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The Threats Posed by Environmental, Social, and Governance Policies

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The American Institute for Economic Research educates people on the value of personal freedom, free enterprise, property rights, limited government, and sound money. AIER's ongoing scientific research demonstrates the importance of these principles in advancing peace, prosperity, and human progress.

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Executive Summary

Leaders in business, government, and finance have increasingly imposed Environmental, Social, and Governance (ESG) criteria on the rest of society. These top-down restrictions on society are costly and ineffective ways to address perceived and actual social problems. Societies flourish when they are free to solve their problems through decentralized experimentation and innovation.

The language and priorities framed by ESG have permeated public and private institutions around the world. ESG advocates want to reshape our world in profound ways — from how we travel and heat our homes to what practices and products businesses must prioritize.

They want to move the world to a "low carbon" economy built on renewable energy. They also favor dramatic redistribution of wealth and power from the "haves" to the "have nots." Their strategies for doing so undermine freedom, political self-determination, and economic prosperity.

ESG suffers not only from epistemological and ethical shortcomings, but also from conceptual ambiguity, ineffectiveness, and inefficiency. ESG's advocates often wrongly conflate financial and nonfinancial objectives in their pursuit of deeply partisan progressive ideology on climate change, pollution, diversity, LGBTQ+ issues, and more.

KEY POINTS

ESG advocacy:

- consists of a movement or ecosystem of special interests that applies cultural, social, legislative, and regulatory pressure to achieve narrow ideological goals.
- is driven by a few key international groups creating their own terms, standards, and priorities.
- attempts to remake financial markets along a "stakeholder capitalism" model.
- expects corporations to comply with ESG criteria according to the advocates' specific social and environmental goals, from reducing greenhouse gas emissions to increasing racial, ethnic, and gender diversity to speaking publicly in favor of a variety of progressive policies.

Introduction

The murky precepts of Environmental, Social, and Governance (ESG) criteria wield growing influence in investment decisions as well as in government policy. Increasingly, ESG advocates are conscripting business to carry out their plans. This AIER Paper seeks to educate citizens and investors about the substance of ESG and the kinds of problems it has created, providing the interested reader with a variety of sources to study ESG in greater depth. One can criticize or even reject the framework of ESG while still acknowledging the merits of good risk management and reasonable environmental stewardship.

ESG advocates play a variety of interconnected roles, from international agencies and organizations, to for- and non-profit consulting services, to entrepreneurs creating tracking, disclosure, and carbon offset service companies. Advocates have varying interests, but they all share points of commonality around the UN's seventeen Sustainable Development Goals, including ESG criteria. The ESG label pulls a wide variety of United Nations goals and objectives under one umbrella — even if parts of the agenda are unrelated to,

or in tension with, one another.

More generally, the primary philosophical underpinning of the ESG movement is stakeholder capitalism — the idea that companies have sweeping social responsibilities and are the property of the community rather than the property of shareholders. While a few ESG advocates try to rest their arguments on traditional fiduciary responsibility, they are a small minority and usually advocate limited portions of the ESG framework.[1]

The ESG movement also struggles to be transparent and open about its goals. The World Economic Forum's 2024 conference (a major gathering of ESG advocates) in Davos, Switzerland addressed the theme "Rebuilding Trust," acknowledging this problem. Even proponents recognize that ESG criteria are often vague and thus difficult to measure in any consistent way. This has been particularly true with attempts to create financially "superior" ESG index funds. Their level of success remains ambiguous at best.[2]

Besides questionable financial performance, ESG investment funds often struggle to define how their composition differs from non-ESG funds. Many fund managers only tweak existing fund structures to weigh companies with high ESG scores a little more heavily. Despite claims to the contrary, ESG-focused investing seems to be a kind of "impact investing," that is, choosing investments based in part on non-financial goals, masquerading as a strategy for generating superior financial returns.[3]

Most ESG advocates pull a bait-and-switch to advance their agenda.

While impact investing has existed for decades, few people believed that some investors' non-financial goals constituted "material" information about a company's performance — until now. ESG advocates argue that companies should have *legal* requirements to disclose tremendous amounts of information; information that can be difficult and costly to collect and report and that has little or no connection to their financial performance.

This leads back to the problem of trust. Most ESG advocates pull a bait-and-switch to advance their agenda. They claim that ESG criteria improve companies' ability to assess risk and increase their resiliency to market shocks. These factors should increase companies' risk-adjusted returns over time. If this were true, one could argue that a company's adoption and implementation of ESG criteria constitutes material information for investors. But there are three problems with these claims:

1. It is unclear if the use of ESG criteria meaningfully improves financial returns.
2. If they did, companies would adopt and use such criteria voluntarily for financial reasons, without needing non-financial legal restrictions or mandates.
3. Many ESG criteria have nothing to do with risk or profitability, but instead, advance non-financial values and goals around diversity, climate change, a "license to operate," equity, etc.

While ESG advocates promise grand changes, their approach often fails to deliver on social, financial, or even environmental goals. Political decision-making usually ignores economic reality and unintended consequences. It can also easily be "captured" by special interests who will redirect well-intentioned laws and programs to benefit themselves. Even reasonable ESG goals, such as reducing waste, pollution,

and unfair discrimination, can be better achieved without invoking political power or the ESG framework more broadly.

ESG issues pervade politics. On the first day of his administration, President Biden signed Executive Order 13985, "Advancing Racial Equity and Support for Underserved Communities Through the Federal Government." In 2021, he signed Executive Order 14305 on "Diversity, Equity, Inclusion [DEI], and Accessibility in the Federal Workforce." These executive orders mobilize federal agencies, and federal contractors, to prioritize DEI (a subsection of the S in ESG) in hiring and personnel policies.

President Biden also expanded the role of government agencies in promoting ESG priorities when he signed Executive Order 14030 on "Climate-Related Financial Risk." This executive order requires government agencies, particularly financial regulators of the Financial Stability Oversight Committee, to assess and share "the climate-related financial risk, including both physical and transition risks, to the financial stability of the Federal Government and the stability of the US financial system."

DEI ideas have been used to justify student loan forgiveness and a host of other progressive political agendas. ESG priorities made their way into massive spending bills, from the $1.9 trillion American Rescue Plan to the $1.2 trillion Infrastructure Bill to the $900 billion Inflation Reduction Act (which was primarily a massive green-energy subsidy bill) to the $280 billion CHIPS Act. The Securities and Exchange Commission (SEC) has also attempted to incorporate ESG goals into its regulatory rules; everything from disclosures regarding human capital management to climate-related reporting requirements to modifying the Names Rule to go after investment funds that may be engaged in greenwashing. The SEC also quietly launched the Climate and ESG Task Force under its enforcement arm a couple years ago.

ESG legislation varies across the states. California has been enacting climate-related legislation for decades — long before the ESG framework was formulated — including carbon credit trading, extensive emissions reporting, requiring solar panels on new houses, and banning the sale of vehicles with internal combustion engines. Although not all these policies were initially or intentionally created to advance ESG priorities, each one fits within the scope of ESG today. More recently, in 2020 New York State passed extensive renewable energy requirements and the state legislatures in Washington and Oregon passed explicit statewide DEI policies.

States like Florida, Texas, and others, by contrast, have enacted legislation to reduce the impact of ESG on their citizens and their economies. The Texas legislature passed laws prohibiting insurance companies from using ESG considerations and prohibiting municipal and state government entities from doing business with financial firms that boycott the oil and gas industry. They also passed a bill removing DEI programs from state universities. Florida's legislature passed reforms of school curricula, especially regarding Critical Race Theory, and has exercised more oversight of special districts like Reedy Creek and state institutions of higher education like New College.

Courts in the US will play a vital role in coming years in determining whether government agencies or politicians can continue pushing ESG priorities that fly in the face of longstanding legal norms around fiduciary responsibility and constitutional rules about non-discrimination.

In Europe, ESG policies are both more pervasive and have been in effect for much longer. Many policymakers in the European Union (EU) want Europe to be the first continent to reach net zero carbon emissions.

The EU passed the Green Deal in 2020, the European Climate Law in 2021, and the same year created the Sustainable Finance Disclosures Regulation and the Taxonomy Regulation. In Germany, the sweeping Due Diligence in Supply Chains Act went into effect in 2023.

These rules range from dictates on what kinds of vehicles Europeans can drive to mandates that all investors must report "sustainability" analyses on their investments, broken down by vague ESG criteria. Companies in Germany with more than 1,000 employees, are responsible for the "wellbeing" of people anywhere in their supply chain — no matter how tangentially connected to their core business activity.

Large European companies there have legal "stakeholder" responsibilities that give management wide leeway to orient policy and direct resources to any groups they choose. The European Union and several European governments have created an ESG ecosystem involving tens of thousands of people who do not provide ordinary citizens with better products and services. Instead of using their human capital to build, develop, and innovate goods and services, people in the ESG ecosystem spend their time on unproductive activity. As a result, companies spend hundreds of billions of dollars complying with ESG rules, goals, and reporting — all of which make it more expensive and difficult for them to provide goods and services.

Overview of ESG

The ESG movement grew out of the Corporate Social Responsibility (CSR), Impact Investing, Responsible Investing, and Sustainability movements. ESG combines several intellectual threads: the international push for development of poor countries, the environmental protection and conservation movement, and stakeholder capitalism. Obtaining its goals requires increasing and consolidating power over capital allocation into fewer hands. This leads to less decentralized experimentation and innovation, hallmarks of productive economies.

Historically, countries developed organically in a piece-meal fashion as their domestic and trade policies changed. As countries began trading with one another more broadly in the 19th century, their economies became more integrated. Yet economic development was still nation centric. In the second half of the 20th century, however, leaders in wealthy countries and leaders of large international organizations like the World Bank, the International Monetary Fund (IMF), and the United Nations (UN) took it upon themselves to (attempt to) improve the lot of the world's poorest countries through "foreign aid" and "international development" projects.

AIER contributor Kimberlee Josephson points out that the UN Conference on Trade and Development implemented the Integrated Programme for Commodities (IPC) in the 1970s to increase support for more trade and international aid. But this trade had philosophical and legal strings attached. Initially it "allotted poor nations special and differential treatment." In the following decade, the UN adopted the Declaration on the Right to Development which stated that people had, "an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to and enjoy economic, social, cultural and political development."

American economist Howard Bowen created the sobriquet of Corporate Social Responsibility (CSR) in the 1950s. He argued that businessmen ought to consider the impact of their operations on local towns and local environments. While the idea gained traction in the 1960s and 1970s, it was reimagined in the 1980s

by Edward Freeman in his book Strategic Management: A Stakeholder Approach.

According to Freeman, business executives should do more than just consider their impact on communities and the environment as it affects their long-run business enterprise success (i.e. long-term profitability). They should primarily focus on creating value for various "stakeholder" groups instead of profitability for shareholders. CSR then became a tool for exercising influence on companies, their operations, and their capital, by people who did not actually own them.

This opened the door for activists with strong views about what they thought companies ought to do to take up the mantle of stakeholders. Environmentalists, especially, adopted CSR language and tools to advance their goal of "protecting" environments that they did not, or could not, own — ranches, farms, national forest land, rivers, people's houses and land, the air, and even the climate and atmosphere.

Rolling these things into "social responsibility" allowed environmentalists to push corporations (and government agencies) to change their activities based upon alleged impacts on unowned, government-owned, and privately-owned resources — according to the environmentalists' concerns. In the 1970s, 1980s, and 1990s, activists encouraged investors to sell ("divest") their shares in "bad" companies. In 2005, the United Nations built on these concepts such as CSR and stakeholder theory and proposed the ESG framework for corporations in their Principles for Responsible Investing initiative. Since then, a constellation of UN-related organizations has popularized ESG tenets in nonprofits, universities, trade associations, investment groups, and regulatory bodies.

Figure 1 is an "N-gram" or word-occurrence search showing the frequency of "divestiture" in English publications. Figure 2 is an N-gram showing the frequency of "impact investing" rising rapidly in the 2000s. Impact investing takes an opposite approach to divestiture. Impact investing means intentionally buying shares to pursue non-economic goals, including reforming "bad" companies.

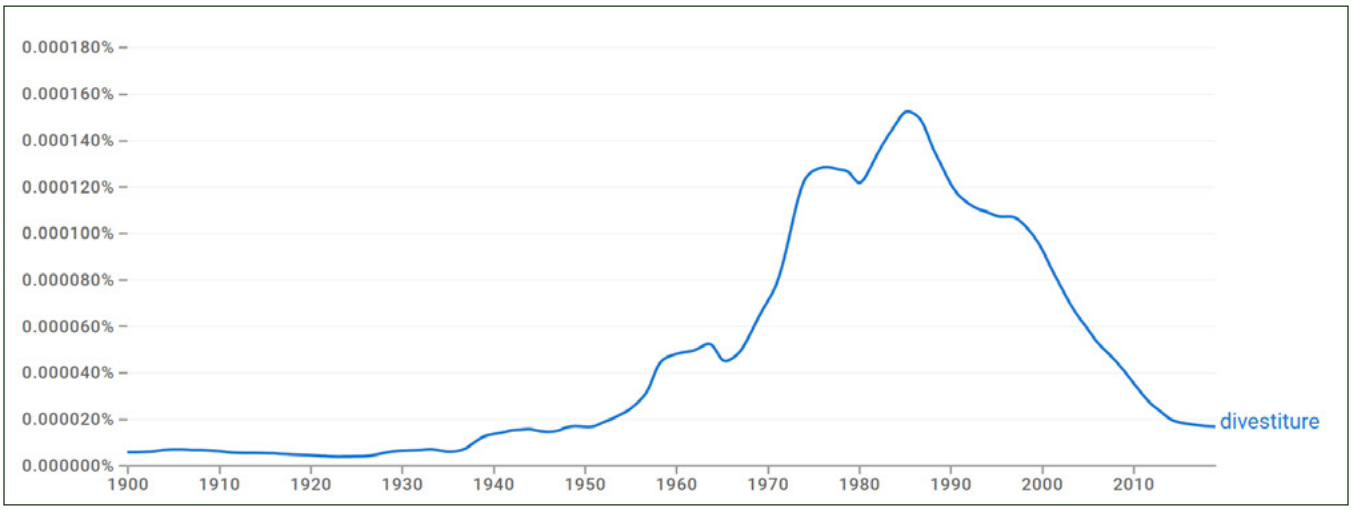

Figure 1: N-Gram of "Divestiture" 1900 – Present

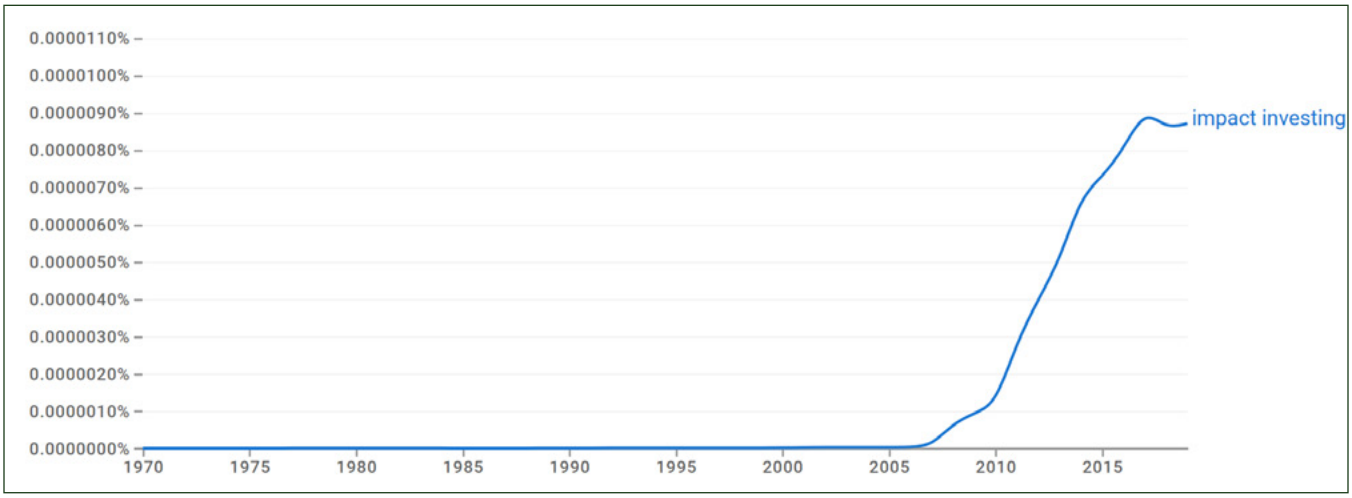

Figure 2: N-Gram of "Impact Investing" 1970 – Present

In the 1990s, CSR lacked strong enforcement mechanisms. A company might get some bad press or face small protests because it failed to adhere to some group's demand for socially responsible behavior, but that rarely had much impact on its operations or enterprise value. Criticisms made by various groups about narrow social or environmental issues often failed to stick because they were ambiguous and limited in appeal.

But when the UN synthesized international development goals with CSR concerns in 2005 under the Principles for Responsible Investing, it also promulgated new standards of Environmental, Social, and Governance criteria. With this synthesis came greater standardization of metrics and much wider adoption of goals across NGOs, climate activists, social justice advocates, and government officials around the world. ESG has created much greater economic, political, and social consequences than similar attempts in the past because global financial and political elites are making coordinated efforts to accelerate its adoption.

Stakeholder Capitalism and ESG

The intellectual underpinning of ESG, "stakeholder capitalism," grew out of older "corporatist" forms of governance. Corporatists and stakeholder capitalists believe that companies, investment, and resources ought to be collectively directed, or even controlled, in pursuit of social goals. Many different groups of "stakeholders" have a claim on business activities and their use of capital.

The Encyclopedia Britannica defines Corporatism as: "the theory and practice of organizing society into "corporations" subordinate to the state. According to corporatist theory, workers and employers would be organized into industrial and professional corporations serving as organs of political representation and controlling to a large extent the persons and activities within their jurisdiction."

Unlike socialism, stakeholder capitalism does not advocate the total redistribution of wealth or the complete abolition of private property. Nor does stakeholder-capitalism mean that governments make all production and distribution decisions. For example, socialism would involve the US government taking over and running Twitter, Facebook, or Google. Corporatism, on the other hand, means letting these private actors continue to do the work, but empowering government bodies or agents to direct their "private" behaviors and priorities.

Price discovery, competition, and private capital allocation are still part of a corporatist economy, but governments and other interest groups attempt to harness businesses and private exchange to advance political goals. Stakeholder capitalism is incredibly attractive to legislators, regulators, and government officials. They gain significantly more power and influence when business is deeply entwined with, yet mostly subservient to, government agencies.

German economist and World Economic Forum (WEF) founder Klaus Schwab has long advocated a "new" or "better" stakeholder capitalism. After the global financial crisis of 2008, more people became interested in alternative approaches to capitalism. Similarly, the World Economic Forum exploited international reaction to the COVID pandemic of 2020 to advance the "Great Reset." The WEF approach has attracted business leaders and financiers who see an opportunity to extend their influence and increase their economic positions by adopting ESG criteria early and thereby helping to decide the direction of future ESG policy.

Stakeholder capitalism, unlike free market capitalism, requires social or political objectives. ESG advocates spend significant amounts of time and effort hammering out these objectives. Combatting climate change dominates ESG priorities because climate concerns are believed by activists to be the most dangerous to society as a whole — everyone contributes, everyone is affected — and quantifying these risks purportedly demonstrates the universal consequences of climate change. Most of the targets, disclosure requirements, regulations, and cost of the environmental piece of ESG come from attempts to reduce greenhouse gas (GHG) emissions.

Environmental Criteria

The 2015 Paris Agreement established goals for greenhouse gas emissions reductions by 2030 based upon Intergovernmental Panel on Climate Change (IPCC) models and predictions. ESG advocates argue that it will be harder to slow or stop climate change the longer we wait to act. They also claim that rising temperatures will create exponentially greater harm.

For example, the 2023 Emissions Gap Report by the UN Environment Program claims that extreme weather events will happen more frequently as the planet warms. In 2015, global greenhouse gas emissions were projected to be 16 percent higher in 2030. Instead, they are now projected to be only 3 percent higher. Some of this effect may be due to environmental regulations, but much of the reduction happened because of technological improvement — especially the fracking revolution that made natural gas, a cleaner fuel, cheaper and more prevalent.

In 2015, scientists at the IPCC deemed limiting warming to 1.5° Celsius achievable. The most recent UN report suggests that it is no longer the case: "predicted greenhouse gas emissions must fall by 28 percent for the Paris Agreement 2°C pathway and 42 percent for the 1.5°C pathway."

Although specific targets are chosen (1.5°C or 2°C), IPCC models predict ranges of temperature increase and probabilities based on varying emissions. Under current policies, the report predicts a 50 percent chance of the world being 1.8°C - 3.5° warmer than pre-industrial times, a 66 percent chance of being 1.9° - 3.8° warmer, and a 90 percent chance of being 2.3° - 4.5°. They rate the probability of staying below 1.5° warming at 0 percent except for the most optimistic case of massive reductions in greenhouse gas emissions and rapid movement towards net zero.

While global temperature change is the most salient, it is not the only goal under the Environmental umbrella. Other climate goals include using fewer resources and less energy. Concerns about water tables, contamination, droughts, and flooding are widespread. Other environmental priorities include reducing waste of all kinds, preserving natural habitats, and reducing pollution. However important these issues may be, ESG advocates want to conscript society to carry out their specific "solutions."

Social Criteria

Internationally, ESG social goals tend to revolve around equity — especially wealth equity and pay or opportunity equity between men and women. McKinsey & Company explains equity this way: "Equity refers to fair treatment for all people, so that the norms, practices, and policies in place ensure identity is not predictive of opportunities or workplace outcomes. Equity differs from equality in a subtle but important way. While equality assumes that all people should be treated the same, equity takes into consideration a person's unique circumstances, adjusting treatment accordingly so that the end result is equal."

As noted above, equity, as opposed to equality, focuses on outcomes rather than equal treatment or opportunities. Some Social goals relate to working conditions and others relate to Diversity, Equity, and Inclusion (DEI). In European, Anglo-American, and other post-colonial countries, racial equity also has great importance.

While no universal or objective standard for acceptable or unacceptable working conditions exists, companies can receive lower scores if workers in their supply chain: are not paid enough to suit ESG advocates, work too many hours, have overly difficult or dangerous working conditions, or do not have certain benefits like healthcare. But definitions of "too many," "overly difficult or dangerous," or "not paid enough" can vary dramatically across international and industry-specific contexts.

ESG advocates generally push for significant redistribution of money, resources, power, and authority from groups who have more to groups who have less. In many ways this is simply an extension of international aid. ESG criteria make companies responsible for the living standards of workers around the world, from coffee-harvesters in rural Columbia to garment-makers in Vietnam to farmers across Africa. Extensive ESG goals include legal requirements to provide access to healthcare and education, to improve working conditions, to police abuse and exploitation, and to "empower" the downtrodden of the world.

The whole DEI framework has deep connections to cultural Marxism and Critical Race Theory, and to deconstructionists like French philosopher Michel Foucault, who argue that the world primarily consists of power structures between groups — power structures that are zero-sum in nature. People only win at the expense of others. This outlook implies that conflict is inevitable, and that justice is always on the side of the "oppressed."

Attempts to change corporate Governance often amount to a kind of theft. Pressuring or requiring companies to act in ways at odds with maximizing shareholder value misappropriates what belongs to others. Klaus Schwab, BlackRock billionaire Larry Fink, and other ESG advocates have been attempting to direct the capital of others, and the wealth of nations, into their own favored projects. These resources do not belong to them, yet they want significant discretion and control over how they are used.

DEI advocates claim they are reversing past racial and gender discrimination by hiring and advancing "dis-

advantaged" people. DEI has created categories and criteria that, as with everything else, allow its advocates to define social, racial, and gendered "disadvantage." Intersectionality measures an individual's level of oppression as a confluence of how many "disadvantaged" groups one is a part of. On the other hand, DEI advocates label those who are not part of any disadvantaged group as "privileged" or, even more incendiary, as "oppressors." The white, cisgendered, wealthy, Western male epitomizes the "oppressor."

The clout of intersectionality comes from designating groups as "oppressed" to increase their standing or worthiness of elevation. Those who have the authority to designate groups as oppressed wield significant influence in societies that advocate Social criteria. DEI initiatives include policing speech and "discrimination" within companies, hence the ubiquity of signs stating, "hate has no place here" and "LGBTQ+ Friendly." Affirming and advocating for the "oppressed" becomes a sign of distinction for companies and managers in an ESG framework.

DEI criteria manifest differently by organization. In the University of Ohio system, for example, DEI meant evaluating applicants for faculty positions in part by their race or gender: "One role in medical anthropology had 67 applicants. The four finalists included the only two black applicants and the only Native American applicant. 'All four scholars on our shortlist are women of color,' the committee said." This approach prizes identity but ignores competence and merit, as we saw with the academic weakness of Harvard's former president Claudine Gay.

The Rand Corporation features DEI prominently on its website and steers its "truth decay" initiative towards supporting what National Review calls "the same progressive view of disinformation the Biden administration used to justify a massive censorship enterprise." For the Pentagon, DEI means spending hundreds of millions of dollars on consulting and "education" programs "aimed at furthering DEIA [Diversity, Equity, Inclusion, and Accessibility], and incorporating DEIA values, objectives, and considerations in how we do business and execute our missions." One could be forgiven for wondering how this protects Americans from our adversaries. Will advancement in the military be determined by one's affiliation with "oppressed" groups or one's level of political correctness, rather than one's competence?

Governance Criteria

Many of these values also influence the Governance category. ESG advocates use Governance criteria to influence the composition of boards, and the rules, guidelines, and expectations for board members. They push for more ethnic, racial, and gender diversity on boards. They also want more interest groups like labor unions, climate activists, and other "stakeholders" to have board seats.

This push has made significant inroads in the investment community. Advocates range from shareholder research organizations like Institutional Shareholder Services (ISS), Glass-Lewis, S&P Global and MSCI, to massive institutional investors like BlackRock, Vanguard, and State Street. These organizations have made concerted efforts to influence the boards of the largest and most important companies in the world — including placing anti-fossil-fuel advocates on the board of the largest fossil fuel company in the world: Exxon Mobil.

Another example can be seen in shareholder proxy recommendations. ISS claims that there should be at least one woman and one member of a minority on every board. If there isn't, ISS recommends sharehold-

ers vote against the proposals of the current board:

- Gender Diversity: Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board...
- Racial and/or Ethnic Diversity: For companies in the Russell 3000 or S&P 1500 indices, generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) where the board has no apparent racially or ethnically diverse members.

But Governance criteria extend beyond promoting DEI and Environmental issues within the firm. ESG advocates want companies to work towards these goals in the broader society. In 2016, for example, companies threatened to boycott states that implemented religious liberty laws and failed to grant sufficient "protections" to LGBTQ+ groups. Dozens of large public companies used their economic clout to pressure state politicians on social issues.

In response to the North Carolina law requiring people to use the bathroom that matched the gender on their birth certificate, the CEO of PayPal announced it would change its plans to expand in North Carolina because: "The new law perpetuates discrimination and it violates the values and principles that are at the core of PayPal's mission and culture." And in response to Georgia's Free Exercise Protection Bill that would allow religious business owners to not participate in objectionable activity, the NFL and Disney said they would likely take their business out of the state because they were "inclusive" companies.

The corporate response to George Floyd's death and the Black Lives Matter (BLM) movement provides another example. Recall how many large corporations chose to make public statements about the incident. And recall the massive contributions made to BLM that year — over $90 million dollars in total from large companies including "Amazon, Microsoft, Nabisco, Gatorade, Airbnb," and others. Commenting on social issues, withdrawing investments or expansions from individual states, and transferring significant financial resources to activist nonprofits, naturally follow ESG advocates' desire to transform all of society.

ESG advocates also want to change the legal duties, the fiduciary responsibilities, of financial officers. In the US, maximizing financial returns has always been the north star of corporate governance. ESG advocates want to see that standard weakened or changed into a "stakeholder" model with more "diverse" representation.

A dizzying alphabet soup of organizations advocates the use of Environmental, Social, and Governance criteria — CFI, GRI, MSCI, FSB, SASB, ISS, CDP, ICMA — the list goes on and on. Yet we cannot understand the ESG movement "ecosystem" without examining major players and their roles. The following categories sort organizations by their function, from broad advocacy to nitty-gritty implementation:

- Goal Creators
- Standard Setters
- Advisors
- Consultants
- Assessment and Bond-Rating Agencies

- Implementors
- Investors
- Activists

GOAL CREATORS

No initiative is more important for ESG than the United Nations Global Compact. In 2015, the UN Global Compact created focal points for setting ESG standards, benchmarks, metrics, and rules in seventeen broad "Sustainable Development Goals" for 2030 regarding climate change, water and land ecosystem preservation, gender equality, clean energy, and much more. The UN Global Compact sets the international goals for reducing greenhouse gas emissions by drawing on ideas from the Intergovernmental Panel on Climate Change (IPCC) and other climate-focused organizations.

No initiative is more important for ESG than the United Nations Global Compact.

The Financial Stability Board (FSB), an international body funded by the Bank of International Settlements (BIS), recommends regulations for the financial sector such as incorporating "climate risk" in their decision-making. The FSB's Task Force on Climate-Related Financial Disclosures argues that in addition to disclosing and reporting non-financial ESG considerations in financial documents, investment managers, especially of pensions funds, should have a legal obligation to advance nonfinancial ESG goals.

STANDARD SETTERS

The seventeen SDGs set by the UN Global Compact need to be translated into specific, actionable criteria. Hundreds of organizations do just that. Leadership at Ceres, for example, creates initiatives and "alliances" of investors and companies to achieve sustainability. They want to decarbonize "six of the highest-emitting sectors" by 2030 and they have put together a coalition to advance the rapid adoption of electric vehicles. They have also created the Net Zero Asset Managers' Initiative — a consortium of asset managers committed to steering their investments towards promoting net-zero greenhouse gas emissions by 2050; "consistent with their fiduciary duty," of course.

The International Capital Market Association (ICMA) addresses a wide gamut of financial guidelines and activities. ICMA and the Climate Bonds Initiative write guidelines for "Sustainable Finance" — what constitutes a green bond, blue bond, or a sustainable bond.

The Global Reporting Initiative (GRI) seeks to promote "a sustainable future enabled by transparency and open dialogue about impacts." GRI plans to achieve this mission by developing extensive reporting requirements for industries ranging from mining to food production to forestry to banking to construction to pharmaceuticals.

The International Financial Reporting Standards (IFRS) Foundation maintains another set of international accounting standards through the International Sustainability Standards Board (ISSB) and the Sustainable Accounting Standards Board (SASB). While many of these accounting rules were initially created to oversee intangible or underappreciated risks from environmental, social, or governance issues, the standards

increasingly reflect the UN Global Compact's Sustainable Development Goals.

ADVISORS

Some ESG advocates and organizations are better at getting into the details of implementation of their agenda than others. The Greenhouse Gas Protocol, a joint project between the World Resources Institute and the World Business Council for Sustainable Development, seeks to establish "comprehensive global standardized frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains, and mitigation actions."

Similarly, the UN's Principles for Responsible Investment (PRI) explicitly encourages businesses to sign on to an ESG program of "investment analysis and decision-making," "ownership policies and practices," and requiring certain disclosures for "entities in which we invest." They also exhort signatories to enroll other companies. PRI offers resources for integrating ESG into investment and ownership decisions, and best practices for reporting on ESG criteria.

The Sustainable Purchasing Leadership Council specializes in helping large companies and organizations advance sustainable goals in their supply chains through their procurement processes, including strategies to avoid accusations of greenwashing. The Carbon Disclosure Project (CDP) focuses on generating data and disclosures that will lead to halving emissions by 2030.

CONSULTANTS

Many of the largest and best-known consulting companies have embraced the opportunity provided by ESG to expand their services. They sell ESG compliance as profitable and cutting-edge as well as socially responsible.

McKinsey & Company and Deloitte, for example, have incorporated ESG ideas into their strategies, products, and services. McKinsey actively promotes board diversity, advocates dramatically reducing carbon emissions, and assumes that significant value can be generated while implementing various green technologies. Deloitte sponsors ESG content at the Wall Street Journal's "Pro Sustainable Business" website. Boston Consulting Group will happily offer consulting services about implementing Diversity, Equity, and Inclusion (DEI) goals. So will Bain & Company.

Another example of the prevalence of ESG thinking can be seen in the Business Roundtable's redefining the purpose of a corporation in 2019, explicitly abandoning the traditional definition of maximizing shareholder returns for a "Commitment to All Stakeholders." This opened the door for every grievance or concern imaginable to claim stakeholder status and demand the attention, and often action, of corporate leaders.

ASSESSMENT AND BOND-RATING AGENCIES

Organizations that assess companies' compliance and success in meeting various ESG goals and criteria wield tremendous influence. They determine a company's ESG score or rating, which impacts its public reputation as well as whether particular properties can be included in ESG-focused investment funds or be eligible to issue "sustainable" bonds.

In addition to providing data, analysis, and evaluations of industries and companies to large institutional investors, ISS also recommends how institutional investors ought to vote on shareholder proposals using the proxies of the millions of shares that they manage. ISS says that ESG concerns are "no longer optional"

and recommends that its clients vote against all board recommendations if there is not a woman or an ethnic minority person already on the board.

The research firm S&P Global offers market analysis, benchmarking, and other recommendations to its clients. It also stamps bonds as being green or blue or sustainable. On its website, the S&P specifically mentions "Net Zero" investing and offers indexing and evaluations of companies based on how well those companies are moving towards reducing and offsetting their carbon emissions.

Another investment research and rating organization, MSCI, says DEI are a critical part of their values. They have created dynamic scoring for companies and industries based on how "aligned" they are with carbon emissions reduction goal for 2030. MSCI has built an enormous framework, data set, and indices around the idea of sustainable investing.

Together, these three firms have tremendous influence over how trillions of dollars of capital are allocated. They are also the gatekeepers of what counts as an ESG or climate priority and what does not. At the end of the day, however, significant amounts of their modeling and recommendations are based on projections of ecology, temperature, weather patterns, trends in public policy, and other non-financial goals.

IMPLEMENTERS

A veritable cottage industry has grown up around the ESG movement. Entrepreneurs recognize that a great deal of money can be made by providing ESG-related services, from assessment and reporting to carbon sequestration.

For example, new software firms offer companies ways to track, evaluate, and report their emissions. Persefoni markets itself as a "carbon accounting firm" while Position Green offers emissions tracking software. Sylvera specializes in generating and analyzing carbon data, offering its own ratings and evaluations of specific carbon reduction, or offset projects.

Many start-ups sell "removal" of carbon from the atmosphere. This "carbon sequestration" plays a key role in large companies reaching net zero because most cannot reduce their actual emissions to zero. They have to pay others to remove carbon to reach zero. One could be forgiven for questioning the value of carbon sequestration activities from pulling carbon out of limestone, planting trees, or collecting biodegradable materials that would emit carbon, making them into bricks, and then burying the bricks.

INVESTORS

Money is the oxygen of the ESG ecosystem. Firms that direct investment funds towards ESG projects through carbon offsets and carbon credits keep the movement alive. Base Carbon and Carbon Streaming act like private equity firms to fund preservation and energy efficiency projects around the world through the generation and sale of carbon credits.

Similarly, the massive investment group, Brookfield, has committed to funding low-carbon projects. While this investment firm has oriented all its investments around net-zero goals and reductions in carbon emissions, most major banks (Goldman Sachs, JP Morgan, etc.) and large institutional investors (Blackrock, State Street, Vanguard, etc.) also allocate at least some of their assets in a similar way.

More important even than how Blackrock, State Street, etc. allocate the funds they manage across indus-

tries, is how they have used the clout of their assets under management in shareholder proxy elections. These investment management firms are often the largest or second largest shareholders in the 500 largest companies in the US. Their support for an assortment of ESG-related shareholder initiatives have caused a seismic shift in corporate governance and priorities.

ACTIVISTS

Several organizations exist solely to lobby for broader ESG adoption in law and regulation and to pressure companies to increase their commitments to ESG goals. Other political activist organizations and politicians happily fold ESG criteria into their portfolio of issues.

Climate Action 100 sets benchmarks for whether companies are moving towards Net Zero quickly enough. It represents a coalition of investors and large corporations who have all agreed to work towards reducing their carbon emissions. This broad coalition claims its members represent over $68 trillion in assets.

The We Mean Business Coalition has even more aggressive climate goals — seeking to persuade legislators to phase out fossil fuels completely and as soon as possible. The coalition has written dozens of recommendations for government actions across seven different industries, from more stringent emissions standards to increased reporting requirements to mandated reduction of fossil fuel use.

Climate Group RE 100 is a narrowly tailored coalition of corporations committed to moving to 100 percent renewable energy use in their operations by 2050. It pressures large corporations to sign on to its commitment, noting that its current 400+ signatories currently use more energy than France.

Different organizations play different roles — sometimes complementary, sometimes competitive, with other members in the ESG ecosystem. The UN Global Compact plays an essential role. Were it to change its Sustainable Development Goals, every other organization would adapt. This is not the case when a software company like Persefoni decides to track or evaluate this or that indirect greenhouse gas emission. Furthermore, while we should be careful not to divide these motives too starkly, it seems clear that a substantial part of this ecosystem is chasing the billions of dollars at play, while other parts of the ecosystem are driven by deep ideological commitments and the less tangible benefits of status and influence.

Sustainable Finance

ESG advocates want to rebuild the financial system around "sustainable finance" so that capital flows to firms advancing ESG goals and away from firms that are not. They have made significant inroads in the finance and investment community by arguing that ESG criteria can improve profitability by helping companies to assess and manage risk better. But companies are scored not only on their risk mitigation, but also on whether they meet certain parameters of emissions, renewable energy usage, diversity, stakeholder buy-in, and other nonfinancial goals.

ESG finance spans debt issuance and equity investing. It represents a mainstreaming of "impact investing" while giving "fiduciary" cover to large institutional investors who invest trillions of dollars of other people's money in ways that advance partisan priorities.

ESG has impacted debt markets through the creation of a "sustainability" label: The GSSS (green, social, sustainable, and sustainability-linked) bond market. Bonds rated "Green" and "Blue" refers to borrowing

that supports various environmental goals — renewable energy production, greenhouse gas mitigation, or ecosystem protection and preservation. "Social" bonds refer to projects that advance some Social priority like affordable housing, food security, or gender or racial equity.

Many organizations offer definitions and guidelines for whether certain activities qualify as "green" or "social" or "sustainable." The most important is the taxonomy created by the European Union:

> The taxonomy provides a framework for assessing the degree to which an economic activity contributes to one or more of the EU's six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.
>
> For a business to be classified as environmentally sustainable according to the taxonomy, it should fundamentally contribute to one or more of the six determined sustainability and environmental objectives, and at the same time not cause significant damage to any of the remaining objectives.

The US has seen significant growth in the absolute and relative quantity of municipal bonds being issued with a GSSS label. US municipalities, especially in California and New York, represent one of the fastest growing areas of GSSS debt. The two states issued $27 billion in 2020, $46 billion in 2021, $40.9 billion in 2022, and between $40 billion and $50 billion in 2023.

GSSS bond issuance by US municipalities has risen to over 10 percent of total municipal borrowing and may surpass 12 or even 14 percent of total municipal borrowing in the next year or two. The proportion of green bonds issued by municipalities has declined relative to social bonds, as various state housing agencies have begun aggressively issuing social bonds to fund their various projects.

The total issuance of green bonds has surpassed $2 trillion dollars. According to S&P Global, $548 billion dollars of green bonds were issued in 2021 and $473 billion were issued in 2022 (see Figure 5). When you add in other kinds of sustainability bonds, over a trillion dollars' worth were issued in 2021 and close to a trillion dollars were issued in 2023 (see Figure 4).

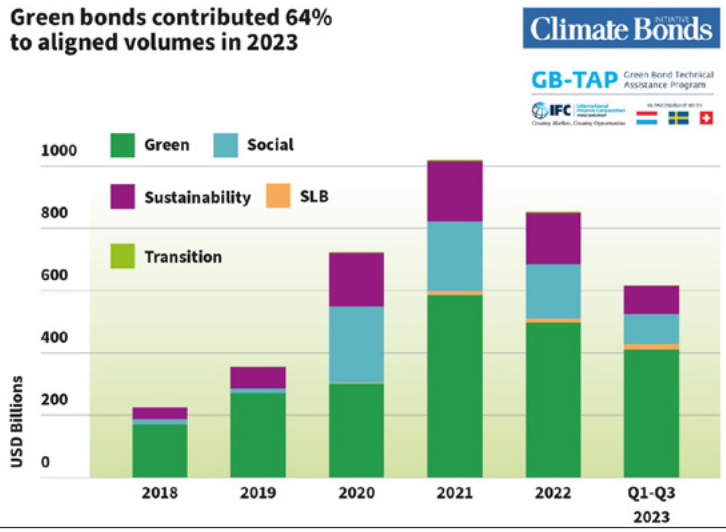

Figure 3: Green, Social, Sustainable, and Sustainability-Linked Bond Issuance

GSSSB issuance by type of bond

(Bil. US$)	Green bond	Social bond	Sustainability bond	Sustainability-linked bond	Transition bond	Total
2018	182.51	14.29	17.80	0.00	0.00	214.60
2019	261.53	18.01	48.06	4.46	1.05	333.11
2020	294.96	169.90	135.62	8.79	2.43	611.71
2021	548.71	217.56	191.70	94.38	4.26	1,056.61
2022	473.06	164.95	141.55	70.45	3.50	853.51

Note: Excludes structured finance data. Sources: Environmental Finance Bond Database, S&P Global Ratings.

Figure 4: GSSS Dollar Issuance

Top 10 U.S. Municipal GSSSB Issuers - 2022

Issuer	Par (Mil. $)	% of par
Massachusetts (State of)	2,881	7.0
New York City Housing Development Corporation	2,011	4.9
New York MTA	1,449	3.5
Department of Airports Of The City Of Los Angeles	1,356	3.3
California Health Facilities Financing Authority	1,050	2.6
New York State Housing Finance Agency	1,037	2.5
California Community Choice Financing Authority	931	2.3
Connecticut Housing Finance Authority	808	2.0
Minnesota Housing Finance Agency	800	2.0
Massachusetts Housing Finance Agency	783	1.9
Top 10	**13,105**	**32.1**

Source: S&P Global Ratings.

Figure 5: U. S. Municipal Bond Issuance in 2022

In equity markets, brokerage firms and institutional investment managers have offered funds labeled ESG for many years. A great deal of controversy has dogged ESG equity investing. What firms qualify for ESG selection? How much do ESG index funds differ from regular index funds? What kinds of returns do ESG funds see relative to other funds?

The ambiguity around ESG ratings and the composition of ESG funds make judging its impact and scale difficult. Often ESG investment in equities simply validates what companies are already doing. But ESG finance has given tremendous power to ratings agencies. They can reward companies, like Exxon Mobile, that move in a direction they like while punishing companies, like Tesla, whose activities or executives they dislike.

Proponents of ESG would like to see more legal requirements for companies to reach net zero, to hire more diverse boards and employees, and to cater to a variety of stakeholder interest groups rather than to the interest of shareholders. ESG initiatives are not pushed by altruistic, disinterested objective philosophers. They are backed by people whose livelihoods and careers are strongly tied to its success.

Tens of thousands of people personally benefit from the ESG agenda, including:

- Consultants for "anti-racism" and "Diversity, Equity, and Inclusion" initiatives.
- Investment managers who charge higher fees to clients investing in social or environmental funds.
- Entrepreneurs who offer ESG tracking and reporting software, or carbon offsets, or compliance consulting. Sustainability officers, diversity officers, ESG consultants and researchers serving global economic and policy organizations.

The question of motives ties into an important theory of regulation: Bootleggers and Baptists. According to this theory, regulations are usually advanced by two different groups: one driven primarily by their own material self-interest (Bootleggers) and others who believe in the goodness of their cause independent of their own material benefit (Baptists). The bootleggers use the moral justifications of the Baptists to argue for a regulation that benefits themselves. They also tend to be more focused on, and exert more influence over, the details of regulatory policy than Baptists because the specific wording and contours of regulations affect their bottom line.

The push for ESG regulation is no different. Everyone uses altruistic moral language in their arguments, but certain people stand to gain or lose massive amounts of money and power. The very real danger, from the true ESG believer's standpoint, is that the bootleggers of the movement will ultimately call the shots. That is bad for ordinary people because the resources bootleggers funnel to themselves through favorable, forcible regulations come at the expense of everyone else. They do not come through mutually beneficial exchange.

The profit motive can be beneficial if we are making our money in ways that benefit other people. In a free market, this occurs through mutually beneficial exchange. But when it comes to governments or highly regulated/artificial markets, the answer is much less clear. Do carbon offsets really create more value for people than they cost? Is extensive emissions reporting or DEI training making people's lives better? The correct answers to these questions are beside the point because many ESG advocates' livelihoods depend on assuming the answer to them is "yes."

Problems Created by ESG

The use of ESG criteria in government policy affects ordinary people's lives in myriad ways. Environmental rules restrict what kinds of vehicles consumers can purchase and make vehicles more expensive to produce. They restrict how people can build houses and offices and what kinds of appliances people can purchase. They are remaking entire industries, from fossil fuels and energy production to plastics to agriculture. DEI initiatives have been remaking human resource policy across corporate America. Yet the ordinary people living under ESG restrictions often have little say in the project — even through their political representatives. But that is only the beginning.

The ESG agenda undermines national sovereignty, self-governance, and self-determination. Although popular sovereignty or the will of the majority is not the beginning and end of political questions, it is surely relevant. Instead, we see officials at the United Nations, World Bank, World Economic Forum, European Union, and a host of other supranational and international organizations pushing ESG policies. These officials are not accountable to the citizens or voters of any country, nor are they subject to the wishes of consumers in the marketplace.

What's more, ESG goals have largely been advanced without the knowledge or consent of those whom they affect. The millions of people with retirement money managed by BlackRock and State Street did not sign up for their capital to be used to advance ESG initiatives, either through direct investment or through proxy crusades.

ESG advocates rarely push for high taxes on gasoline and other products that create emissions, because such taxes will be unpopular. Instead, they engage in regulatory fiat and misdirection via massive subsidies to their preferred industries and companies. For example, Congress and other elected officials have directed billions of dollars in subsidies to electric vehicle manufacturers, battery producers, and renewable energy companies.

The full costs of these subsidies, however, are largely inscrutable to consumers and voters. How much does a billion-dollar subsidy to an EV producer cost the ordinary taxpayer? If we cannot answer that simple question, we should not expect citizens to be able to engage in robust and informed self-governance about hundreds or thousands of similar subsidies.

Implementing ESG priorities also creates significant economic problems. "Net Zero" pledges and the use of renewable energy have limited feasibility and make everyday life more expensive. The pursuit of ESG goals creates significant distortions and inefficiencies in the market. Consider for example the hundreds of millions of shareholder dollars companies such as Microsoft, Nestlé, and Hess have diverted to carbon offset markets.

These activities are costly and are unrelated, or even counter, to shareholder interests in financial returns, or consumer interests in excellent products. Research, labor, and other resources that could be used to produce goods and services people want are being used to pull carbon out of the air using limestone, to bury biodegradable materials that would release greenhouse gas emissions while decomposing, or to plant trees and preserve forests. But to what end?

For these carbon sequestration activities to really impact global CO2 emissions, their scale would have to

be far greater — hundreds of billions of dollars annually. That kind of capital on an annual basis has immense opportunity cost. And given that China produces roughly a quarter of the world's CO_2 emissions, U. S. and European plans to reduce emissions will have little impact globally if China does not participate.

Government subsidies and favoritism towards wind and solar power ignore the limited feasibility of phasing out fossil fuels entirely. Wind turbines and solar panels rely on fossil fuels for their production. And power grids still rely on fossil fuel when the wind isn't blowing, the sun isn't shining, or some other severe weather event takes them offline.

Similarly, the importance of petrochemicals has often been overlooked but can hardly be overstated. Even if countries succeeded in shifting most of their electricity generation to renewable sources, significant demand for fossil fuels would remain, to create plastics, fertilizer, asphalt, and much more.

The current approach to mitigating climate change — government subsidies, tax credits, and mandates — guarantees inefficiency and waste. No one can know in advance which technologies and which companies will be most effective. As a result, government subsidies are just as likely to go to "bad apples" as to good ones. Not only that, feedback on the productivity and effectiveness of recipients of government largess will be slow and convoluted, allowing unproductive companies to continue operating for years. In a competitive free-market system, prices, profit, and loss cause the most productive firms to grow while unproductive firms go out of business.

Social and Governance criteria create economic problems too. Any of their standards or requirements that don't advance the interest of shareholders are superfluous. And in as much as ESG criteria improve risk mitigation, they are redundant. Managers and directors who have a duty to pursue expanding the bottom line — which includes managing risk — will adopt such criteria voluntarily if the criteria improve profitability.

Social and Governance criteria that push stakeholder capitalism worsen the principal-agent problems between owners of capital (shareholders) and the managers of capital. By creating many more "principals" (stakeholders) with divergent, often conflicting, interests, such schemes prevent managers from acting in the interest of principal even if they wanted to, because no single objective exists. What's more, managers (bootleggers) can now pursue whatever they want so long as they can find a relevant stakeholder group (Baptists) whose interest aligns with theirs.

The economic costs of ESG should not be ignored — they are pervasive and large. Europe's slow economic growth over the past twelve years cannot be attributed solely to their embrace of ESG, but it is no doubt related. The Eurozone's economy only grew 11 percent from 2010 to 2022 while the US saw economic growth of more than 66 percent over the same period. This coincides with a longer and deeper embrace of ESG in European countries.

ESG necessarily takes a sledgehammer approach to every problem. While markets reward innovation, nimbleness, and nuance, government policies must, by definition, be rigid and inflexible. Government policies set standards and rules for everyone in society. When it comes to general principles of justice and public order, this feature of law is benign. But when it comes to dynamic issues — like the most effective forms of energy production, transportation, and climate mitigation — where the best approach is both changing and unknown, government "solutions" don't solve anything. Large and growing vested interests have little incentive to evaluate the consequences and effectiveness of ESG in a fair-minded or objective fashion.

In contrast, people and firms within a free market can experiment and dissent from prevailing beliefs and practices. But when prevailing beliefs and practices are enshrined in law, that freedom to experiment and dissent is curtailed. The law codifies a single way of doing things. As a result, innovation slows. Not only that, sweeping government rules about specific business practices create system risk as all players in the market are forced to engage in similar activities.

Besides largely resting on a pretense of knowledge, parts of the ESG agenda are dehumanizing — evaluating people on group identity rather than their individual merits. Other parts of the ESG agenda amount to little more than justifications for pervasive rent-seeking. Not only does government mandated ESG compliance create a poorer world, it also creates a world with less achievement, greater conflict, and the trampling of individuals for the sake of the "collective good."

Anyone who has studied statistics should understand the dangers of extrapolation.

F.A. Hayek, a leading twentieth century critic of socialist economic planning, explained that the economic problem people face is one of knowledge and coordination: what should be produced, how, when, and by whom? Not only are market dynamics constantly shifting, but there can also be no universal answer in a world of billions of people with varied circumstances and who value many things differently (often called "subjective value"). Socialists assumed the answers to the economic problem and built their plans on those flawed assumptions. The environmental movement does much the same thing — assuming answers no human can know — which creates this pretense of knowledge.

Consider the question of whether climate change constitutes a climate emergency. Not only do we assume that the world is warming at a particular rate and that greenhouse gas emissions contribute to that warming, but climate models also tend to assume that the warming trajectory will continue according to estimated ranges based upon projections of global emissions. Then additional projections are made about the impact of a certain amount of warming — including the frequency of extreme weather.

Anyone who has studied statistics should understand the dangers of extrapolation. Without wading into the finer details of the various statistical models, consider how the longer a chain of reasoning gets, the more precarious its conclusions become — both because the chance of error grows with more links and because the results can be quite sensitive to even minor changes of fact or assumption at earlier links in the chain of reasoning.

Although it is easy to dramatize so-called climate-driven disasters and attribute severe weather to climate change, it is hard to establish such connections rigorously. Furthermore, the history of "catastrophizing" is not on the side of alarmists. Paul Ehrlich wrote in the 1960s and 1970s that the world was quickly becoming overpopulated and would face dire shortages of resources and famine before the end of the 20th century. And he was far from alone.

Economist Julian Simon famously wagered with Ehrlich that a basket of raw materials was likely to become cheaper over a decade, in real terms, due to human ingenuity. Simon won the bet. The global population today is far higher than Ehrlich feared and far more prosperous and well-nourished.

This brings us to today's climate alarmists, who have done a remarkable job of building consensus, silencing dissent, and discrediting those who question their projections. They have also created a sense of urgency that cuts short debate and galvanizes large numbers of young people to activism.

But will their dire predictions happen? That is very unclear. Ultimately, human ingenuity — not resource scarcity nor external constraints — drives living conditions in countries with free markets and limited government. Indeed, even if the IPCC models are largely correct (and they have been subject to fierce criticism from many reputable climate scientists), what ought to be done and how it ought to be done are far from clear.

Within the Social dimension of ESG, advocates of Diversity, Equity, and Inclusion (DEI) try to advance "disadvantaged" or "excluded" minorities, simply because they are labeled as such. Laying aside for the moment the questionable criteria for determining whether a group is disadvantaged or excluded, this approach, while seeming like justice, dehumanizes people.

Rather than addressing wrongs done to individuals, or fixing specific unjust policies, DEI advocates want people to be seen and judged by the groups they are part of — groups that they often did not choose. How can we advocate a system where people are treated differently based upon characteristics over which they have no control such as their skin color or family history? DEI characteristics that people control, such as gender identity, can also lead to advancement that has nothing to do with achievement or merit. Productivity becomes increasingly replaced by political correctness.

Much of the ESG movement thus rests on a flawed theory of how we know things, and, in doing so, advances the interest of different collective "identities" over the wellbeing of individual human persons. Viewing the world as merely a set of zero-sum power relationships of oppressed and oppressor breeds resentment and conflict. It also dissolves the unique characteristics, abilities, and merits of individuals, reducing them to mere members of groups.

Conclusion

Free markets are far superior to ESG-driven central planning. Market competition will improve people's lives around the world. Besides respecting individual rights grounded on the idea that individuals should be treated as ends rather than means, it is a system built around serving one's fellow man and being held accountable, in a relatively unbiased way, for how we manage our property and resources.

Greater cultural, political, and legal support for robust private property rights will prevent theft and reduce waste. Robust property rights clarify the fiduciary responsibilities of corporate boards, executives, and investment fund managers.

Although this paper has raised many criticisms of ESG, it also offers some alternatives that ESG advocates should embrace. Consider the environmental goals of more renewable energy and lower total greenhouse gas emissions. A lighter government touch is the better approach. We should promote greater development and innovation in energy provision by reducing red tape and removing significant market distortions from subsidies and mandates.

Doing so would allow more promising options, like nuclear power, to flourish. Nuclear plants can provide

more reliable and consistent energy than wind and solar because they operate independent of weather conditions. Nuclear reactors can also be built in much closer proximity to places with higher energy demand, meaning they do not require significant advancements and build out of power storage capacity or costly transmission lines.

Adaptation to climate change is better than prevention. Economic development in poorer countries is both more direct and more effective at mitigating the effects of climate change than indirect, tortuous, controversial, and costly cuts in greenhouse gas emissions. The number of people killed by natural disasters declines as countries become wealthier. A strategy of economic development, which supports technological development, will help people more than the costly, unfeasible approach of prevention.

The best solution to the challenges of climate change is to rely more heavily on economic growth, and the technological innovation and greater social robustness that come with it. Even the countries most affected by climate change, which tend to be poorer, developing countries, will be served better by freedom and high economic growth. Instead of pushing costly and inefficient energy and manufacturing policies, assisting these nations to develop economically through more open international trade, rule of law, and free markets would help them adapt to various climate problems with much greater flexibility and urgency than will reducing global emissions.

Nearly every problem attributed to climate change can be dealt with given sufficient resources and infrastructure. Heat waves? Widespread air conditioning and reliable cheap electricity will make them quite manageable. Droughts? Cheaper transportation, greater efficiency in water usage, desalination technology and the like will reduce the effect on global food production. Rising ocean levels? Sea walls, pumps, and modest migration can deal with most of the problem. Flooding? Better building standards and materials, more extensive infrastructure (levees, drains, etc.), and market pricing in insurance will mitigate the worst effects.

When it comes to ecological devastation or depleting resources, the problem almost always begins with a lack of clear property rights and market pricing. Water shortages are really situations where government agencies have set the price of water too low. Deforestation tends to happen on public land, not private land. Many of the world's worst ecological catastrophes happen in politically centralized countries with weak property rights.Europe is the canary in the coal mine when it comes to the costs of ESG. Economic growth has ground to a halt. Rising energy costs hit ordinary citizens' pocketbooks and slow economic development. European farmers are watching their entire industry shrink as climate regulations on energy, fertilizer, livestock, and land use drive up costs.

Although the US has not gone as far down the ESG road as has Europe, the massive costs of net-zero goals and DEI initiatives are beginning to appear in certain states and certain industries. In California, two decades of stringent climate regulations and land-use restrictions have led to skyrocketing energy prices, stalling economic growth, out-of-control government spending, and unaffordable housing. As a result, California has higher levels of poverty and lower standards of living than most other states.

But everyone in the US feels the effects of ESG-related policy when they purchase a vehicle or see their tax burden rise as billions of federal dollars are funneled to various "green" projects. They also experience the divisiveness of DEI programs in business, academia, and their local school system. Citizens and policymak-

ers need to decide whether virtue-signaling the right Environmental, Social, or Governance positions are more important than improvements in their standard of living.

Despite high costs and frequent setbacks, ESG criteria continue to permeate the global economy. Too many organizations and advocates have staked their careers on it to turn back. ESG advocates still want to remake the global economy according to their priorities. But as this paper has shown, their priorities, and the methods they use to pursue them, leave most people worse off. Continuing down the ESG road will further compound that harm.

People ought to know that markets advance human flourishing far better than ESG planning can.

Paul Mueller is a Senior Research Fellow at the American Institute for Economic Research, where his research focuses on the benefits of a free society and the detrimental effects of stakeholder capitalism, especially the use of Environmental, Social, and Governance (ESG) criteria in business and regulation. He also writes about industrial, trade, and monetary policy.

ENDNOTES

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14. While Critical Race Theory is not an explicit part of ESG, and perhaps would not be embraced by all ESG advocates, in the U.S. especially it undergirds the DEI framework and the push for more diverse racial and gender representation on corporate boards.

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