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Conservatives Waking Up: 'Responsible Investing' Could Mean Left-Wing Control

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We may finally be seeing a turning point in the world of "sustainable" and "responsible" investing. For the past two decades, those labels have been informed by environmental, social, and governance (ESG) theory — a view of corporate conduct driven by left-wing political goals. Recently, however, a collection of property-rights advocates, religious investors, and concerned shareholders have begun to push back against the assumption that only the values of United Nations bureaucrats and World Economic Forum grandees should be allowed to guide corporate decisions.

There is a growing awareness among conservatives that the effort to make corporations socially responsible has been a Trojan horse for an array of policy goals that can only be advanced via institutions that eschew transparency and accountability in favor of "expert" guidance. Whether it's issues such as climate-change-disclosure mandates or gender- and racial-diversity requirements for corporate boards, progressive activists with ideas unlikely to prevail at the ballot box have long since left the halls of Congress and directed their efforts at big-business boardrooms.

The counteroffensive, however, is heating up. Last month in Lynchburg, Va., 300 Christian CEOs convened for a three-day event called the "Networking the Nations Summit," hosted by former member of Congress and current Liberty University business-school dean Dave Brat. Speakers included executives with conservative credentials like Goya Foods CEO Robert Unanue and Hobby Lobby president Steve Green; prominent writers and speakers like economist George Gilder and executive coach John Maxwell; and politically active businesspeople like former Hardee's boss and Trump Department of Labor nominee Andy Puzder and beef baron and Nebraska politico Charles Herbster.

The prevailing theme was that Christian executives and leaders are just as committed to creating "values-driven" workplaces as are the leaders of any diversity-and-sensitivity training seminar. The difference, of course, is what those animating values look like. Many of the executives who were present in Lynchburg represent smaller companies that are family-run and privately held, making it easier for them to lead with their faith. But the same conflict will exist at the larger, publicly traded firms: Are conservative viewpoints and priorities valid, or are only secular progressives allowed to have an opinion about what's ethical in the business world? At this point, it's worth acknowledging that this is a debate between those who believe that a company *should* take account of considerations other than the primacy of the shareholder and those who profess what was so famously advocated by Milton Friedman.

That said, even firms that decline to weigh in on hot-button legislative issues — such as Georgia's Election Integrity Act — are going to have to take positions on controversial issues at some point. Even when no major conflict exists between shareholders and other stakeholder groups, every company has to write up rules for how they are managed, what their health-care insurance plan covers, whether they honor viewpoint diversity, and so forth. Progressive activists would like to see corporate policies that stack the deck, guaranteeing a certain set of outcomes.

Multiple definitions of social responsibility — sometimes overlapping, sometimes conflicting — are necessary in a diverse society in which freedom of speech and association are protected. But such an approach is generally not recognized in responsible-investing guidelines, which are based on the idea that there is only one acceptable answer when it comes to addressing everything from climate change to gender equality. A diversity-of-approaches attitude is especially unlikely to be incorporated into what the federal government does next on the topic.

In March of this year, the Securities and Exchange Commission's then-acting chairwoman Alison Herren Lee published a request for comment on the SEC's plan to write new rules for corporate disclosure on climate change. That document consisted of 15 detailed questions to which interested parties were invited to respond. It was the final one, however, that signaled what the agency is really planning: comprehensive rules for corporate conduct, all in compliance with left-wing policy priorities.

Commissioner Lee wrote that "in addition to climate-related disclosure, the staff is evaluating a range of disclosure issues under the heading of environmental, social, and governance, or ESG, matters." The word "environmental" covers all of the soft corporate targets related to pollution, energy, and materials use. The term "social" alone covers any political issue or behavior that affects a large number of people, and "governance" includes every angle of how corporations are managed and organized. "Addressing ESG concerns," therefore, is a blank check for the SEC to regulate absolutely anything its most radical members want — according to their own values.

Fortunately, the number of people aware of this threat is increasing. Last month Steve Soukup, author of the recent book *The Dictatorship of Woke Capital*, wrote in these pages about the alarming transition from a market in which everyone is free to invest in accordance with their own values to one in which a single set of politically correct values is imposed on everyone. What was once called socially responsible investing has yielded to the ESG investment movement, which "promises that by being active and coercive, it can also be more effective in accomplishing specific political goals."

Soukup made his point in the context of a review of a recent report by RealClearFoundation senior fellow Rupert Darwall, who has done an excellent job at clarifying and exposing some of the fuzzy reasoning at play in this debate. Among other conclusions in his publication

"Capitalism, Socialism and ESG," Darwall emphasizes that much of the ESG movement is not, as proffered, about risk management or achieving a "smarter" path to economic growth. It is a corporatist project "whereby businesses become instruments for achieving public policy goals." (These are goals, incidentally, that advocates have repeatedly failed to enact via the normal legislative process.)

Soukup and Darwall are just two of the growing chorus of voices sounding the necessary alarm. In 2018 the American Council for Capital Formation's Timothy Doyle wrote, "Ratings That Don't Rate: The Subjective World of ESG Ratings Agencies" and in 2019 Wayne Winegarden of the Pacific Research Institute published, "Environmental, Social, and Governance (ESG) Investing: An Evaluation of the Evidence." The National Center for Public Policy Research's Free Enterprise Project provides shareholders with its "Investor Value Voter Guide" and, in 2020, published the report, "Balancing the Boardroom; How Conservatives Can Combat Corporate Wokeness."

Great research and advocacy is also being done by scholars like the Heritage Foundation's David Burton, who debunkedNasdaq's board-diversity rule, and the Cato Institute's Jennifer Schulp, who has weighed in against the SEC's ever-expanding disclosure regime. My own study on the topic, "Environmental, Social, and Governance Theory: Defusing a Major Threat to Shareholder Rights," was published by the Competitive Enterprise Institute in May.

Almost none of this work existed more than a few years ago, but as progressive ESG advocates have forcefully flexed their influence, more supporters of small government and free enterprise have become sufficiently alarmed to redirect resources into the fight. Those resources are much needed. What happens over the next few years under the finance regulators of the current administration could determine how U.S. corporations are run for decades to come.