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Does ESG Matter in Public Finance? It Depends …

Culture wars over environmental, social and governance factors used by pension fiduciaries are in the spotlight, but it's the municipal bond arena where long-term analysis must trump short-term symbolic politics. Sustainability actually matters to investors.

In case you've tuned it out, there's a battle underway between proponents of "sustainability" analysis of corporate business practices and those who favor "drill, baby, drill" and "anti-woke" free market profitability metrics and political slogans. The debate worked its way up to Capitol Hill, where Congress passed and President Biden vetoed a bill to stifle retirement account fiduciaries' consideration of environmental, social and governance (ESG) factors in their funds' investments.

At the state level, meanwhile, a number of oil-rich states have put corporate proponents of ESG-informed investing in a penalty box by blackballing them from plum municipal bond underwriting business. On the political front, it's another chapter in the ongoing battle over symbolic politics.

For pension funds, the argument for ESG investing has always been that it provides a long-term lens through which the future profitability and even sustainability of companies can be viewed, so that short-term financial performance and profits are not assumed to be perpetual. If you believe that fossil fuel industries will eventually be curtailed or replaced by green energy sources, then it's a reasonable concern that the residual value of an oil company might be impaired and thus less investment-worthy. But that doesn't sit well with political leaders in states where fossil fuel industries produce jobs, royalty income and a lot of tax revenues. So the primary focus has generally been driven by petroleum economics, with mostly symbolic focus on social and governance ideology.

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