Luigi Zingales

Discussion of Limits to Private Climate Change Mitigation

by

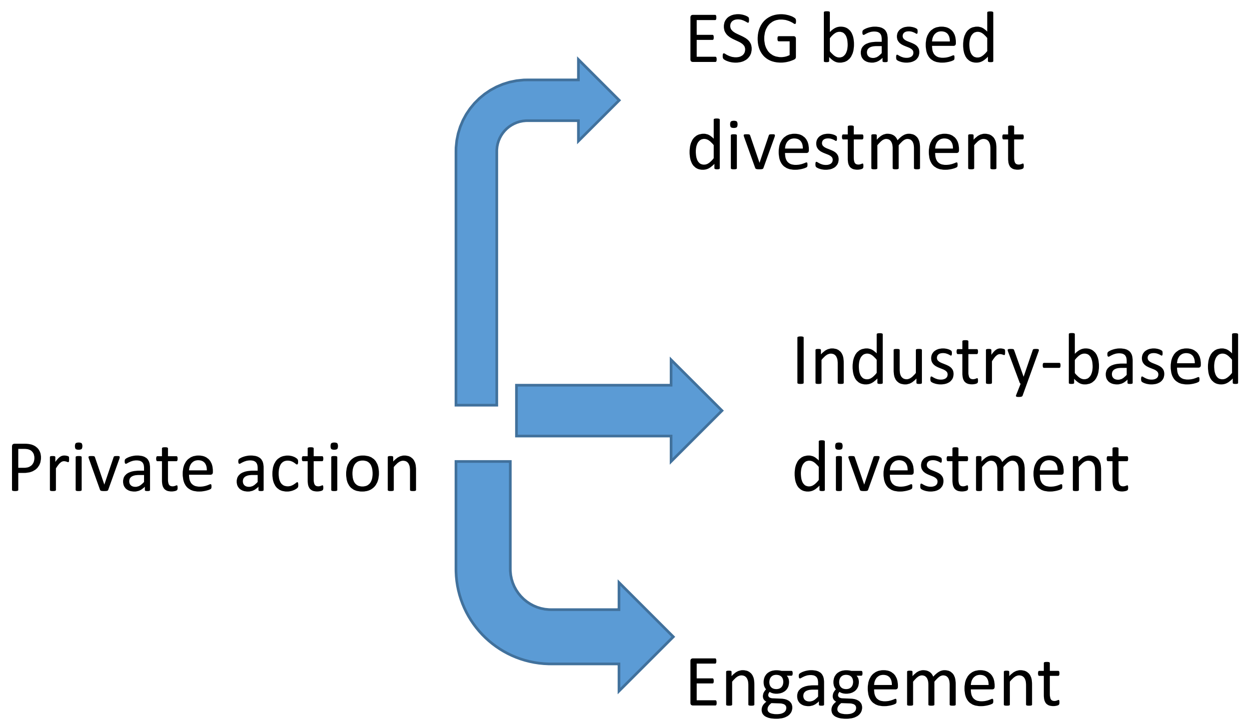
Elmalt, Igan, and Kirti

- This paper studies empirically how private action can help in climate change mitigation
- The paper has two main parts

1. The failure of ESG criteria to achieve reductions in CO2
2. Why, even if they did, it would not be enough

- The paper has very much the flavor of “The Secret Diary of a ‘Sustainable Investor’” by Tariq Fancy, former CIO of the ESG funds at Blackrock
- It can be effectively summarized as ESG is b.s.

What Is Private Action?

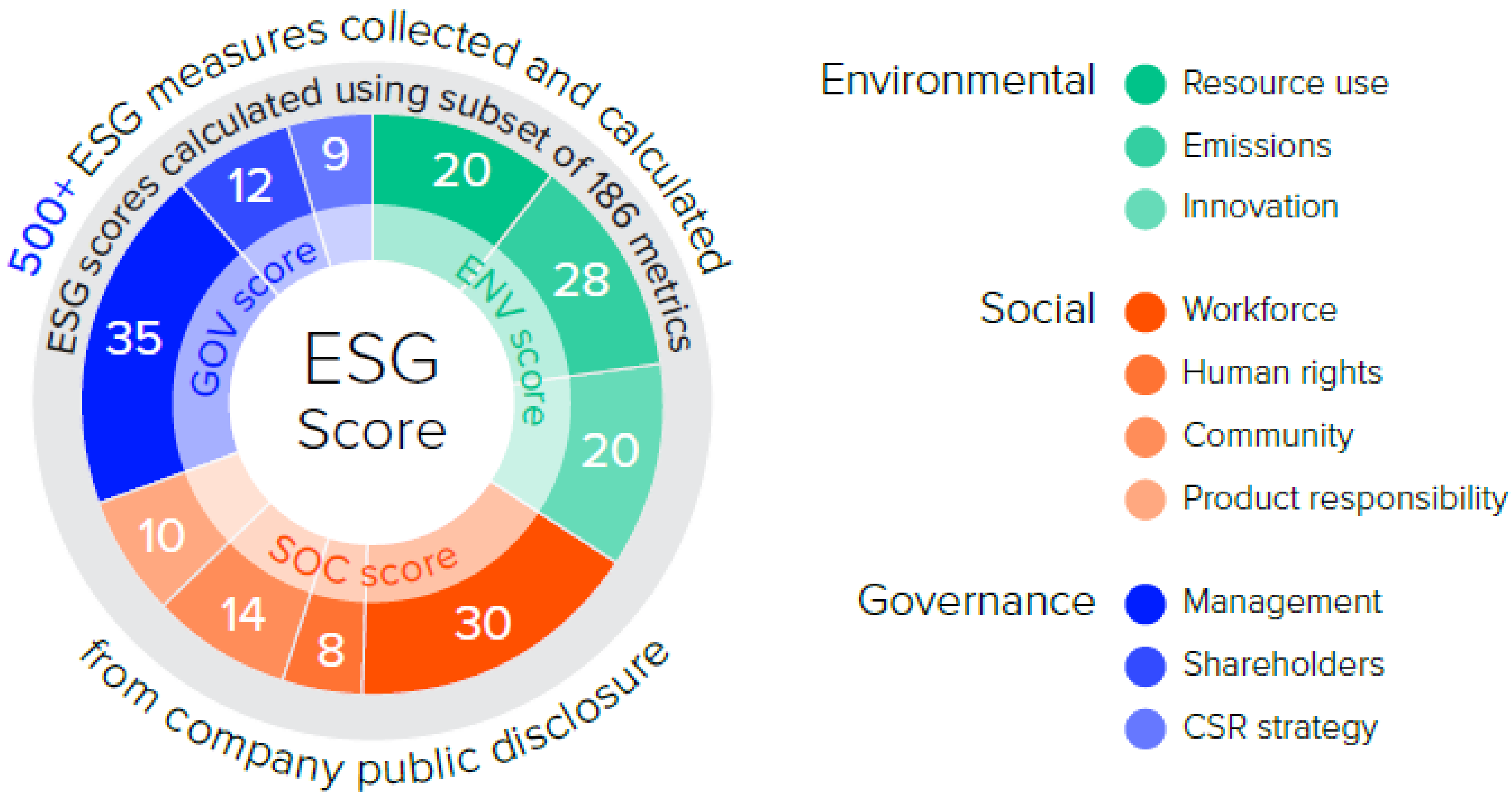


- The authors consider only the first avenue

How Do Authors Measure Success?

- Reduction in CO_2 emissions
- Yet, they do not measure emissions, but only production of oil, gas, coal, and cement
- Thus, success = shrinkage of every firm in these sectors
- If gas production in a firm crowds out all the coal production in others, that firm is helping reduce gas emission, but in their metric is terrible. Why?
- If a more efficient firm crowds out a less efficient one, this is not considered success
- If the pressure of downstream firms reduce emission of upstream ones, this is not considered success
- If Royal Dutch Shell were to turn into a nuclear power company, this would be considered huge success. Do people want this?

Refinitiv ESG Scores



Level vs. Change

- Consider two firms
  - one is the worst polluter in the world, which reduces a bit its CO_2 emissions this year
  - one is the best in class in term of pollution, which does not reduce CO_2 emissions this year
- which one is better?
- which one Refinitiv rates higher?
- which one should I divest from to reduce pollution?

Environment

- Is the environment just CO2?
- Particulate matters kill 8 million people a year
- A lot of other environmental damages
- Why should they weight zero in the objective function?

Specification

- Did Business Week ratings increase quality of MBA teaching?
- Anybody who was around in that period will say yes
- If you compare with Law Schools, the answer is yes
- Would a specification like the one used by the authors capture this relationship?
- No. The business school with the worst rating were pushed to make the biggest changes
- Thus, when ESG works, the correlation is positive, not negative

Measurement Problems

- When a variable is measured with error and
  - Signal relatively stable
  - Noise very variable

Using fixed effects, take out the signal and leaves you just with the noise (Hausman and Taylor, 1981)

- But this exactly what they do
- In levels there is a negative correlation between ESG and reduction in emissions, but after the put firm fixed effects it disappears
- Is it a problem of ESG criteria or of the specification?

Implications

“our analysis suggests that ESG scores tend to reflect what firms say they (will) do, not what they actually do, to contain their carbon footprints”

- where do they show this?

“and do not capture differences across firms in their contributions to climate change.”

- in levels they do

Conclusions

- Very interesting and important topic
- The authors might be right in their conclusions
- But not based on their empirical evidence
- They need to be more careful