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Gas, Guns, and Governments: Financial Costs of Anti-ESG Policies

As interest from investors in funds with environmental, social, and governance (ESG) policies has grown, so has a backlash from some politicians. Laws curtailing public sector activity with funds that take ESG-friendly actions have been proposed or passed in 17 states. One of them is Texas, where the state and political subdivisions raise about $50 billion in financing from the municipal bond market every year, placing it among the top three states in that market.

The Texas state legislature in September 2021 barred any of the state's municipalities from contracting with banks that restrict funding of oil and gas or firearms companies. The laws led to the abrupt exit of five of the largest municipal bond underwriters from Texas; these underwriters had accounted for a bit more than a quarter of all the competitive bids for municipal bond underwriting in Texas. The issuers previously reliant on the targeted banks were more likely to rely on negotiated borrowing instead of holding an auction, and received worse pricing after the implementation of the law.

As a result, we estimate that Texas issuers will incur $300-$500 million in additional interest on the $31.8 billion borrowed during the first eight months following the implementation of the law.

Continue reading.

The Brookings Institution

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