values knee-jerk and performative virtue-signaling over results, that’s worth something.) And the green detergent is probably sold by the same company that sells the non-green version, and is barely much greener precisely because very often no regulations define what it is to be green in the first place, or compel those advertising it to adhere to any strict standards.

If the planet or unborn generations were at the table, which they never actually are (they’re only represented by people who *say* they care about them but are humans and have their own interests), they would be unimpressed. And when they pore over the archives someday to figure out where we went wrong, history books may show that business leaders simply shrugged their shoulders because there were short-term profits to be made from selling placebos. This includes the epic, Tetzelian slam dunk of an illusion that has already lasted for far too long that we can pay a bit more for premium, so-called green products to alleviate our woes. Such a scheme is obviously unworkable if no one is verifying that they are in fact green and responsible, whether investment funds or clothing, even when that may be the harder or more expensive thing to do.

Moreover, this approach leaves the non-premium sector and the rest of the world to operate as usual, even though we clearly need everyone to change how they operate given the scale of the challenge. And with all due respect, if someone is to going to have to pay more to kickstart changes we need, it’s not going to be the millennials to whom premium-priced ‘green’ products are marketed today; it’ll be the older generations that have had more of a share in creating these problems, and have benefited disproportionately from an excessively short-term economic system that has clearly borrowed *significantly* against the ecological and economic prospects of future generations.

Instead of accepting that we need to change our ways, we have left it to the ‘free market’, which, since no such thing really exists (all markets have rules), is shorthand for maintaining the status quo – an idea usually proffered by those who benefit most from it. By refusing to acknowledge that our economy is built with incentives skewed excessively to the short-term and in ways that damage the public interest, we fail to see that we’re responding to the need for expensive, long-term changes with marketing and PR whose main goal is to make us feel better about preserving the status quo.

And thus, with governments cowed into believing that they have no role to play in markets, as if competitive endeavors don’t obviously need rules and referees, the growing public thirst for action is met by unverifiable and non-binding pledges and misleading PR statements from the business community that would probably make Tetzel himself blush. But as he would know better than anyone, if good people are willing to pay up to assuage guilt in their daily lives, the market will find an answer. The relative pay of CEOs has risen so much in recent decades that they often only care about the short-term, unlike most of the workers below them. Those who benefit most from the expensive changes we will require are either not alive yet or are but have no voice, because they're not human, or they are but they're poor or too young. If no one representing their side is at the negotiating table, we shouldn't be surprised that the outcome of allowing the powerful to decide on an expensive moral quandary is to find the cheapest way so they can sleep okay at night.

Meanwhile, as the clock ticks away, major world economies have committed to roughly halve greenhouse gas emissions by 2030. And so far, the most effective intervention to lower emissions this decade came out of an animal market in Wuhan.

*What if Ali vs Liston never happened?*

Since I published *The Secret Diary of a 'Sustainable Investor'*, a steady drumbeat of revelations and news exposes have cast further doubt on the promises of the sustainable investment or 'ESG' industry. Scandals involving the misrepresentation of ESG practices have caused share price crashes, CEO resignations, increasing regulatory scrutiny and growing fines for large banks and asset managers. Bloomberg Businessweek did an excellent expose pointing out that ESG scores don't even measure what you think they measure. (Check this: if Trump is reelected in 2024, the ESG scores of the worst polluters will magically *rise*.) Whistleblowers have emerged to desperately warn us about the need to do everything from regulating social media to fixing a broken carbon offsets system. And just as the war in Ukraine has turned into a wakeup call to the West from a security perspective, it's become yet another bruising battle for the ESG investment industry, after funds looking to market lower carbon emissions intensity loaded up on Russian oil producers. And at the end of all of it, most recently, a vacuous debate has taken root in the US on the idea of 'woke capitalism'.

While some of this may have originally been well-intentioned, and many of the tools and standards can be useful, in its current iteration it is destined to someday be remembered primarily as yet another free-markets-self-correct fantasy responsible for delaying the kinds of reforms to the economic system—including new taxes and regulations—that are inconvenient to short-term economic interests but are fairly obviously in the long-term public interest. Given that we just followed expert recommendations to flatten the COVID-19 infections curve, including using government powers to enforce inconvenient measures to our daily lives, how can business leaders pretend that we don't need the same approach to flatten the greenhouse gas emissions curve, especially when our best economic minds have been advising this for decades?

To those on the wrong end of the transaction, these continued failures no longer feel like a collective mistake. They feel like a heist. Lest we forget, we're not all in this together. Larry Fink turns 70 years old this year; from the CEO role at BlackRock he gains the most from the system and because of his age he is least at risk of the consequences of inaction. What does he say to his 22-year old entry-level employee whose perspective is exactly the reverse? He surely knows that basing stakeholder capitalism on voluntary rather than mandatory compliance, meaning without significant new taxes and regulations, serves one set of his stakeholders at the expense of others. How does he reconcile the two?

This debate is the one that we really *need* to have. And it will be the one that future generations look back on and study, given the weight of its outcome to their trajectory. But it hasn't started yet. Why? Because the other side is [ducking the fight] behind a wall of disingenuous PR. In Part II of *The Secret Diary of a 'Sustainable Investor'* I pointed out that business leaders lack the democratic legitimacy to take on (or pretend to take on) critical roles navigating difficult shared social and environmental challenges. As if to underline that point, the response back was a precious one that no government minister could possibly get away with: they simply ignored it. But of course they did: it wasn't in their interests to respond or to have that debate. How could it be? Instead, they tried their best to ignore it and make it go away. Meanwhile, I couldn't even convince US Senator Sheldon Whitehouse's office that it was worth focusing any time on fines on pollution. *That'll never get anywhere*.

At a hedge fund conference in New York in late 2021, just when conferences restarted in the post-vaccine era, the organizer later told me that my fireside chat session was originally meant to be a debate. "Unfortunately, we called all the banks and they had heard what you were saying, but they kind of hemmed and hawed and, well, they basically agreed with a lot of it. When I asked if they'd take the other side of a debate, they all passed." How do you enforce accountability if powerful interests have no obligation to respond? At least the WBC, WBA, IBF, and the WBO, the world's boxing bodies, often thought to be corrupt and incompetent, compel titleholders to take on mandatory challengers every so often. On the battlefield of ideas, however, and with the clock ticking, the idea titleholders in the business world can apparently reign supreme forever with no accountability—even while pretending to be able to fill a void left by a failing but at least democratically controlled public sector.

*The dark knight and his powerpoint cometh*

In private, most knowledgeable folks in the industry agree that we're drowning in excessive PR-driven nonsense about voluntary, non-binding pledges to do something good at some point for the environment, despite us knowing fully well from the latest IPCC report that this setup works as well as forcing the closure of absolutely nothing at the height of the pandemic would have been for flattening the infections curve. In this context and with time running out, a blowup was always inevitable.

And so it arrives in May 2022: as the pandemic fades away and one of the most dull conference circuits imaginable reemerges, with everyone returning to their scripted roles in that world, Batman himself appears. Or at least the finance industry's (obviously less exciting) equivalent. Coming at almost the same time as a victory lap of out-of-touch backpatting at the World Economic Forum (WEF) at Davos on the apparent success of 'stakeholder capitalism' (Klaus himself was proudly giving out books), Stuart Kirk, HSBC Asset Management's Head of Responsible Investing, commits self-described 'heresy' in giving a presentation in London entitled *Why investors need not worry about climate risks*. His style was not subtle. He called those overstating the financial risks of climate change 'nut jobs' and suggested that it doesn't matter if Miami is six meters below water in one hundred years, because Amsterdam is today and it's actually a 'really nice place'.

I don't agree with everything he said. But I appreciate his contribution. Firstly, because he spoke his mind on an important issue that absolutely demands serious attention and honest debate, not PR speak. Can everyone in the industry say they're doing the same? History is meticulously recording us in excruciating digital detail for future generations to someday examine as we sleepwalk our way into a set of intersecting political and ecological crises, and all because we're slaves to a dysfunctional system with an excessive focus on short-term interests. It is absolutely not anti-capitalist to make that point, and in fact the so-called defenders of capitalism who offer us failed ideas to shared challenges and yet entertain no debate on the abject results violate a core tenet of capitalist thought: the need for an open marketplace and new competition.

Based on my experience, I would say that Kirk is right to say that climate risks in financial portfolios are exaggerated. This is not saying that climate change is not real (and Kirk himself believes the science). Nor is it saying that the economic consequences won't be significant (although I think he underestimates the potential damages). What he was saying instead is that the *financial* risks may not be as high as people suggest. To support his point that there's some degree of hyperbole, he points out that as speaker after speaker talks about the "catastrophic" nature of climate change, the audience don't even look up from their phones anymore. Given our poor performance on actually making the changes required to achieve global emissions targets, we should ask ourselves: could this all be performative in nature, and if so, is it in the interests of our younger employees, much less society at large to continue?

HSBC responded by quickly pulling up the drawbridge, replacing the Linkedin profiles of human beings with out-of-touch, copy-paste PR responses that attempted to kill the story in classic barndoor-slam-after-horse-bolts fashion. This occurred alongside widespread social media virtue signaling from those who expressed a moral indignation curiously uncommon in risk management. And amidst all of this, something went missed by virtually everyone: Kirk is making an argument for government regulation. He's pointing out that the system has a very short-term outlook—he's absolutely right that if your loan book is on average 6 years, you may not be as worried about climate change as people think.

The foolish thing to do with this information is to ignore it, as the PR folks would like. He's offering a glimpse into how the system *actually* works. The fact that incentives and structures may be too short-term to address society's challenges is *precisely* the reason that regulation is required. Indeed, it's worth pausing and asking honestly how future historians will remember this moment: who will they consider brave? Kirk, for apparently speaking his mind honestly and in doing so revealing a possible flaw in the design of the system? Or the folks in the ESG industry who immediately rounded on him, responding to his honest and contrarian view—on a topic that our scientists confirm to us is beset by a failing consensus—with sanctimonious and contrived PR-speak?

*Back to basics: Economics 101*

Stuart Kirk did a Masters in Economics at Cambridge in 1995. As he surely learned, at the beginning of that same century a Cambridge economist named Arthur Cecil Pigou made a significant contribution to the field. *The Economics of Welfare* in 1920 introduced the idea of an externality. One would think that a hundred years and a Nobel Prize awarded *directly* for applying this idea to climate change later would shame us into taking this approach somewhat seriously. Instead, we're chiding a contemporary Cambridge economist for breaking from the official party line that the same organization that is campaigning behind the scenes to prevent Pigou's ideas from being applied to preserve the public interest, is of course doing everything it can to protect people against the risks that will be created by such action.

Because we're not seriously discussing the need to unshackle governments and empower them to use taxes and regulation to support society's goals, the pressure is flowing elsewhere. Like the air in a balloon that is pressed down on one side, society's attention on how and where to best address systemic crises spreads to areas where it often may not be as relevant or efficient to focus. Those areas often react as you'd expect: saying they'll do everything in their power to rise to the challenge. For financial risk managers, that means being on top of the risk.

He also points out that central bankers should be more focused on the economy right now. He's right about that. Central bankers have been caught with their pants down on inflation, calling it 'transitory' at first and now seemingly unsure when it comes to mustering the kind of strong response required to get the most important x-factor in controlling inflation under control: the public's expectations, which can become self-fulfilling. The last time things were this bad required a 6 foot 7 inch giant by the name of Paul Volcker to put inflation expectations in an Andre the Giant-style headlock until they returned to low single digits. And J-Pow is no Volcker.

Worse, the markets are entering a period we should recognize well: after over a decade of excess since the financial crisis, and aided by loose monetary policy and inadequate regulation since, the tide is now going out. High inflation, volatile markets and a slowing economy are a recipe for growing and unpredictable political winds as business scandals and examples of outright fraud and excess begin to slowly emerge. And you can be sure they will—they *always* follow greedy and speculative bubbles.

Central bankers effectively forestalled a severe market correction at the last minute in early 2020, but in aiming a monetary policy bazooka multiple times the size the one we needed in the global financial crisis at what is at its core a health care crisis that by definition would restrict our daily lives and damage GDP growth, they didn't just succeed in averting the risk of dangerous contagion in the financial system, cascading defaults, and so on: they also dislocated valuations from reality in large parts of the markets. The year 2022 appears an exercise in watching financial markets realize that they're entering a Wile E Coyote moment, shortly after running off the edge of the cliff—by which I mean central banks levitating markets in both a technical and narrative sense—with no real idea how far below the ground may be.

The fallout of an economic downturn right now is hard to predict. Free, democratic societies are battling enemies from within and on the shores of Europe and in Asia, and yet we've allowed inequality, whose rise lowers public faith in democracy, to hit historic highs. As speculative digital 'investments' online evaporate, who will the public blame? As central banks raise rates to slow overheating economies, who will the growing numbers of unemployed hold responsible? What about those who see their savings dwindle as markets deflate, losing the rocket fuel of a decade-plus approach that economist Raghuram Rajan has called 'free lunch economics'?

Lenin wrote that there are decades where nothing happens; and weeks where decades happen. The aftermath of the last financial crisis, where somehow no one was held responsible, led to the Occupy Wall Street and Tea Party movements in the US. As the economy slows and speculative nonsense that never made sense in the first place crashes, people are going to look for answers. And there will be no shortage of snake oil salesmen and self-interested charlatans to meet that demand, unless level-headed business leaders rise to the occasion and offer a real alternative.

*Saving capitalism from dishonesty*

Larry Fink is right that stakeholder capitalism must take root. But he's wrong about how it will come about: it can only come about on the timelines required to meet the rhetoric if we subject the most important provisions to mandatory rather than voluntary compliance. If we could agree to follow the experts on COVID-19, even when it required the government to enforce inconvenient economic sacrifices, why can't we follow them on climate change?

Many business leaders would no doubt respond that regulation is the correct answer in theory, but it's not possible in the real world. Why? Because it's politically impossible to get anything done right now, especially in the US. As such it's better that business leaders do what they can through a voluntary system, such as net zero pledges by 2050, rather than the alternative—that we do nothing at all and fall even further behind.

While it seems like a fair point on the surface, it's disingenuous for business leaders to argue that they're the best option available today if the ideal method, recommended by the experts, is actively being blocked by those same business leaders through misleading marketing campaigns and political spending and lobbying behind the scenes. In competitive sports terms, this is not a pickup basketball game at the local court—one where there's no referee so we have to call our own fouls. Our economy looks a *lot* more like the NBA: it has millions of people employed in a vast apparatus that we all pay for and is meant to protect our shared interests. The argument that self-refereeing is the 'next best alternative' is disingenuous coming from players who are actively paying the refs behind the scenes not to do their jobs, lobbying them to leave loopholes that harm us intact, and then spending billions of dollars in marketing to sell the public on a misleading fantasy: who needs refs?

What makes this all the more ridiculous is when you compare what the ESG teams are doing with their public policy teams down the hall. BlackRock, Disney, Boeing, and Netflix, four major US corporations, all eagerly post all kinds of information on their great CSR work and ESG profiles. And yet all four have fought against shareholder resolutions asking them to publicly disclose their political spending, which, post the US Supreme Court's 2010 Citizen's United decision, is effectively secret and limitless. In other words, these four All-Stars and role models for the game, who eagerly offer us talking points and selective story-telling before and after games on their cherry-picked, voluntary efforts to 'play clean', refuse to share with anyone—including some of their own backers—any details on the secret payments they're making to the referees behind the scenes. Is it any wonder that we can't clean up the game?

Blind adherence to an illogical model of stakeholder capitalism that is based on voluntary compliance must die with the pandemic. Business leaders that paid lip service to flattening the greenhouse gas emissions curve but didn't support related regulatory actions showed their hand when the pandemic hit: that systemic curve, which affected their short-term interests, suddenly required the helpful hand of government. Pretending that this is not a debate that needs to be had within the business community, whose outsized influence in recent years has significantly impeded basic democratic functions in Western democracies, is utter nonsense. This glaring double standard does not go unnoticed: it's part of a broader pattern that has led the young to conclude that it's not even worth fixing the system. Less faith in the system means less interest in fixing it, a vicious cycle. The two generations alive that no longer believe in capitalism are, unsurprisingly, Gen Z and Millennials.

If Stuart Kirk can help us focus on the right things instead of the stupid things, then he's a hero of some sort. But don't underestimate the stupid things. And the stupidest of them is, without a doubt, the emerging fake debate about 'woke capitalism' in the US. This crashed into the spotlight recently as a new firm, Strive Capital, was born, claiming to represent the anti-ESG answer to BlackRock. Whereas Larry

Fink allegedly wants companies to focus on 'social purpose' in addition to profits, the purists behind Strive, which includes billionaire libertarian Peter Thiel, want to use shareholder power to support companies that focus first and foremost on good old-fashioned profits.

It's painful to watch such a stupid debate unfold. Why is it stupid, you ask? Well, let's look at what the two sides in this supposed debate are saying. Vivek Ramaswamy, Strive's founder, makes some good points about the dangers of concentrating too much power in a few companies: BlackRock, Vanguard, and State Street, which collectively represent the largest shareholder in [88% of the companies in the S&P 500]. But his main gripe seems to be that Fink is somehow pushing companies to focus on environmental and social issues at the expense of profits, which he and his band of anti-woke financial legionnaires will apparently combat by using our money to support CEOs refocusing on what they do best: making money.

So far so good. But wait a second, did he not bother to read Fink's latest annual letter, which came out a few months earlier? Fink made it clear that he's not interested in anything "woke" and that this is the same old capitalism we've always known, focused on shareholder profits. As economist Mariana Mazzucato later [wrote], Fink's stakeholder capitalism depends on a "conceptual sleight of hand" wherein stakeholders are only important conditional to first satisfying the profit motive—meaning if it's in shareholder interests first. (Jamie Dimon [echoed] the same approach a few weeks ago.) This is no surprise: Larry Fink can't do what he wants with client money, he has a legal obligation to focus on value measured in dollars, not social values, as I explained in detail in Parts I & II of the essay.

So what on earth does Strive think is wrong with that? No one knows. They want companies to be great, profitable companies and focus on making money; and so does Larry, who is legally obligated to agree but also believes that dressing it all up in the garb of green virtue helps make more money, like BlackRock is doing by marketing zero-impact ESG ETFs to the public at premium prices. As long as you can get away with it, selling Caroline a 'green' detergent that probably isn't even green is something that both BlackRock and Strive would happily agree with doing if it made money—though only one side benefits from and thus demands moral brownie points for it.

This fake debate between two similar 'free markets' theories holds that the conservative view is represented by Thiel's Strive Capital and a set of others ramping up to flood companies with shareholder resolutions to support conservative interests; and the progressive view is represented by Fink, BlackRock and all the proponents of ESG and the 'woke capitalism' boogeyman that have a head start filling up shareholder votes with pro-ESG resolutions. An epic debate where those who want real action on sustainability issues are somehow represented by what the Chinese Communist Party, who calls their economic system 'socialism with Chinese characteristics', might pithily refer to as 'neoliberalism with Tetzelian characteristics'.

Leaving aside whether shareholder proxy voting season is really the right ballot box where such monumental issues should be determined in the first place (rather than, you know, the other voting we do), there's something fascinating about watching people finally open their eyes but not realize they're looking through horse blinders. Some have finally accepted that the theory of change behind divestment, which generally does little besides moving around money so that less virtuous investors can happily profit more from vice (and includes products such as ESG ETFs and most green bonds), results in individual paper gains rather than any progress in the real world. Now the focus has shifted to shareholder engagement. And make no mistake, this is definitely an improvement.

But if we're serious about tackling these problems, we must begin with honesty. Only in a distorted view of economics are divestment and engagement the only options. We did not respond to revelations that smoking causes cancer by undertaking one-by-one whack-a-mole-style proxy fights against tobacco companies to demand they voluntarily sell less cigarettes. We regulated them. And in doing so, we saved eight millions lives in the US alone, eight times the country's COVID-19 death toll. The fact that we're being blinded from having this debate on the need to fix the rules is no accident, nor is it an accident that Peter Thiel and friends would very much prefer Larry Fink to be their intellectual opponent in such a critical debate. If the libertarian side of the debate, which is reflexively anti-regulation, can pretend that the ESG marketing decoy is in fact real, they can fire up their political base with an easy punching bag while conveniently misleading us all into a false narrative that those are the two sides available: no regulation (Thiel) or no regulation with a side of indulgences (Fink).

Adam Smith and Milton Friedman both would likely have agreed that the science is real and that the economics demand systemic regulations, decided by democratically elected leaders, to address dangerous negative externalities to the natural environment and political stability. As do I. This is not a left-right economic issue: anyone who is young—or old with a moral compass—would likely agree.

Meanwhile, ESG 1.0 pollutes our airwaves, masquerading as the business community's best and most honest answer to society's challenges. One of the most ridiculous premises on which this rests is the bizarre conflation between fighting climate change and fighting climate risks. This is important: fighting climate risks in financial portfolios is not the same thing as fighting climate change itself. A friend of mine who lives in Miami was buying a house recently and seemed happy that my previous work was so heavily focused on climate risks, including extreme weather events that affect Miami. I felt bad breaking it to him: "Carlos, we're not trying to save Miami from getting wrecked by climate change. We're trying to get our money out before it hits."

By the imaginary halo that magically appears over the head of anyone in the financial services industry who talks about climate risks (or even utters the word climate or ESG), you would think this is helping in the fight against climate change. There is in fact no reason to believe that this is true. Even so, HSBC, which quickly distanced itself from Kirk's comments on climate risks, seemed desperate to convince us that they believe that climate risks are very serious and very important.

Now why would they want to do that? After all, they're one of the institutions creating the fire: HSBC is

Europe's second largest financier of fossil fuels since the Paris Climate Accord. And they're at the forefront of lobbying governments to delay dealing with the fire. Why on earth would you want to talk up the massive risks of a fast-approaching fire if you're helping to pour fuel onto it in real-time?

There are two answers to that question. The first is that the market's answer is to sell us both the tools to collectively hang ourselves as well as packages to avoid the worst risks, for those few who can pay a pretty penny for it. Like arms dealers that sell to both sides, most large banks quietly finance fossil fuels while proudly trumpeting growth in their green bond issuances. In the end, the exact outcomes according to the science aren't certain, but it's fairly clear there will be blood in the streets; and the bigger the risks associated, the more they can charge institutions to avoid it.

There's a second, more insidious reason that HSBC and every other bank wants to talk up the massive risks of climate change and all the work they're doing to contain the fallout: most people, including in the financial services industry, don't know or are willfully ignorant of the fact that fighting climate-related financial risks is not the same as fighting climate change. In Part III of *The Secret Diary of a 'Sustainable Investor'*, I mentioned a study in which we found that most of the public mistakenly believed that managing climate-related financial risks somehow fights climate change itself. In fact, 77% made that mistake. Worse, the same study showed that Americans who see such headlines are as a consequence less likely to believe government regulation is necessary.

In other words, they're selling fire insurance rather than helping to stop the fire; and even worse, given how poorly that fact is understood, exaggerating their work publicly runs the risk of crowding out government regulation that could actually fight the fire. In that context, you would think that we should not only welcome honest debate on climate risks (and in particular on Kirk's claim on possible 'hyperbole' in this space), but indeed be thankful that someone is honestly pointing out that the solution to lowering emissions does *not* lie in his area—yet another very important reminder that regulations on the real economy from elected (and ideally unpaid and unshackled) politicians will be required.

Instead, Kirk was suspended. Perhaps the most fascinating part of Kirk's presentation comes at 11:35 into it: "The one thing that I think could be a risk out of the blue…the *one thing* the market could get wrong… is a whopping great carbon tax out of the blue…. That *is* possible." This is the most important point: he's arguing that markets have not yet contemplated pricing in the externality, likely as no one believes that it will happen. Put another way, the 'risk' to markets, which are focused primarily on the shorter term, is not from the long-term physical damages of climate change; it's from the possibility that we'll actually listen to the experts and do something about it today by regulating the externality.

Meanwhile, HSBC's Group Chief Sustainability Officer (CSO) responded that his views in no way represent those of HSBC or her colleagues. For those not in the finance industry, let me help translate this for you. Remember the plight of the eight year old girl in Bangladesh that I invoked in Part III of the essay, whose precarious future compelled me to speak up? The CSO at a major bank's response to that girl's plight is to, in effect, reassure us that the damage to that girl's village will indeed be HUGE, but then soothe any concerns we have because they're going to be on top of making sure that clients don't lose any money from it. And much of the ESG industry, apparently unaware that wildfire insurance salespeople do not deserve quite the same social applause as firefighters, echoed the same party line.

For what it's worth I'm certain that HSBC's CSO means well, and given she began her career working with the United Nations on sustainable development, I have no doubt she does not want her life's work to resemble the climate-equivalent of the guy from the movie *Thank You For Smoking*. But what can she do? Like everyone else in the industry, she is just one cog in a much larger profit-maximizing corporation, one with a set of legal obligations and financial incentives to maximize near-term profits, even if that means making money creating a fire, lobbying the government to keep the fire department at bay, and then selling pricey solutions to shield rich clients from the worst of the financial fallout.

This is, without a question, not a CSO issue. Or an ESG issue or a CSR issue. This must rise to the CEO and Board level: only at the top can we have an honest conversation with those who see the full picture and have the decision-making authority to pull all the strings of the organization, including both the sustainability and the public policy teams. And that debate must lead to action, not more talk. At this point, we know the science is real, we know that addressing it will require mandatory and systemic reforms enacted by governments on *all* players in the system, and we know that business leaders must know this because of how they reacted to a slower-moving curve that science told us to flatten—inviting governments to force inconvenient measures to protect us all. It's in very, very poor taste for such leaders to hide from this debate right now, especially given their short-term financial incentives.

Albert Camus once wrote: "In any situation, no matter how confining, you have a choice. To believe you do not, is to choose not to choose." The clock is ticking and the arc of history is slowly being cemented for future generations to someday celebrate or lament. Fortunately, we're not short of ideas. As an example, the pandemic showed us a basic roadmap for action on climate change that is so simple and easy to understand that I was able to explain it in five minutes through memes.

Now only the debate about sacrifice awaits: how will we fix the rules of the system to hasten the changes we require, and who will pay?

When we're ready to have that difficult debate, we will need a hero to emerge who can convince people that, as with the pandemic, we must act quickly and accept inconvenient sacrifices to avoid a dangerous systemic threat. But Stuart Kirk is not that hero, because we're not even ready for that debate yet.

And that's precisely why he's the hero we deserve.

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*I might write more or even launch a podcast. I'm on Twitter, LinkedIn, and Instagram. (And the Rumie discord.)*