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State Anti-ESG Laws and Local Finance: Evidence from the Municipal Bond Market

Summary

Since 2021, a growing number of states have enacted “anti-ESG” laws that prevent public entities from contracting with or investing in financial firms perceived to boycott fossil-fuel industries. Texas and Oklahoma provide two economically important early cases. Critics argued that the withdrawal of major underwriters would reduce competition and raise borrowing costs. Supporters argued that the policies protect energy producers and traditional fiduciary standards. Using data on more than 800,000 individual bonds from 2007 to 2024, with the pre-policy years used to assess trends and construct comparison groups, this Backgrounder finds no consistent evidence that the laws increased municipal borrowing costs or primary-market markups. The results indicate that municipal markets adjusted to changes in underwriter participation without sustained financial penalties.

Key Takeaways

- No consistent or statistically significant evidence exists that anti-ESG laws have raised borrowing costs. Offering yields in Texas and Oklahoma remained stable.
- Anti-ESG laws also did not result in an increase in primary-market markups, suggesting that transaction costs for investors were not meaningfully affected.
- Policymakers should note that predictions of substantial borrowing cost increases have not held up under more comprehensive analysis.

Continue reading.

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