Proponent Testimony of SB224
For the Senate Fed and State Committee
March 7, 2023
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Chair Thompson and Members of the Committee, thank you for the opportunity to provide proponent testimony in support of Senate Bill224

ESG, Environment-Social-Governance

We are familiar with financial institutions using a FICO score. Your FICO score rates your ability and/or likelihood to repay a loan, pay rent, etc. What is the purpose of the FICO score? It is to protect the financial interests of the institution or owner.

What is the purpose of an ESG score? Perhaps we should look at how it all began.

In 2004 the UN report “Who Cares Wins” introduced the principles suggesting higher long term profits could be achieved with emphasis on environmental and social progress. The task of defining these broad categories would be left to international institutions. Those institutions determined “environmental” would focus on CO2 reduction goals while “social” would mean anything related to the UN’s stated issues such as gender parity, racial justice and poverty reduction. So the goal from the start was to harmonize the priorities of political elites with those of business leaders. The World Economic Forum (WEF) had long held sway in Europe, but in the US the shareholders still stood on top.

In 2007 when the UN invited financial institutions to sign onto the Principles for Responsible Investment (PRI), total global assets were about $10 trillion. By 2020 this has grown to over $30 trillion, $17 trillion just in the US. At this rate it is estimated there would be $53 Trillion invested in ESG by 2025.

In the early 1980s, rules were changed allowing asset managers to vote the shares on behalf of their clients, a seemingly good idea so shareholders did not all have go to meetings or deal with proxy votes. However this handed these managers vast power that would soon be exploited.

In 2020, BlackRock voted at 16,200 shareholder meetings on 153,000 company proposals. According to their annual report, "In 2020, we identified 244 companies that were making insufficient progress integrating climate risk into their business models or disclosures. Of these companies, we took voting action against 53, or 22%. We have put the remaining 191 companies 'on watch'. Those that do not make significant progress risk voting action against management in 2021."

How have investors fared? Not that well, it seems. This from the Harvard Business Review:

"To begin with, ESG funds certainly perform poorly in financial terms. In a recent Journal of Finance paper, University of Chicago researchers analyzed the Morningstar sustainability ratings of more than 20,000 mutual funds representing over $8 trillion of investor savings. Although the highest rated funds in terms of sustainability certainly attracted more capital than the lowest rated funds, none of the high sustainability funds outperformed any of the lowest rated funds.

That result might be expected, and it is possible that investors would be happy to sacrifice financial returns in exchange for better ESG performance. Unfortunately ESG funds don't seem to deliver better ESG performance either."

An example of how pervasive this is can be found in the training manual for board members put out by the national association for electric COOPs, the NRECA. The training is built on the idea of putting the member/customer first. First then speak of a global shift away from fossil-based energy to renewable energy sources. They then quote Public Utilities Fortnightly editor Steve Mitnick, "In what could aptly be called the ESG Era, utilities are being scored for their ethical performance, quite rigorously, quite comprehensively, by highly influential organizations. And these scores are directly driving the financial community to invest significantly more in the high scorers and significantly less in the low scorers." It then goes on to teach how to convince the CEO and the customers this is in their best interest. I'm sorry, I thought the best interest of electric customers was cheap, reliable power, not a political statement.

So, who determines a company’s ESG score? The ESG ratings industry is highly fragmented with dozens of ratings agencies and data providers in existence. The backgrounds of these firms are not uniform, with many having entered the ESG ratings business from different areas of historical expertise. So an ESG rating is really based on someone’s idea or political view at the time. Is this how we offer a free market to consumers?

Who does an ESG score protect? The answer: Whoever the elites decide deserves protection. Recently Exxon/Mobile had a higher ESG score than Tesla! And as a side note, Exxon/Mobile had 3 board members replaced by BlackRock proxy votes

ESG is political policy. Take politics out of the free market.

Let’s look at another example, coal fired electric generation plants. Just looking at The EU, Turkey, South Africa, India, The Philippines, South Korea, Japan and China currently operate 3,644 coal fired plants. In the coming years they have plans to build nearly 2,000 more. The US has 229 and no new plants planned, in fact any of these are all in danger of being closed in the interest of climate change. Does anyone think if we shut down each US plant, 4% of the worlds total, that it would effect the climate in any way?

In 1773 the colonies had a contentious relationship with the East India Company. The public/private relationship with King George and Parliament gave the East India Company a distinct advantage over other shipping companies. The 342 chests of tea thrown into the harbor during the “Boston Tea Party” did not belong to King George, it belonged to the East India Company.

January 17, 1961, President Dwight D Eisenhower delivered his farewell address including his famous warning about the increasing power of the “military industrial complex”. While he well understood the importance of a strong military deterrence against the Soviet threat, his warning was that we not let the people who stood to gain so much financially in the production of military hardware and assets make the decisions…diplomacy should also be an important part.

It seems that not only did we not heed Ike’s warning, we have fallen prey to a myriad of industrial complexes. We have a medical-industrial, pharmaceutical-industrial, social media-industrial, green energy-industrial and academic-industrial complexes to name a few.

When there is tension and potential problems, foreign or domestic, there is big money to be made. This public/private partnership had led to wealth on the part of some and poverty, death and maiming of others, while it is sold to we citizens as necessary to freedom. But is it?

We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.--That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed…

The key point here is that governments are instituted among men to secure rights. How much do we do here that actually secures rights? King George used and/or allowed the East India Company to deprive and suppress rights. Is the use of ESG any different?

SB224 is simply an effort to thwart the power of the purse held by these huge organizations, and protect the rights of Kansans who just want to be able to work, save, invest and enjoy. SB224 does not put any undue burden on any Kansas business. The state should have full control over the funds it invests on behalf of its citizens and retirees. Kansans should not have to worry about their availability to get a loan or buy insurance be based on anything more than their ability to pay.

I thank you for your time and attention, I'm happy to stand for questions at the appropriate time.

Respectfully,

Rep Michael Murphy