

# Some arguments against divestment.

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**Background:** I believe climate change is a serious problem requiring urgent action (a mix of emissions reductions and, sadly, adaptation). I appreciate the genuine concern and motives of those who promote divestment. But I think it's a misguided and counterproductive response. Much of my thinking is based in economics, a field largely concerned with incentives and with how to optimally deploy resources to achieve a desired objective.

1. While I believe symbolic actions can help bring needed change, I think capable academics should focus their time and energy on research into real solutions, not symbolism. We should leave symbolic action to those who lack the capability to contribute to better understanding of the problem or to craft technical and policy solutions. Otherwise, we waste time and talent.
2. As educators, we have an important responsibility to be honest with our students and the public about what will work and what won't in combatting a major problem like climate change.
3. Divestment won't have any significant impact on how much fossil fuel stays in the ground. Changing who owns the shares in a company doesn't change the profitability of that company's underlying activities. And profitability is what motivates a company to deliver product to its consumers. There aren't enough high-minded investors to choke off equity financing to oil companies, and even if there were, oil companies would turn to other forms of financing (cashflow, debt, private ownership, or government ownership/financing) to pursue the profits that consumers remain prepared to hand them.
4. The rallying cry, "We should do everything we can!" should be modified to "We should employ multiple responses to the problem, but we should skip ineffective responses, put more resources into the more effective responses and put less resources into the less effective responses." I appreciate that it's not as punchy a rallying cry.
5. Divestment distracts from real solutions to climate change (i.e., ones that truly affect how much fossil fuel stays in the ground) including carbon taxes, cap and trade, regulation, and engineering solutions like carbon capture and storage.
6. Divestment conveniently lays blame for fossil fuel extraction at the feet of extractors (often large multinationals). But fossil fuel companies wouldn't be extracting if consumers weren't demanding their product. As consumers, we're the ones ultimately responsible for the anthropogenic greenhouse gas emissions that threaten the planet. Divestment, by shifting the blame to extracting companies, creates the impression that someone else is responsible. This works against solving the problem.
7. Divestment arbitrarily targets some industries that supply carbon-intensive products and services (e.g., the oil industry), but ignores others (e.g., the travel industry). While being arbitrarily ineffective does not bother me, this **should** bother people who believe divestment will have real effects on economic activity. By contrast, pricing carbon not only has real effects on keeping fossil fuel in the ground—it also does not arbitrarily discriminate. It penalizes carbon emissions proportional to the emissions, regardless of industry, firm, or product.
8. Some argue that UVic endowments will make higher returns if they divest from fossil fuels. In other words, "Doing the right thing will yield higher profits for our investment funds." This is puzzling on a couple of grounds. First, investment managers are trained to allocate fund portfolios in ways to meet the risk-return objectives of their clients. If it made financial sense to move out of fossil fuel stocks, they'd probably have done this already. Do we really think we—as UVic faculty and students—are better portfolio managers than professional fund managers? Second, the entire carbon emissions problem is caused by a divergence of private interests from what's in the interest of society as a whole. If "Doing the right thing" (i.e. lowering carbon emissions) was really aligned with maximizing profits or maximizing investor returns, we wouldn't have a problem. So it seems a bit odd to argue for divestment on the basis that those interests are aligned.

9. It may well be the case that future legislation (e.g., higher carbon taxes) will “strand assets” of fossil fuel companies (i.e., make it economically infeasible to extract all of their fossil fuel reserves). But the expectations of future stranding should already be priced into current stock values. The argument that we can expect to prevent future investment losses by ditching fossil fuel stocks today only holds up if we know something important that financial markets don’t know. This seems highly unlikely. If someone does have such information, then a better strategy than divestment would be to sell fossil fuel stocks short on the basis of that information and use resulting profits to purchase oil reserves and shut them down.
10. Employing the most effective responses to climate change is important because addressing climate change is costly, and overcoming political resistance to real solutions is essential. Real solutions to climate change (e.g., higher carbon taxes) impose costs on individual consumer-voters. This makes many consumers—especially poor consumers with more pressing priorities—predisposed to oppose real legislative solutions to climate change. The last thing you want to do if you’re trying to convince reluctant consumers of the need for real (and costly) change, is to reduce their perception of urgency by suggesting that you’ve already engaged in effective solutions to the problem when those “solutions” were purely symbolic.

We and other universities around the world would contribute far more effectively to reducing carbon emissions if we focused on real solutions to the problem—for example if we advocated widely and in a coordinated fashion for significantly higher carbon taxes or significantly more public funding of research into engineering solutions to the problem. In my opinion, divestment is at best ineffective and at worst a counterproductive distraction from effective solutions to an urgent problem.