NEWS RELEASE

New essays explore myths and realities of ESG—Environmental, Social and Governance investing

August 30, 2022
For immediate release

VANCOUVER—Environmental, social and governance investing—ESG investing for short—is the latest movement by activists to compel businesses and persuade investors to pursue larger social goals, including environmental initiatives, by increasing financial disclosure regulations, but a new essay series by the Fraser Institute highlights the misunderstandings and simplifications of this call for a new form of capitalism.

"The thrust of ESG investing—to encourage companies to pursue goals other than just maximizing returns to shareholders—shows a fundamental misunderstanding of how market economies work. Specifically, it misunderstands how firms pursuing profits already have to consider their communities, employees, suppliers, customers, and anyone connected with the business," explained Steven Globerman, resident scholar at the Fraser Institute and contributing editor of ***ESG: Myths and Realities***.

The first essay, ***The New Capitalism***, identifies the various arguments made in favour of ESG investing, including mandatory ESG disclosures by public companies. According to ESG advocates, mandating companies to report their environmental, social and governance activities allows investors to direct their money towards companies with high ESG ratings and away from companies with lower ESG ratings.

Future essays in the series will explore core questions and misunderstandings related to the ESG movement including how it undermines the fiduciary responsibilities of corporate directors; whether investors actually earn higher returns from ESG investing; and how market economies already achieve many of the things to which ESG advocates aspire, among other topics.

A second essay also released today, ***Friedman and His ESG Critics***, revisits Nobel laureate Milton Friedman's iconic 1970 article in the New York Times, which argued that the sole responsibility of business is to increase profits, and that it is misguided to expect managers of businesses to try to achieve broad public policy objectives.

For Friedman, when firms focus on achieving higher profits, other stakeholders, like consumers, employees and suppliers also benefit. When managers of firms focus on larger societal goals instead of profits—such as what is proposed in ESG investing—it results in fewer benefits for consumers and other stakeholders who would have otherwise benefited from the higher profits.

"It is far too simplistic to say, as ESG advocates do, that corporations can be compelled to pursue social and environmental goals without imposing costs on those companies and society more broadly," Globerman said.

"And as with all previous attempts to reform market economies, it's important to understand the proposed reforms, and what the trade-offs (i.e. costs) will be."

(30)

MEDIA CONTACT:
Steven Globerman, Resident Scholar
Fraser Institute

To arrange media interviews or for more information, please contact:
Mark Hasiuk, 604-688-0221 ext. 519, mark.hasiuk@fraserinstitute.org

The Fraser Institute is an independent Canadian public policy research and educational organization with offices in Vancouver, Calgary, Toronto, and Montreal and ties to a global network of think-tanks in 87 countries. Its mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being. To protect the Institute's independence, it does not accept grants from governments or contracts for research. Visit www.fraserinstitute.org