ESG

Tide turning? Why ESG has become a top political concern after years of activism

by Zachary Halaschak, Economics Reporter |
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ESG and Republican pushback to ESG have emerged as major points of corporate and political discourse.

Just a few years ago, no politicians were talking about environmental, social, and governance principles, known as ESG, but ESG has emerged over the past couple of years as a major flashpoint. The fierce pushback to ESG has come in response to new ESG-type initiatives being pushed by the federal government as well as the simple fact that ESG has become increasingly accepted by corporations, many of which have tethered themselves to activist groups.

ESG EMERGES AS SLEEPER ISSUE IN THE 2024 PRESIDENTIAL CAMPAIGN

ESG has been around in varying permutations for years. The movement is closely associated with "stakeholder capitalism," which eschews the idea that a corporation's only function is to serve its shareholders and rather also embraces the concept that it should create value for customers, employees, suppliers, and communities.

Supporters of ESG and stakeholder capitalism see them as a way that the private sector can help mold the world into a better place, but detractors contend it is an attempt to distort the free market and, in some respects, even culture through capital and influence.

Jeff Landry, the attorney general of Louisiana, is one of the figures who has been fighting back against the growing wave of ESG. He told the *Washington Examiner* that many of the policies associated with ESG likely wouldn't have enough political support to be passed into law.

"And so, they found that as we've allowed corporations to amass more and more market power, they're using the economic might of these companies in order to move a policy, a social policy," Landry said during an interview.

The first mention of ESG in its current context came nearly two decades ago, in 2004, in a report by the United Nations, according to the Corporate Governance Institute. The report called on business stakeholders to embrace the movement in the long term. Certain entities, such as the U.N. and other international organizations, have been influential in pushing for a shift toward corporate stewardship and ESG.

But now, ESG has blossomed from a fairly obscure and somewhat aspirational investment movement to an enormous force in modern capitalism. A big reason is that the Biden administration has pushed federal policies that align with ESG principles, bringing the matter out of corporate boardrooms and into the public sphere, according to Utah Treasurer Marlo Oaks.

One could also argue that a big inflection point came in 2020 in the form of BlackRock CEO Larry Fink's must-read annual letter to CEOs. The missive focused largely on climate change, saying the matter was becoming a "defining factor" in BlackRock's assessment of companies.

After the letter, several corporations announced plans to slash their carbon footprints, illustrating the sway that Fink has over the financial world.

"I think it may have been at that point where BlackRock sort of defined ESG risk as investment risk," Oaks said. He added that after BlackRock's plunge into the ESG realm, other investment managers began to follow suit, which can be seen through proxy voting.

Oaks also said that 2021 was also a big year for ESG. That was when banks signed on to the Net-Zero Banking Alliance, which is a U.N.-convened group of banks representing over 40% of global banking assets. The banks are "committed to aligning their lending and investment portfolios with net-zero emissions by 2050," according to the U.N.

Much of the pushback to ESG began in earnest about two years ago in response to the developments.

Relatedly, the Biden administration began working to put ESG into policy soon after Biden was sworn in, with government agencies proposing rule changes that aren't subject to congressional approval.

For instance, the Labor Department proposed a rule that would allow retirement plan managers to consider ESG when making investments. The rule allows, though doesn't require, fiduciaries to weigh ESG factors when making investment decisions for U.S. retirement accounts. That rule was proposed in 2021.

"That was what really got my attention," said Oaks. "Because that is changing fiduciary standards in this country that basically said if you're managing someone else's money, you owe them a duty of loyalty and care to put their interests above your own and to manage in their financial best interest … and not have a dual mandate."

"Once you introduce another objective like ESG, then you are, by definition, going away from that fiduciary standard," he added.

In fact, congressional Republicans attempted to override the ESG rule and even got some Democratic support in their effort. The Senate voted 50-46 to rescind the rule, with backing from centrist Sens. Joe Manchin (D-WV) and Jon Tester (D-MT). The House voted 216-204 to pass the rollback, with Jared Golden (D-ME) being the sole Democratic defector in the lower chamber.

That meant that the first veto of Biden's presidency centered on ESG, giving the issue outsize publicity.

"I just signed this veto because the legislation passed by the Congress would put at risk the retirement savings of individuals across the country. They couldn't take into consideration investments that would be impacted by climate, impacted by overpaying executives," Biden said upon signing the veto.

Perhaps an even bigger example of the Biden administration pushing into the ESG fight is a proposed rule by the Securities and Exchange Commission to compel companies to disclose climate-related risks. The proposal is a major agenda item for the administration that would lead to indirect pressure on the private sector to turn away from fossil fuels and reduce carbon emissions.

Meanwhile, ESG has been the source of a number of battles at the state level.

Recently, Landry was one of nearly two dozen attorneys general who wrote a letter to several insurance companies that are members of the U.N.-backed Net-Zero Insurance Alliance and Net-Zero Asset Owner Alliance. The letter demanded that the insurance companies provide them with documents and communications concerning commitments to limit the use of fossil fuels to curb climate change.

Last month, Oklahoma's treasurer announced that the state would stop doing business with more than a dozen financial firms over accusations that they "boycott" the energy industry.

Treasurer Todd Russ emphasized that the blacklisted firms will end up losing access to billions of dollars from government entities as a result of the judgment. The move comes after the state sent out questionnaires to dozens of companies in an effort to inform the list.

Florida Gov. Ron DeSantis, who is running for the GOP nomination for president, announced anti-ESG legislation in February that builds off previous actions he has taken and would prohibit the use of ESG in all investment decisions at the state and local level, ban state and local entities from any consideration of ESG in the contracting process, and block state and local governments from weighing ESG when issuing municipal bonds.

But it's not just DeSantis who will be talking about ESG in the lead-up to the 2024 election.

One candidate, Vivek Ramaswamy, has even devoted much of his campaign to fighting ESG. Ramaswamy told the *Washington Examiner* earlier this year that he is best positioned to campaign on the issue.

"You can say 'woke' until you're blue in the face," Ramaswamy said. "I'm proud of the foot soldiers who have taken on this cause, but as much as they're trying to catch up on this issue — it's a complicated issue, sorting this out for themselves — one of my roles has been to really explain it to them."

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Will Hild, the executive director of Consumers' Research, said that ESG will certainly be a big issue on the campaign trail for Republicans as they take on so-called "woke capitalism."

"You've had every major candidate for the Republican nomination now stake out a position against ESG," Hild told the *Washington Examiner*.

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