

Environmental, Social and Corporate Governance and the Threat of Authoritarianism

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Introduction

Our globalised world makes many of our problems global problems. Shortages of fuel can cause energy crises a continent away, war in Ukraine may lead to famine throughout sub-Saharan Africa and the effects of climate change pose risks to all without prejudice. In response to such growing uncertainty and threat, the United Nations proposed seventeen “sustainable development goals” (SDGs) to propel humanity into a safer, more prosperous and more equitable future (United Nations, n.d.). On their own, these SDGs promote a sensible body of efforts to tackle global issues and increase global justice. However, the implementation of these SDGs is becoming increasingly reliant on, and indeed argued to be best achieved through, the adoption of environmental, social and corporate governance (ESG). Now, “environmental, social, and corporate governance” is a benign-sounding term, but it masks a deep concentration of power in the hands of a few ultra-wealthy individuals and groups and, moreover, abandons democratic control over these deeply important human issues to those few who have, in many cases, done the most to create these problems in the first place.

In this chapter, we show that ESG presents a threat to democracy on a global scale, that ESG creates a system reliant on fascist modes of organisation and decision making, and that ESG undermines our economic systems while

simultaneously sustaining their worst aspects and rewarding those most responsible for many of the current problems we face.

Stakeholders vs. shareholders

To begin with, it is worth making clear that ESG is an instantiation of a larger movement called “Stakeholder Capitalism” (Fama, 2021). In general terms, stakeholder capitalism maintains that firms should not only look to maximise the gains of those with a direct interest in them (i.e. stockholders), but rather seek to maximise the benefits for every individual with a stake in that firm’s operations. This most obviously includes the firm’s employees and customers, but also individuals who live near the firm’s operations and have to deal with the attendant noise or pollution, those affected by downstream effects of the firm’s normal business and even potential future generations. This conception of capitalism contrasts with Milton Friedman’s classic formulation of “shareholder capitalism”, where the firm is expected only to maximise the profits of its stock- or shareholders.¹

There are lively arguments between stockholder and stakeholder capitalists, but for the purposes of this chapter, it is only relevant that ESG is meant to promote the aims of stakeholder capitalism. Yet, as we will show, ESG creates a significant opportunity for the interests of stakeholders to be ignored, if not outrightly violated, because ESG makes firms responsible

for what should be democratic decisions. This puts the interests of stakeholders in the hands of individuals who are subject to no oversight, and, moreover, demands that firms take financial losses for the sake of SDGs. Thus, ESG manages to simultaneously violate shareholder capitalism's deepest tenet while also giving no guarantee that stakeholders will see any benefit.

ESG and democracy

Stakeholder capitalism, by its very nature, is apt to undermine the effectiveness of firms. By demanding that companies see to the securing of a variety of social goods, they are required to put monetary and human capital toward such tasks, detracting from the purely commercial interests those companies are designed to promote (Bailey, 2020). Yet the true problem of stakeholder capitalism is not its deleterious effect on firms, but the threat it poses to democracy, especially when pursued via ESG.

The core problem is that the ESG framework demands that we take the big questions of human import out of the political process and move them into the boardrooms of corporate governance entities (see Ramaswamy, 2021). The largest questions considered behind these closed doors are those relating to climate change and global equity, issues that concern every man, woman, and child on Earth, and yet such decisions are supposedly then to be made in a completely untransparent environment, and with no possibility for democratic input, contestation, or oversight of any kind (Mercereau et al., 2020). Now, one may contend that as things stand, many (if not most) of the pressing questions are decided behind closed doors without opportunity for the so-called "man on the street" to give his two cents anyway. After all, few of us get to speak to presidents, prime ministers, or premiers, and our opinions count for very little in the grand scheme of governance. The question then is not whether or not there is direct democratic input for these decisions – as there is rarely direct democratic input for any decision – but rather whether democracy enters

into the equation at all. Who, under the ESG model, is actually deciding how individuals' wealth is being utilised? Who is deciding how trillions of dollars will be used to combat the effects of climate change or further global justice? Who is sitting in these boardrooms, guiding ESG toward the pursuit of the UN's SDGs?

As one might expect, the answer is that in the ESG model of governance the wealthy are the ones who decide these things. The investment firms of Blackrock, State Street, and Vanguard, for example, control over twenty-one trillion dollars between them, and it is the decisions of the boards of directors of these firms and others like them that are expected to drive societies and economies toward the UN's sustainable development goals (Manjoo, 2022). In other words, those who control the largest swaths of wealth in the world are to be given unilateral decision-making power over global equity, justice, and the protection of the environment (Friess, 2022). Individuals who for decades have profited from imbalances in power and wealth are expected to undo the problems they helped cause, and in so doing not only keep hold of their wealth but also the unearned moral virtue for "standing up" for principles they helped undermine.

Now, it is clear that no one voted for the chief officers of large corporations or investment firms. These individuals rose through private organisations based on any of a number of reasons: merit, connection, nepotism, etc. Exactly how one becomes a CFO or CEO is, however, besides the point, as any way you cut it, these men and women are not chosen by the people, nor do they answer to the people. They answer only to shareholders (even if the stakeholder capitalist would wish it were otherwise). This alone shows a deeply undemocratic feature of ESG. However, the assault on democracy has only just begun.

Not only are the individuals making the decisions doing so in an undemocratic way, without any oversight, but the decisions they are making are precisely those which ought not and likely cannot be adequately addressed in a boardroom. After all, though private equity firms control immense amounts of wealth and *could* utilise that for a variety

of ends, these groups are designed to make money, not distribute to the less fortunate or mitigate climate crises. Moreover, satisfying any SDG too well at the cost of shareholders' quarterly returns is apt to lead to the dismissal of those directors who see to such efforts. Thus, merit in fulfilling SDGs is likely to be directly correlated to financial losses (or at least lessened gains), disincentivising private firms or their leaders from actually doing enough for the pursuit of the UN's SDGs. Even if they were to do their best, the questions they are addressing are still ones which, due to their breadth of impact on both the wellbeing of citizens and economic systems, ought not to be decided behind closed doors without democratic input. This is because many of the approaches to fulfilling SDGs will necessitate a balancing of values, or prioritisation of how a society's wealth and capital are utilised, and such things concern *the whole society*. As such, to delegate the entirety of these decisions to private firms removed from democratic proceedings is to delegate a large portion of social organisation to these firms.

Allowing private enterprises devoid of oversight such control over socially significant decisions represents an extreme level of authoritarian reach. Moreover, trying to force firms to fulfil the aims of particular agendas, i.e. making firms responsible to a state's direction, is indicative of one of the foundational conceptions of fascism (e.g., Schwab & Malleret, 2020; c.f., Umbrello, 2022). After all, it was Benito Mussolini who maintained that "[i]n view of the fact that private organisation of production is a function of national concern, the organiser of the enterprise is responsible to the State for the direction given to production" (Mussolini, 1935, p. 135). In other words, the state may bend the corporation to the achievement of particular agendas it deems socially relevant, blending public and private power to allow for even greater centralisation of them both (Padfield, in press). Now, the centralisation of power and extension of authoritarian reach may well not be the goal of ESG, but it is an outcome being slowly realised, whether any board of directors knows this or not. And the amassed wealth controlled by

private equity firms grants them not only market and economic power, but some measure of voting power as well, voting power that, through the ESG framework, is to be used to design and impact on our social world.

As a final thought, it is worth pointing out that none of this is meant to show that proponents of ESG wish for fascism or a loss of democratic control. Nor is this meant to show that ESG subverts democracy by giving political power directly to private groups. Rather, by delegating decision-making power over social questions to firms, we relinquish our democratic controls, and this, coupled with the wealth of private firms, allows them to construct and alter our social world as they see fit. Moreover, careless allowance for an expansion of privately guided governance opens the door for fascist or authoritarian modes of organisation, a risk that those in favour of the UN's SDGs should fully appreciate before they consider how best to get societies to reach those goals.

Theft writ large

A further impropriety of utilising the ESG framework as a means for fulfilling SDGs is that it crucially relies on private companies – in many cases, equity and investment firms – using the wealth they control to satisfy environmental or social goals. However, though such firms control this wealth, *it is not theirs*. Investment companies like Blackrock and State Street are given assets by individuals, on the agreement that said assets will be invested on behalf of those individuals and with an eye to returns. By instead putting that money toward the pursuit of SDGs, such firms carry out a grave breach of trust with respect to their investors; the purview of investment companies is to invest, not solve the world's problems. Moreover, though many of the goals set out in the UN's SDGs are investments *of a sort*, they are investments in humanity and our future, not in capital or economic systems (necessarily). They are, therefore, not the sorts of things for which one can even make a clear "return on investment", and dividends do not even enter the equation. Thus, utilising

the wealth controlled by such firms for SDGs is tantamount to theft, and theft on an immense scale.

Now, it is worth stating that there are arguments, and convincing ones, which would maintain that perhaps some of this wealth would best be used in this way, and that redistribution of wealth through development of historically disadvantaged peoples, states, or regions is acceptable and not simply theft. Egalitarian concerns, efforts of redressing historical wrongs, or forward-thinking consequential considerations may all be used to ground some level of redistributive effort. However, even these do not argue that private firms should simply misappropriate funds entrusted to them on the justification that this would be best, all things considered. Rather, if there is justification for the wealthy to perhaps not be so very wealthy, then this would underpin a larger redistributive effort, guided by states and tempered by democratic processes that allow all to have an effective say in the outcomes and proceedings. But by simply delegating redistributive power to firms by fiat, the ESG model grants private enterprises the right to take what they will from individuals who have entrusted (under clear contractual agreements) their wealth to such firms. These firms are moreover under no obligation to actually make any positive difference toward SDGs, as there is no democratic or other oversight for their actions. Thus, ESG may do nothing more than provide one more way for the rich and powerful to become more rich and more powerful, yet do so under the guise of “solving the world’s problems”.

A cautious road forward

In conclusion, we would stress that the UN’s SDGs are not bad goals. They set reasonable, generally just and forward-thinking benchmarks for us to tackle our largest problems. Furthermore, the magnitude of those problems picked out by the UN’s SDGs are such that concerted global efforts are likely necessary if we hope to even partially achieve such outcomes. It is also not necessarily a bad thing for firms to show more concern for

the societies in which they operate or to do their part to promote society-wide goods. When firms do this with the consent of their employees, customers and trustees, this is a good thing and can be a catalyst for further improvements or the addition of other firms to the list of those “doing their part”. However, entrusting the enormous responsibility of achieving the goals set out in the UN’s SDGs to the individuals who have most profited from global inequality and exploitation (of humans and the environment) is simply wrong. From a moral and political standpoint, these are problems that concern all of us, and their solutions require all of us to do our part. Therefore, divesting that responsibility to a small group of individuals, whomever they might be, is incorrect, and from a pragmatic standpoint, doing this is downright foolish. Many of the issues we currently face are the result of economic and regulatory institutions cultivated by those who are in charge of ESG, and expecting them to suddenly do better or not utilise their immense power and wealth for their own gain is naive in the extreme. We must seek solutions to the issues we face democratically. Doing otherwise puts us all at grave risk, and, moreover, shows a deep lack of appreciation for the responsibility we have as citizens of our states and organisms of this planet.

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¹ See Friedman (2007). Note also that there are many critiques of Friedman's position, even from within the shareholder capitalism body of literature. E.g., Bayern (2009) argues that Friedman's conception does not mention timespan, which is a crucial element in evaluating what would maximise shareholder value (e.g. quarterly earning vs. pension funds have a very different set of criteria for maximising their respective values and each have different time-scale considerations).