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The Cost of Mixing Culture Wars With Public Finance.

As with pension fund divestment policies, it's tempting for states and local governments to blacklist companies over their public policy stances. But it's the taxpayers who are likely to be the collateral damage losers.

Given the nation's deep political divisions nowadays, it should come as no surprise that some state and local politicians from both sides of the aisle would seek to leverage their governments' purchasing power to send messages to corporate America and play to their base by doing so. After all, it's not their own money — it's the public's — so why not exploit political power to advance one's partisan posturing?

The most common manifestations of these impulses to make political statements through public funds have historically been public pensions' divestment campaigns, starting with South Africa in the 1960s, then with Sudan in the early 2000s and continuing up to this year's Russia divestment wave. Critics would say that pension policies focused on corporations' environmental, social and governance (ESG) profiles are liberals' playbook strategy to pressure companies into bending to their political will. The same might be said about pension funds that avoid investing in firearms manufacturers.

The complaint — and it's a valid one in my view — has always been that these political statements rarely work to the benefit of the pension funds and that the employers' taxpayers are ultimately obligated to foot the bill for investment underperformance. That grievance is now popular with 19 Republican attorneys general. However, many ESG advocates would counterclaim that more-sustainable and farsighted corporate policies will produce better investment returns over the long term. That debate in pension-land doesn't look likely to end any time soon; we really can't properly evaluate investment efficacy in less than a decade or even two.

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