In the Best Interest of Whom? An Empirical Analysis on the Legitimacy of Anti-ESG Legislation

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Abstract

The polarization of US politics has reached the management of state pension funds. More than a dozen Republican state legislatures have passed or introduced legislation that either outright forbids ESG investment or blacklists money managers that promote it. A similar number of Democratic states are debating legislation, or have already enacted it, that encourages pension investments to include ESG considerations or prevents public funds from funding polluters or weapon manufacturers.

The legal rhetoric used to justify the political position against ESG investing deals with potential breaches of the managers' duty of loyalty. The hypothesis is that managers who consider ESG factors when investing the state pension funds pursue a political agenda at the expense of their trustees. However, workers–including conservative workers–may well prefer a constrained pension optimization strategy that aligns with their ethical values. This work is the first to use conjoint analysis to examine people's willingness to sacrifice profits to pursue social causes, and the first to analyze the preferences of American retirement fund investors to assess the legitimacy of anti-ESG legislation.

The experiment results show an overall preference for funds that restrict their investments to firms that promote social goals. There are important differences among respondents that identify as Democrats or Republicans, but even the latter are willing to sacrifice profits to reward firms that ensure no children are employed in the supply chain, and promote gender equality in management. There are good reasons to be skeptical about ESG investing, but potential breaches of fiduciary duties that assume people want to maximize profits at all cost is not one.

1 Preliminary Analysis

```
library(cregg)
library(janitor)
library(tidyverse)
```

Analysis with weighted sample. California = 12.2%; Florida = 6.6% and rest of US = 81.4%.

```
dffl = dfcj2 %>%
  filter(florida==1)

dfcl = dfcj2 %>%
  filter(california==1)



# Work with weights with a mean of 1
total = nrow(dfcj2)

florida.p = nrow(dffl)/total

cali.p = nrow(dfcl)/total
```
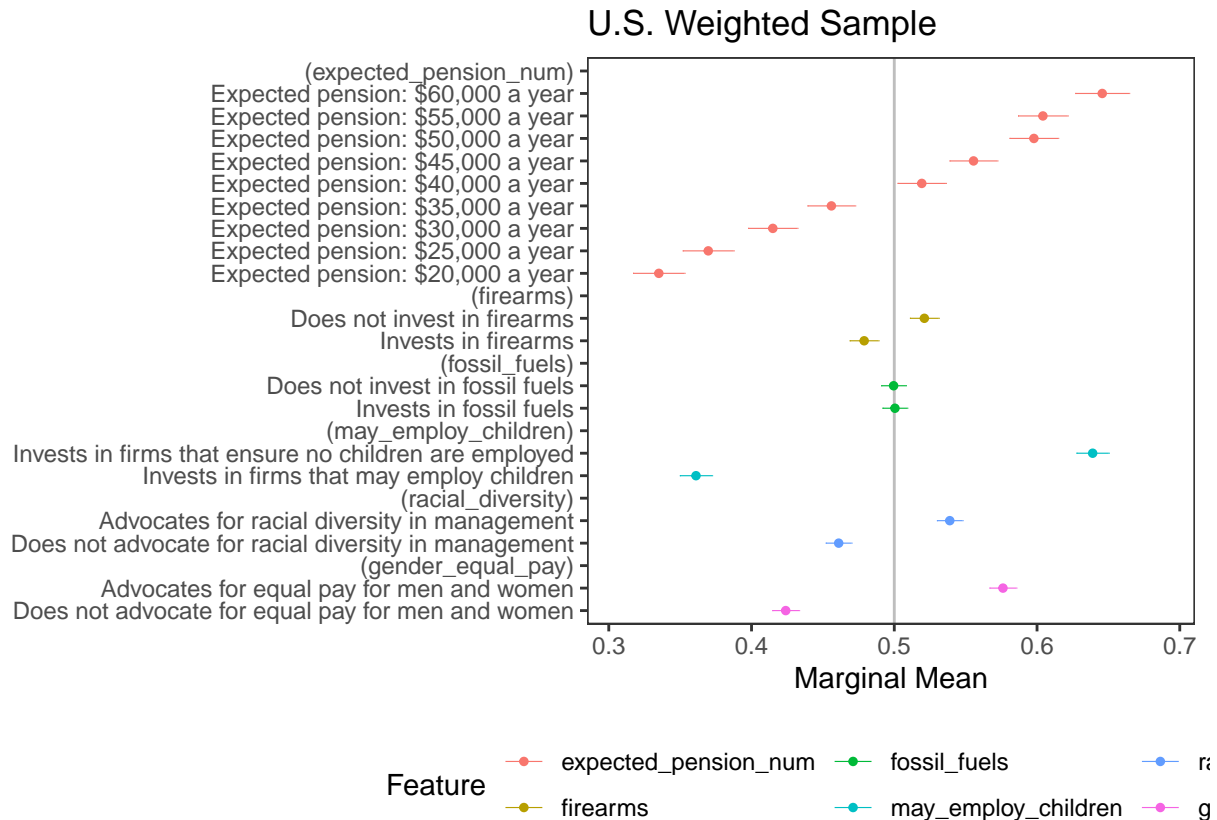
```
us.p = (total- nrow(dffl) - nrow(dfcl))/total

florida.weight = (6.6/florida.p)/100

cali.weight = (12/cali.p)/100

us.weight = (81.4/us.p)/100
```

The plot below shows the importance of each attribute considering a weighted sample of the U.S. which is representative in terms of age and gender.
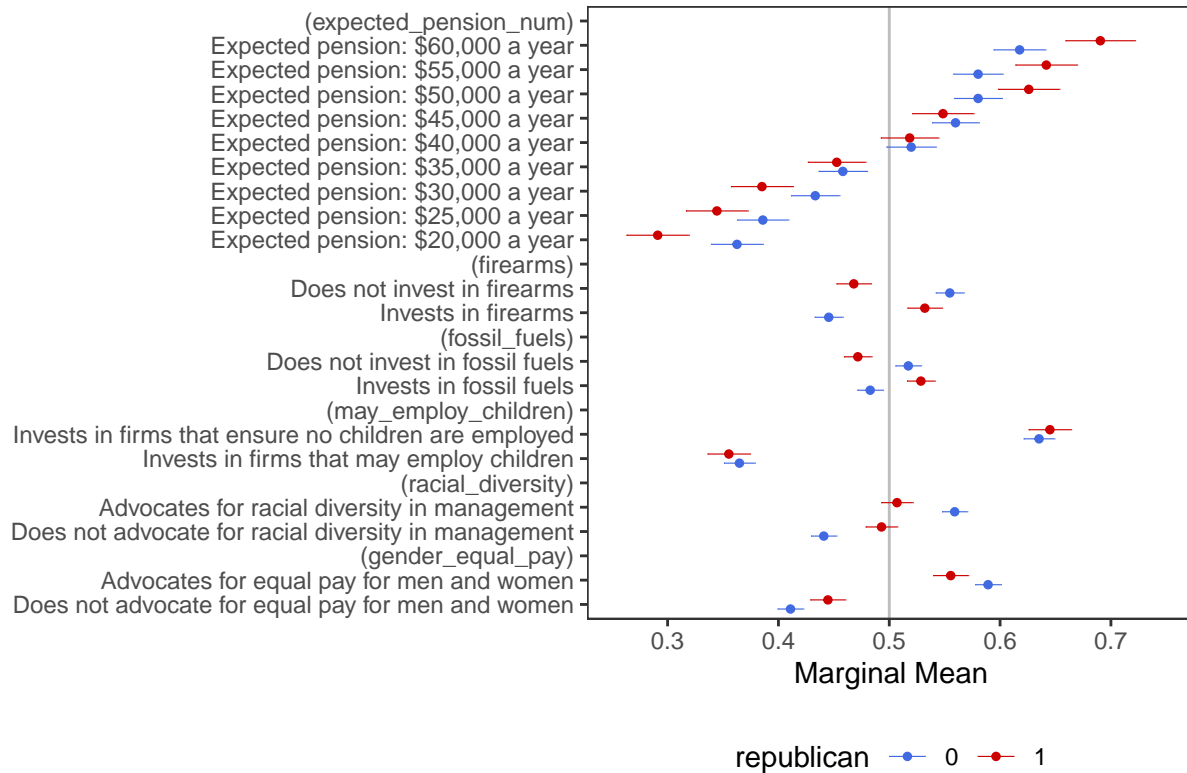
U.S. Weighted Sample

The plot below displays the same result but distinguishing between respondents who identify as republicans and those that don't.

```
## Scale for colour is already present.
## Adding another scale for colour, which will replace the existing scale.
```

U.S. Weighted Sample

The first question asked whether people would like to restrict their investments to ESG-only alternatives. I coded the results as "prior." In principle, the choices of those who oppose ESG should show they are not influenced by environmental or social concerns. But this is not what the data show. Respondents with an anti-esg prior, are unaffected by the firearms feature. But they still favor options that ensure no children are employed and advocate for gender equality. They also tend to prefer investing in firms that advocate for racial diversity, but this effect is much smaller.
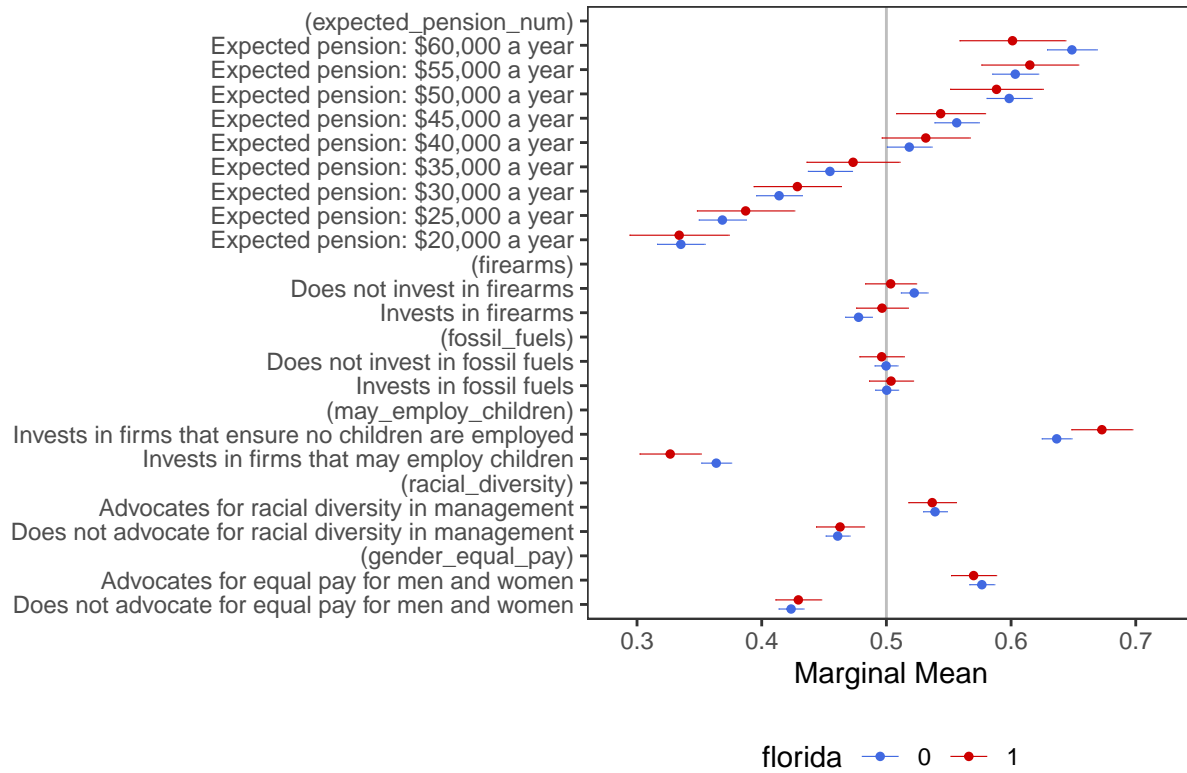
U.S. Weighted Sample
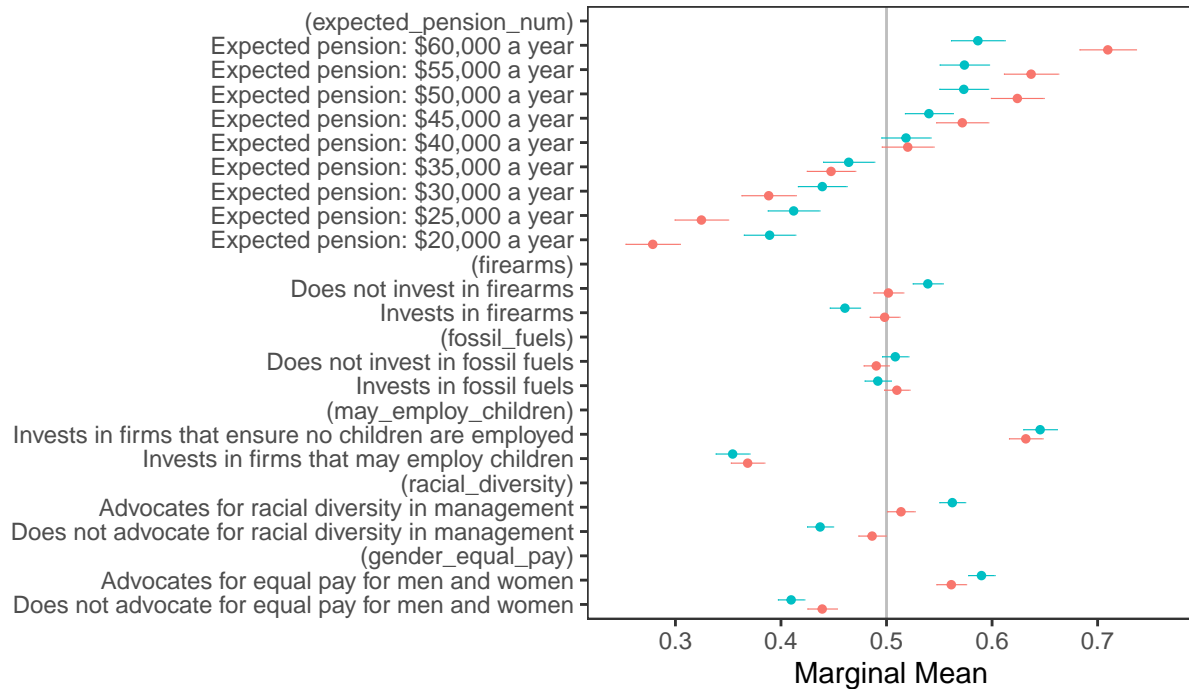
prior ●— anti=esg ●— pro–esg

People in Florida are indifferent to environmental factors, but they are as pro-social as the U.S. and they care more about child labor than the U.S. average.
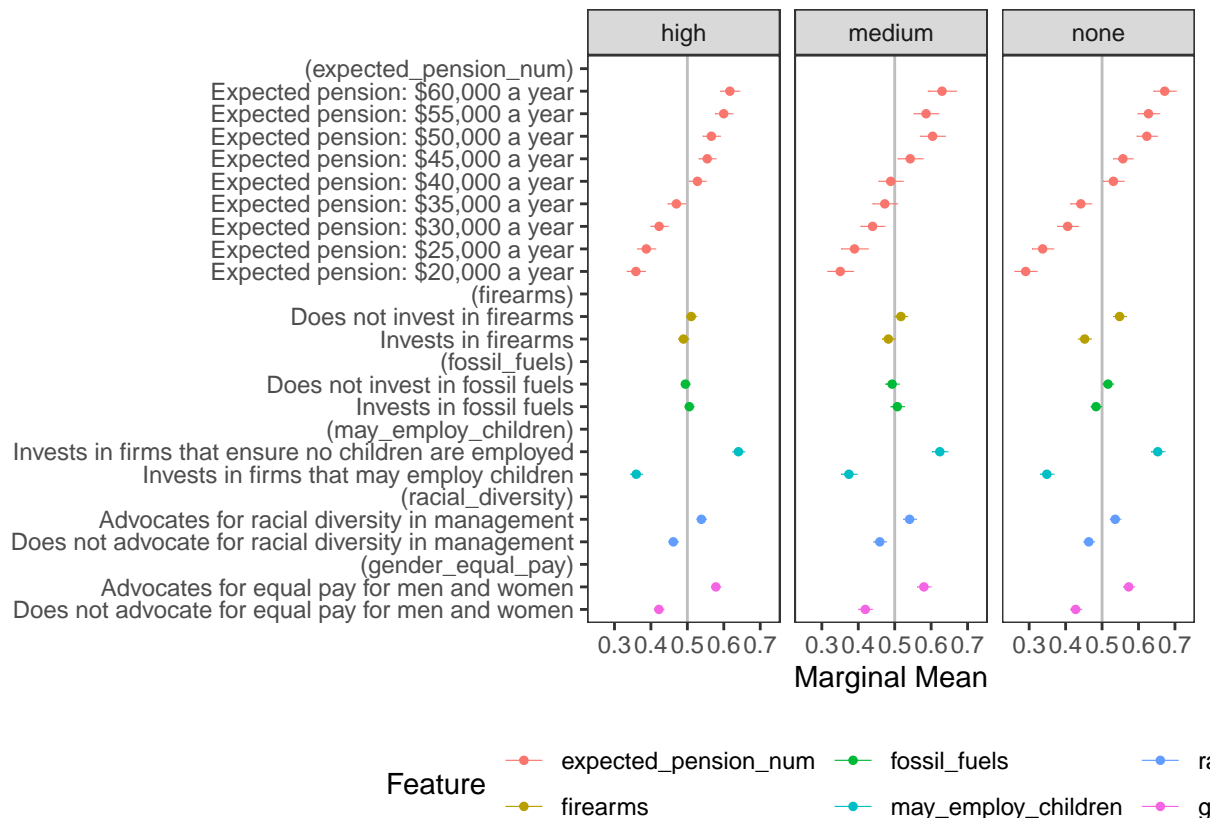
```
## Scale for colour is already present.
## Adding another scale for colour, which will replace the existing scale.
```

Florida vs U.S.

People's religiousness has a very minor effect. The more religious people are, the more they prefer investments that don't involve firearms.
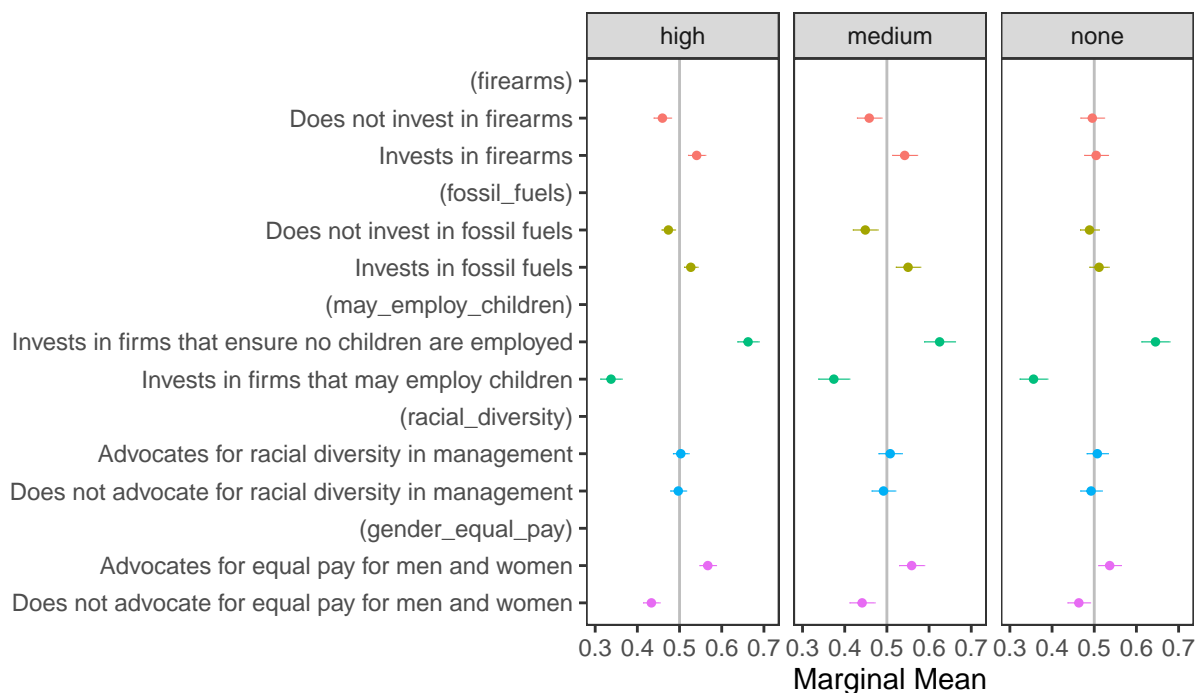
Sanity check below: people closer to retirement are more sensible to changes in their expected pension. Interestingly, they value investments that don't involve firearms, unlike younger people.
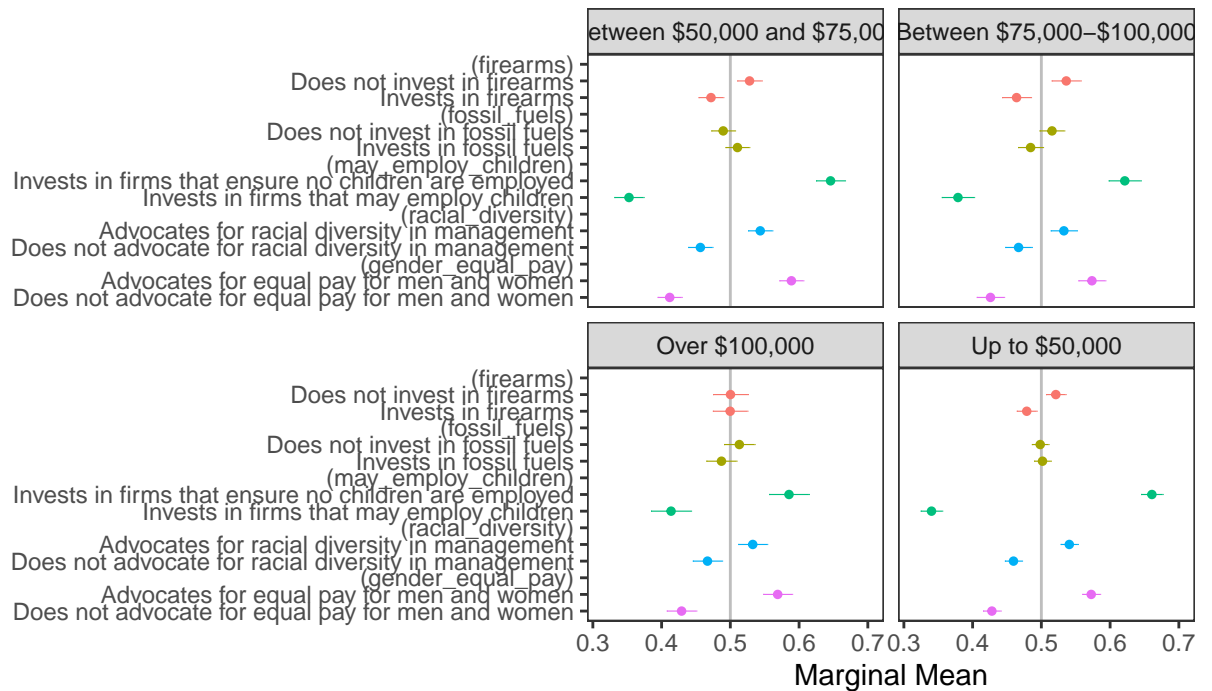
Marginal Means by Age
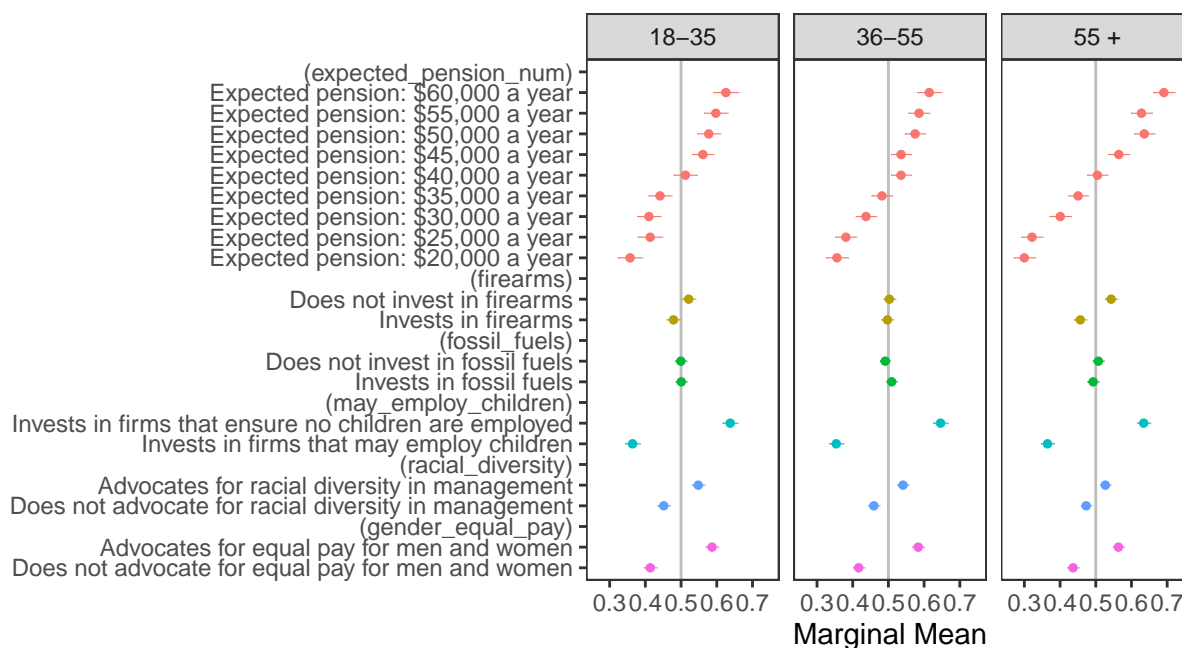
Republicans Only: Religiousness

Marginal Means, U.S. by Income

WTP analysis. TBD.

```
print(xtable(tab1))
```

	Estimate	Std. Error	z-value	$Pr(>|z|)$
scalePar	-0.00	0.00	-35.85	0.00
firearms.num	3541.36	539.24	6.57	0.00
fossil_fuels.num	357.36	532.47	0.67	0.50
may_employ_children.num	21143.49	726.80	29.09	0.00
no_racial_diversity.num	6026.21	550.91	10.94	0.00
no_gender_equal_pay.num	11745.25	605.15	19.41	0.00

Word Cloud: 10 most frequent terms in open-ended question.