Do Political Anti-ESG Sanctions Have Any Economic Substance?
The Case of Texas Law Mandating Divestment from ESG Asset Management Companies

Shivaram Rajgopal
Roy Bernard Kester and T.W. Byrnes Professor of Accounting and Auditing
Columbia Business School, Columbia University
sr3269@columbia.edu

Anup Srivastava
Canada Research Chair
Haskayne School of Business, University of Calgary
anup.srivastava@ucalgary.ca

Rong Zhao
Associate Professor
Haskayne School of Business, University of Calgary
rozhao@ucalgary.ca

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Abstract

We use the setting of a new Texas law to investigate the economic substance behind the current, heightened political debate around environmental, social, and governance (ESG) issues. In September 2021, the Texas legislature directed its state agencies to divest from investment companies that allegedly promote ESG causes and "boycott" energy stocks. On August 24, 2022, the Texas comptroller announced the specific list of banned funds. Among them, we examine those that invest in U.S. equities and compare their characteristics against a control sample of size-matched mutual funds that also invest in U.S. equites. We find that banned funds carry titles suggesting an ESG focus. However, (i) banned funds are largely indexers with a tilt slightly away from energy stocks, even though their energy exposure is nonzero and economically significant; (ii) the impact of the Texan ban on the fortunes of BlackRock, the only American fund manager in the sanctioned list, is neither statistically nor economically significant; and (iii) the three Texas public pension plans, for which we can find data, do not walk the politicians' talk, in that they do not invest higher amounts in the energy sector than do the banned funds. We conclude that the Texan law is unlikely to make a meaningful difference to state pension funds' energy exposure and risk-return characteristics or to ESG funds' fortunes and investing strategy. Thus, the legislation appears to be political posturing and may serve no other purpose.