January 20, 2022

Dear CEO,

We have reviewed Larry Fink's 2022 letter to you and your peers, and we have reached two conclusions. Larry Fink doesn't think that you as CEO or we as shareholders are very bright, or he wouldn't make so many glaringly false assertions. And because of this, you will lead your company into true mountains of risk – reputational, legal, regulatory, legislative, and more – if you follow his lead.

Over the course of his fairly brief letter, Fink reveals that he doesn't understand (or pretends not to understand) capitalism. He makes overtly absurd claims about the non-partisan nature of his demands to the corporations in which his clients have invested. He misunderstands his fiduciary duty. And he fails to recognize that his vision for the future is already failing, in the United States and all around the world.

It's probably not fair to say that your fiduciary duty to your shareholders and your moral duties to other relevant parties require you to reject everything that Larry Fink says. But it is certainly true that you cannot simply rely on anything he says without undertaking your own full, objective, independent investigation.

Larry Fink Does Not Understand Capitalism

This may seem a surprising claim about someone whose firm controls $10 trillion of other people's assets, but if we assume that he means what he says in his letter then we can reach no other conclusion.

Fink's claims about "stakeholder capitalism" are the primary tell. He claims that stakeholder capitalism is a new understanding of capitalism, and one that is necessary for modern business. But this is wrong. Stakeholder capitalism is either just a communications-office creation – a catchy and faux-caring terms that changes nothing – or it is an insurrection by the C-suite against shareholders dressed up as caring about the wider community.

Fink and the CEOs of the Business Roundtable grandiosely announced in 2019 that it had altered the "purpose of the corporation" from shareholder capitalism to a stakeholder variety. The supporters of this change made large claims about how this shift would mean big things for employees, clients, the environment – basically everyone and everything, because everyone was a stakeholder.

The Business Roundtable, though, is nothing more than a luncheon club for CEOs. It doesn't have the power to change anything by its pronouncements, far less the legal fiduciary duties that obtain to corporate executives – who, under current general-business law, work as managers for the interests of shareholders. So various shareholder representative groups on the left started proposing that corporations change their incorporation status to the public-benefit corporation form, which not only allows but requires that corporations act on behalf of specified charitable goals rather than merely maximizing shareholder value. Meanwhile, the Free Enterprise Project (FEP) of the National Center for Public Policy Research, our organization, sought confirmation from corporations that whatever their CEOs might declare at lunch, they were still working in the interests of their shareholders.

Sure enough, what we and the left-of-center groups found is that companies have universally confirmed that the stakeholder-capitalism pronouncement was just a public-relations bauble that hadn't changed anything. The companies were still, as under law they're obliged to, working to advance the objective financial interests of the companies' owners – the shareholders.

They affirmed what has always been true: that businesses run for the interests of shareholders will necessarily take into account the interests of employees, customers and communities for the simple reason that good and successful businesses have to treat those groups well, and are glad to do it. But the financial interest of the shareholders provides an organizing rationale for what to do when various "stakeholder" interests conflict, or derogate from the financial well-being of the corporation.

Without that unifying interest, what Fink calls stakeholder capitalism isn't capitalism at all: it's a stealth takeover of investor assets by corporate executives. This is because not all stakeholder interests can be represented in corporate decision making. Clients will want different things than employees in many instances, and some employees will wish to chart a different course than other employees do. You can no more please all of the people all of the time than you can fool them that often. So what "real" (as opposed to communications-office) stakeholder capitalism boils down to is corporate executives putting their personal-policy preferences in the mouths of stakeholders (or listening exclusively to the stakeholder representatives who "demand" whatever it is that the corporate executives want to do), and then doing whatever they want rather than following their fiduciary duty to act in the financial best interest of their shareholders – which includes conducting complete, non-partisan and objective research in determining just what is in those shareholders' best interests.

Fink accidentally acknowledges that his vision of stakeholder capitalism is the insurrectionary and self-dealing sort, a cover for his assertion of his personal policy preferences over shareholder financial interests. He admits:

> Delivering on the competing interests of a company's many divergent stakeholders is not easy. As a CEO, I know this firsthand. In this polarized world, CEOs will invariably have one set of stakeholders demanding that we do one thing, while another set of stakeholders demand that we do just the opposite.

Fink doesn't resolve these conflicts by polling all stakeholders and acting with the majority. He just listens to the groups who want to do what he wanted to do all along, and then claims he's somehow acting for all stakeholders.

That's not a fiduciarily sound mode of procedure. Nor is it any sort of capitalism at all.

To see how far Fink's vision of capitalism differs from the real thing, imagine that his stakeholder revolution were to happen at a privately held company. The company executives go out to lunch one day and work out a memo to the owner, in which they explain that they have decided that they are going to manage the company for the best interests of all the company's stakeholders – not the owner; and that they were going to determine who to recognize as legitimate stakeholder representatives, and which of their interests count.

They'd all be fired and replaced before dinnertime.

Fink's stakeholder capitalism is just managerial socialism, but with the managers paid by private companies rather than by government. And in this sense, it is ever more dangerous than governmental managerial socialism, because government managers, however burrowed into the bureaucracy, are at least partially constrained by the electoral processes. Fink, though, wants to dictate American corporate policy – and through it American social and environmental policy – without ever having to face an electorate.

That's what makes his pretense that his agenda isn't uniformly partisan but rather objectively grounded so pernicious.

Fink's Demands to CEOs are Entirely Partisan

Fink claims in his letter that "stakeholder capitalism is not woke," and that it "is not about politics. It is not a social or ideological agenda." People only think it's highly pastisan, he asserts, because of efforts by "[p]olitical activists, or the media, [to] politicize things your company does." But the rest of the letter belies this claim. As an initial matter, and though Fink largely avoids using the term, the agenda that he supports is a straightforward, leftwing "ESG" agenda – with the S in that construction an initialization of "social." The first reform that Fink demands of companies, the adoption of "racial equity," is the primary leftwing social ESG goal right now. It is also the beating heart of the woke, hard-left agenda, and is so controversial that it drove the surprising election results in 2021 and is even now driving a massive realignment away from politicians and activists who embrace it. And well it should, because racial (and other) equity demands straightforward discrimination – discrimination against "non-diverse" groups now, on the grounds of race, ethnicity, sex and sexual orientation, to make up for past discrimination by other people against groups that Fink honors with the label diverse. The idea that this hard-left doctrine of discrimination is both non-partisan and necessary for corporate success – that overt discrimination is required to *retain* workers and create happy workplaces – is ludicrous.

The rest of Fink's demands to companies simply adopt the current leftwing partisan agenda. His push for politics-driven zero-carbon deadlines for American companies is a private Green

New Deal – another wholly partisan position, which Fink supports by adopting wholesale all of the unproven leftwing presumptions about carbon reduction while ignoring the vast array of considerations that militate against artificial and not-yet-technically feasible schedules for carbon reduction. This blinkered and partisan treatment of the issue is perhaps best illustrated by Fink's demand that companies "issue reports consistent with the Task Force on Climate-related Financial Disclosures." Such reporting pushes companies to adopt politically driven schedules, but not to consider whether those schedules will result in any meaningful world-wide carbon reductions of the sort that will change the trajectory of climate change. (If, for instance, China and other developing companies don't join the artificial schedules – and there's every indication that, rhetoric aside, they have no intention to do so – then even full carbon elimination by the whole American economy won't make any significant difference to the world's climate.) Nor does it push companies to fully consider the tradeoffs and opportunity costs that will arise from following a politicized schedule rather than a financial-and-technical feasibility schedule, or to weigh the financial risks that carbon-based energy development and revenue will simply be transferred away from public companies – and small investors – to private equity billionaires like Fink himself and corrupt foreign governments.

BlackRock's research supporting its partisan agenda is likewise incomplete, non-objective, and salted with unexamined leftwing presumptions.

BlackRock also fails completely to support any shareholder proposals or initiatives that arise from the center/right. FEP has traditionally been the primary sponsor of such proposals and initiatives, and so we know first-hand that BlackRock supports only left-of-center efforts. While it demands present discrimination on racial and other grounds, for instance, BlackRock refuses to support resolutions that push companies toward protections against discrimination on the basis of viewpoint or worldview – even though diversity of viewpoint has been reliably shown to improve company performance, while the evidence that surface-characteristic or private-life diversity improves performance is either very weak or wholly lacking.

You can gather for yourself from all of this how reliable and complete will be the research from BlackRock's Center for Stakeholder Capitalism, the creation of which Fink touts in his letter. He claims that it will

> create a forum for research, dialogue, and debate. It will help us to further explore the relationships between companies and their stakeholders and between stakeholder engagement and shareholder value. We will bring together leading CEOs, investors, policy experts, and academics to share their experience and deliver their insights.

But if Fink rigs the results at that Center – using leftwing assumptions and talking to leftwing leaders while ignoring thoughts, facts and concerns that don't fit his leftwing agenda –he'll simply be wasting investor and shareholder money to fund yet another – wholly redundant – leftwing thinktank. We're looking forward to our invitations to participate in the Center's work, and to hear that other thinkers and organizations who oppose woke capitalism, like Vivek Ramaswamy, Stephen Soukup and the experts at the Heritage Foundation, the Competitive Enterprise Institute, and others have likewise been invited – but we're not holding our breath.

Fink opens his letter by asserting that his motivation to foist his agenda on American companies arises simply as a response to his fiduciary duties to his shareholders and investors. His follow-up claim that the demands he makes in the name of "stakeholder capitalism" are not partisan, but are just good business – and all just happen to be exclusively leftwing – is so unlikely that it could be consonant with that fiduciary duty only if demonstrated conclusively by objective, complete and duplicatable evidence. That fact that Fink's claims are based on research that bears none of these attributes wholly eviscerates his claim. Fink envisions a day on which "every investor – even individual investors – can have the option to participate in the proxy voting process if they choose." Until then, though, he votes the vast majority of investor proxies, not just those in explicitly ESG funds, to forward his partisan personal policy agenda.

The Failures of Fink's Politics-Driven Agenda Already Abound

The failures of Fink's politically driven agenda are already everywhere. Consider that Fink urged corporations vastly to increase their investments in China just as China was violating treaties to destroy liberty in Hong Kong, threaten Taiwan and Japan with war, contain millions of Uyghurs in concentration camps, and lie to the world about its responsibility for shuttering the whole globe for the best part of two years. This wasn't just bad financial advice; it was also morally reprehensible. Taken with his demands for equity-based overt discrimination at home, his complicity in discrimination, repression and increasing authoritarianism abroad perhaps shouldn't be that surprising, but it makes shockingly clear that Fink is not the man from whom any American companies should accept any lectures about morality, or any guidance generally.

China also sits at the center of Fink's energy-policy failures. While China occasionally mouths comforting platitudes about reducing carbon emissions someday, in fact it is ramping up those emissions, including by bringing massive numbers of coal-fired energy-generation plants on line. Meanwhile, in Europe, which has in large part adopted political carbon-reduction schedules like the ones Fink presses on corporations here, the result has been increases in carbon emissions because the technology does not exist to support those political schedules, requiring Europe to rely on older technologies even as agenda-driven scarcity has caused electricity costs to soar. Europe makes clear that Fink's decarbonization plans lead to vastly higher costs for more carbon-dense energy. The former may not matter to Fink with his vast wealth, but it matters to hundreds of millions of the ordinary "stakeholders" whom Fink pretends to represent. That political decarbonization schedules have led – right now – to increased carbon production is something that would be taken seriously by a thoughtful and non-partisan investor. Fink's silence in the matter speaks loudly.

Perhaps Fink's overriding and motivating error, though, is his failure to understand that industrial planning of the sort that he demands – and demands that he direct – always fails. From the Soviet Union to post-war, pre-Thatcherite Britain to China's overproduced and massively ill-judged ghost-cities real-estate development, artificial selection of investment targets by politically motivated "experts" always results in stagnation and misallocation. The problem arises from substituting the dictates of so-called experts for the diffuse wisdom of markets and the invisible hand. It will not therefore be avoided by the dictates coming, as Fink wishes, from him rather than from government bureaucrats.

The Consequences of Submitting to Larry Fink

Fink's claim to be acting in accordance with his fiduciary duty for the benefit of BlackRock's shareholders and stakeholders – or for anyone – is insupportable. Following his politically partisan and divisive advice without fully conducting the complete, objective and reproducible research to establish its benefit to each corporation would similarly violate the fiduciary duties of C-suites nationwide.

The controversial, partisan and ill-considered nature of Fink's demands, meanwhile, will raise significant regulatory, legislative and other legal risks. As we have seen, "equity" demands discrimination, especially on legally problematic grounds. It will invite lawsuits from the groups of employees and other stakeholders who are discriminated against. At the same time, the American people are making their disgust at such systemic discrimination – in schools and in the workplace – increasingly clear. Fink asserted, without evidence that "[e]mployees are increasingly looking to their employer as the most trusted, competent, and ethical source of information – more so than government, the media, and NGOs." In truth, though, trust in American corporations across all of society has seldom been lower – a development largely driven by the hard-core politicization of so many companies. This increasing distrust of corporate America raises significant risk that further politicization, of the sort that Fink demands, will result in increased investigation, regulation and legislation when power next swings away from the faction that supports Fink's leftwing agenda, while making it significantly more likely that that swing will come sooner rather than later.

Fink asserts in his letter that "access to capital is not a right. It is a privilege," and he demands that he be the one to decide, on intensely political, divisive and unpopular grounds, who is granted that access. But it seems likely that the American people will be unwilling to go along with his wish to anoint himself America's unelected economic czar, and will block his grandiosity while also looking askance at companies that have acceded to his agenda.

Larry Fink is a one-man threat to American prosperity and culture in his effort to control it all. He is not the man you should hand the keys of your company to.

But you don't need to take our word for it. At Berkshire Hathaway's annual shareholder meeting last year, Fink and BlackRock publicly backed two shareholder resolutions – one pushing "equity," the other politicized climate reporting. Warren Buffett opposed the resolutions, which were grounded in Larry Fink's notion that he knows better than the Oracle of Omaha how to run Buffett's own company.

Buffett called out BlackRock and the other passive investment houses. He said that "[o]verwhelmingly the people that bought Berkshire with their own money voted against those propositions. Most of the votes for it came from people who've never put a dime of their own money into Berkshire." He concluded that making all the companies across Berkshire's sprawling empire fill out a questionnaire on climate and racial statistics, because some outside organizations asked for it, was "asinine."

We couldn't agree more.

Conclusion

If Fink and BlackRock plan to vote in favor of a leftwing ESG shareholder resolution, against the fiduciary interests of your company, we at FEP will have your back. If Fink supports far-left political activists to replace the business leaders that sit on your board of directors, we at FEP will have your back. Fink's 2022 letter to CEOs continues his fervent march to remake corporate America in his far-left image. As Warren Buffett and his board made clear last year, you and your board are responsible to your shareholders. While BlackRock may be *an* investor in your company, Larry Fink is not your master. Just because he wants to be king of the business world, that doesn't mean you have to indulge his narcissism. We hope our letter has made clear - Fink is a king in his own mind only - and one wearing no clothes at all.

Sincerely,

Scott Shepard
Director
Free Enterprise Project
National Center for Public Policy Research