Socialism in a Business Suit

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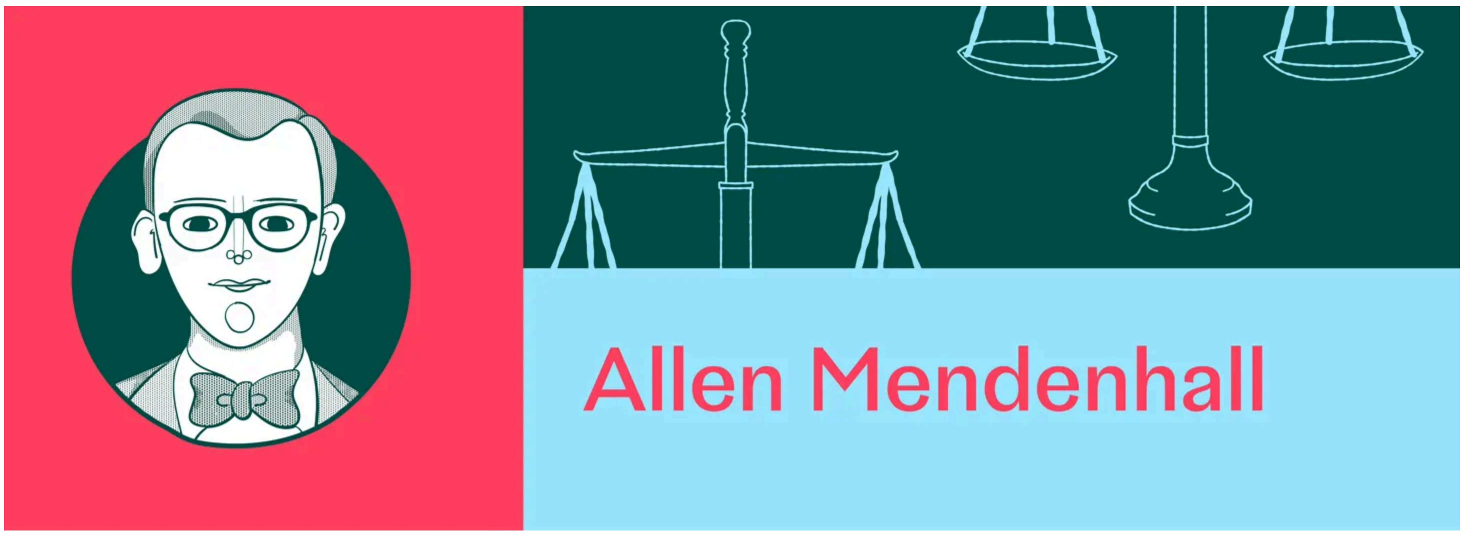

The phrase “stakeholder capitalism” wafts through the air with the dulcet reassurance of democratic intent—an invitation to a more inclusive and participatory economy. But as Andy Puzder illustrates in *A Tyranny for the Good of Its Victims*, the term is little more than a euphemism for the accretion of authority by a self-anointed clerisy.

Puzder's credentials as both a businessman (former CEO of CKE Restaurants) and a public servant (awaiting confirmation as Ambassador to the European Union) lend considerable weight to his critique. His central thesis is that the current enthusiasm for stakeholder capitalism represents nothing more sophisticated than "socialism in sheep's clothing."

The transformation Puzder chronicles is economic *and* philosophical. Where once we had "a free-market economy responsive to consumer demand, focused on individual opportunity, business success, and returns for investors," we now face what he terms a "social-justice, radical-environmentalist ESG agenda"—a system that purports to serve "an amorphous group of unidentified 'stakeholders.'"

While the market, without a central plan or design, serves real individuals making actual choices, this new dispensation serves an abstraction—"society"—which conveniently happens to share the policy preferences of those enlightened enough to speak on its behalf.

What emerges from Puzder's analysis is a portrait of paternalism so comprehensive, so thoroughly convinced of its own righteousness, that it scarcely bothers to disguise its contempt for the democratic process. These self-appointed guardians of the common good don't trust ordinary citizens "to make decisions for ourselves, our nation, or our planet that are consistent with their values."

Who are these authoritarian elites? Puzder identifies the principal actors as asset management firms like the Big Three—BlackRock, State Street, and Vanguard—which have played a leading role in advancing ESG via passive investment funds. The vehicle for this coup has been the seemingly innocuous rise of passive index investing and its offspring, the Exchange-Traded Fund (ETF).

To understand the magnitude of what has occurred, one must first grasp what passive investing purports to offer. In theory, it represents the democratization of investment: a way for the ordinary citizen to own a slice of the entire market without the expense and uncertainty of active stock-picking.

An index fund purchases all stocks in an index, like the S&P 500, based on each company's market capitalization. An ETF performs the same function but trades like a stock throughout the day. Both promise investors market returns at minimal cost, eliminating the need for expensive fund managers and their oft-disappointing attempts to beat the market.

While passive investing has indeed delivered on its promise of low fees and broad market exposure, it has simultaneously accomplished something more sinister. By pooling trillions of dollars into portfolios managed by a handful of firms, it has effectively transferred voting control of American enterprise from millions of individual investors to a triumvirate of asset managers.

When BlackRock, Vanguard, and State Street together command upwards of $20 trillion, the cumulative effect is that these firms alone control voting rights in virtually every major American corporation.

None of this would have been possible without government intervention. In a recent law review article, Daniel Sutter and I described how the ESG boom wouldn't exist without government impetus. Although many defenders of ESG claim that the trend is a response to evolving investor preferences, we showed that the real story is more complicated—and more political.

Governments around the world have played a decisive role in steering capital toward ESG. The push comes from the top: mandates requiring an energy transition, regulations compelling ESG disclosures, generous subsidies, and tax incentives. Sutter and I documented this government-driven momentum across the United States, Europe, and other OECD countries.

Of course, some investors genuinely care about environmental and social concerns. But the sheer scope of laws, directives, and subsidies suggests that this surge of ESG interest isn't a spontaneous market development. It's a response, instead, to political pressure and public policy. In short, if there's a boom, it's less about market pull than government push. If Puzder's book has a weakness, it's that it doesn't sufficiently emphasize the role of government in driving ESG.

His most penetrating insight involves the systematic corruption of fiduciary duty itself. He defines a fiduciary as "a person or entity that stands in a special relationship of trust, confidence, or responsibility empowering it to act on behalf of—and for the benefit of—others."

The traditional understanding of this relationship, particularly as it applied to asset managers like BlackRock, was straightforward. "As a passive fund manager," Puzder explains, "BlackRock traditionally satisfied this fiduciary duty by setting up a passive index fund, having its clients invest in that fund, and then allowing each company in the underlying index to succeed to the best of its individual ability, creating the greatest consolidated financial success for BlackRock's clients."

But under Larry Fink's supervision, BlackRock began to maintain that the very growth of index investing required what Puzder describes as "a transformation of fiduciary responsibilities" that would permit passive fund managers to "actively force the companies in which it passively invested to adopt non-economic strategies that responded to BlackRock's preferred social goals."

The logical pretzel this situation creates is breathtaking: when the obligation to maximize returns for clients becomes somehow compatible with—indeed, requires—the pursuit of the fund manager's own social and political preferences, fiduciary duty gets turned inside-out.

Puzder's broader diagnosis rings true: ESG and related movements represent not a refinement of capitalism but its systematic undermining—hence our need for qualifying adjectives like "woke capitalism" or "stakeholder capitalism" to distinguish these innovations from the real thing. He says that the most effective weapon against them is "public awareness."

Warning against complacency in the face of recent pushbacks against ESG initiatives, Puzder issues a final appeal that transcends mere policy: "We are not the first generation to face a collectivist threat, nor will we be the last. Preserving freedom and prosperity, keeping our economy and our Republic strong will require high levels of both diligence and commitment."

What a sobering reminder that the price of economic freedom, like political freedom, is eternal vigilance—and that the current battle over stakeholder capitalism is merely the latest skirmish in a much longer contest.

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