

ESG-DEI Investing: What is it?

Environment, Social and Governance and Diversity, Equity and Inclusion are forms of what is known as 'social investment'. For example not investing into South Africa during apartheid or into munitions manufactories are examples of social investment.

In 2019 the Business Roundtable declared that the purpose of a firm (a regulated corporation) is no longer *shareholder* value-creation rather *stakeholder* value-creation. The way capital markets work under *shareholder* value is that investors seek the highest return and if a firm does not perform capital flows to those firms which do. *Shareholder* capitalism leads to the greatest efficiency innovation and growth (and individual freedom and responsibility) in the economy. Under *stakeholder* capitalism investment decisions are determined politically. For example ESG-DEI investing means that firms signal that they are for example not investing into oil and gas production, have a certain amount of a certain race or gender in front-office and Board positions and invest in politically-determined 'underserved' geographies. This means that capital is no longer flowing to where it seeks the highest return for the individual investor, but rather where it is determined to be politically rewarded: through subsidies, tax-breaks, access or non-access to regulated capital markets (banks, brokers, pension funds, mutual funds) and suppression of competition.

Stakeholder as opposed to *shareholder* investing means lower economic growth and individual responsibility for economic actions and further politicizes society. *Stakeholder* capitalism as declared by the Business Roundtable began in earnest with the politically-based bailouts after the 2008 housing bust. By aligning with the ESG-DEI movement firms gain political favor at the expense of the well-being of society writ-large. For example since 2008 economic growth has been about half of what it was prior, and, federal government debt (borrowing for current expenditures to gain political favor and votes) is growing at twice the previous rate.

Debt is growing quicker than the economy. This is something new and to be concerned about as has ethical implications which are not part of the prestige discussion in our modern popular democracy. The extreme form of stakeholder capitalism is 'corporatism', where assets are privately-owned but politically-directed.

For further reading:

<http://www.bookrags.com/studyguide-capitalism-and-freedom/chapanal009.html#gsc.tab=0>

<https://asp.mercatus.org/publications/randall-g-holcombe-political-capitalism>