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The Anti-ESG Backlash Is Playing Out Across the Country as Pensions and Investments Become a Political Football.

The anti-ESG backlash is playing out across the country as pensions and investments become a political football

After years of headlines about the growing environmental, social, and governance (ESG) movement in investing, ESG has been met with understandable skepticism from taxpayers, who both underwrite state and local government pension plans and government borrowing. After all, if the managers of these operations take their focus off properly balancing risk and return–pursuing ideological investment goals instead–taxpayers could be on the hook for hundreds of billions in additional liabilities. Yet, that focus must go in both directions. Forcing those managers to reflexively embrace ESG or to reflexively shun it could deprive taxpayers of the market-based innovation, resilience, and long-term value we're counting on to avoid a financial meltdown.

According to a Council of State Governments report, at the state level alone taxpayers face $1.3 trillion of unfunded liabilities from government employee pension systems. Administrators of these pension plans need every tool available to them to protect taxpayers against massive bailouts. Passing restrictive laws at the federal or state level, instructing these administrators to avoid certain industries or banks perceived to be too "woke" or not "woke" enough, could put them in a fiscally untenable position.

The financial contagion caused by pro and anti-ESG actors is already spreading into another area of public finance. In several instances, pursuing non-financial politically motivated outcomes has led to diminished investment returns, market distortions, and other forms of economic harm.

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BY CARLOS CURBELO AND PETE SEPP

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