Problems With the Math

Is 350's Carbon Divestment Campaign Complete?

by Christian Parenti

I have much respect for Bill McKibben and 350.org, the organization he started. Future generations will hail the 350 activists of today as heroes. That said I am very worried about the pitfalls of 350's current "Do the Math" campaign, which seeks to pressure universities, churches and other institutions to divest their investment portfolios of all fossil fuel stocks.

Though elegant in its simplicity — attacking Big Carbon directly — this symbolically charged strategy (or rather tactic) suffers three crucial weaknesses. First, it misrecognizes the basic economics of the fossil fuel industry and thus probably won't hurt it. Second, it misrecognizes the nature and function of the stock market. Third, it ignores the potentially very important role of government in addressing the climate crisis.

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The divestment campaign flows from an excellent article McKibben wrote which makes the stark point that we cannot burn all the fossil fuel currently in the ground without crossing the line into truly dangerous, potentially self-fueling climate change. His punch line: We must attack the fossil fuel industry.

The 350 campaign has started with a big 21 city road show to get the word out. From there, smaller groups are starting to pressure universities, churches and other institutions to divest their fossil fuel stocks. The website for the 350's tour explains the divestment strategy as follows:

The one thing we know the fossil fuel industry cares about is money. Universities, pension funds, and churches invest a lot of it. If we start with these local institutions and hit the industry where it hurts — their bottom line — we can get their attention and force them to change.

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And the spectacle of targeting the enemy — giving them a name and an address — is great but it needs to be linked to other forms of leverage. Namely, we need to also focus on state power and what we can do with it. The movement should be demanding that government at every level move to contain and control Big Carbon and to directly support alternative energy. Regulation is the only thing that will actually check the industries — oil, gas, coal — that are destroying the planet.

I am all for dumping carbon stocks, if for no other reason than a sense of decency and honor. But how is dumping oil stock supposed to hurt the enemy? The boards of oil companies will be embarrassed? The spectacle of the discussion around divestment might provoke actions on other fronts — like legislation? I am not at all clear on how this is supposed to work. And I am not sure McKibben or 350 are either.

How Does Big Carbon Make Money?

First, the assumption that we can hit the fossil fuel giants' "bottom line" by going after their stock prices is deeply flawed. It unconsciously plays into a very neoliberal, or right-wing, set of nostrums that markets can fix things and that government is, as Mckibben often says, is "broken." But more to the point, it is deeply confused about how wealth is actually produced.

Consider Exxon Mobil, the world's largest company by profits. It makes its money by selling oil and related products, not by selling stock. In fact, many of the key players in the oil industry do not even sell stocks.

For example the most infamous climate deniers, Koch Industries, sell no shares on stock markets. Koch Industries, being privately held, is thus not even on the 350 target list.

Most of the largest oil companies in the world are actually state-owned. As Forbes put it:

> More than 70% of world oil reserves, and an even greater percentage of the remaining reserves of "easy oil" are held by national oil companies controlled by kings and potentates and even some democratically elected governments.

… dumping Exxon stock could allow the firm to develop more oil fields.

Huge government-owned oil companies include Saudi Aramco, Gasprom, PDVSA, The Iran National Oil company, Rosnef, PetroBras, Pemex and Petro China.

And how do we actually sustain and feed Exxon, Chevron, Shell and the rest? Not as investors, but as consumers. We give them money when we buy gasoline. Economically speaking, more effective than a divestment campaign would be a gas boycott; though it would be next to impossible given the current structure of our transportation sector. This brings us to the next question.

What is the Real Function of the Stock Market?

The official version of capitalism holds the stock markets exist to help firms raise money for investment. But empirical investigation reveals that the opposite is more often the case. In reality, the stock market, though culturally powerful, is not particularly important to how capitalism actually creates wealth (and pollution).

As Doug Henwood showed in his classic book *Wall Street*, for most major companies, the stock market is a net drain (not a source) of capital. Working off Henwood's writing, the journalist, blogger and economist Josh Mason put it well, "The function of the stock market in modern capitalism is to get money out of corporations, not put money into them."

In other words, publicly traded companies tend to have less money for investment than private ones. As *The Economist* noted recently:

> One study shows that [publicly] listed companies have invested only 4% of their total assets, compared with 10% for "observably similar" privately held companies.

The real function of stock markets is to allow the owning class to distribute their risk across the whole economy. Stocks also incentivize managers by giving them a real (but liquid) form of ownership in the same firms they work for. Stock IPOs payback original private investors. Pension funds allow retired workers to claim some of the wealth produced by current workers, and in the process may give some part of the working class the illusion of an alliance with the real owning class. Stock bubbles allow large speculators to snatch the wealth of late arriving, low information, small investors.

The evidence shows that stock markets are a place to distribute wealth; they are not where the "bottom line" is produced.

Where do firms actually get their income and investment money? From producing and selling real goods and services.

Look again at Exxon Mobil, none of its income or investment money is derived from selling stock, or by issuing debt. Its income and investment are entirely derived from operating cash flow. That is, from producing and selling petroleum-based products, like oil, gas, asphalt and gasoline. Between 2007 and 2011, the company generated over $240 billion in cash from operations; of that they invested about $94 billion in new capital (more pipelines, drilling rigs, the acquisition of other companies, etc). Meanwhile, Exxon took a much larger amount of its income ($164 billion) and gave it back to investors in the form of dividends, share repurchases and debt reduction.

So how will dumping Exxon stock hurt its income, that is, its bottom line? It might, in fact, improve the company's price to earning ratio thus making the stock more attractive to buyers. Or it could allow the firm to more easily buy back stock (which it has been doing at a massive scale for the last five years) and thus retain more of its earnings for use to develop more oil fields.

What Good is Government?

The third big flaw in the divestment campaign is that it, as yet, ignores the potentially very powerful role of government; this, despite Mckibben acknowledging government's potentially central role. As he said in the kick off article:

> If you put a price on carbon, through a direct tax or other methods, it would enlist markets in the fight against global warming. Once Exxon has to pay for the damage its carbon is doing to the atmosphere, the price of its products would rise. Consumers would get a strong signal to use less fossil fuel — every time they stopped at the pump, they'd be reminded that you don't need a semi-military vehicle to go to the grocery store. The economic playing field would now be a level one for nonpolluting energy sources.

Absolutely correct! But I do not see how stock divestment raises the price of gas. Regulation and taxes, on the other hand, could do that.

Luckily, the laws we need already exist. Thanks to the case Massachusetts v. Environmental Protection Agency, the EPA has the obligation to regulate

— that is limit the emissions of — CO2 and other potent greenhouse gases. As Kassie Siegel, an attorney with the Center for Biological Diversity has explained it:

> The United States has the strongest environmental laws in the world… The Clean Air Act can achieve everything we need: a 40% reduction of greenhouse gas emissions over 1990 levels by 2020. So far the EPA is sitting on 30 rules that it must issue as a result of Mass v. EPA. [In *Massachusetts .v EPA*, the Supreme Court decided in 2007 that the EPA can regulate carbon-dioxide as a pollutant under the Clean Air Act. —Ed.]

Another tool that the government could use is to reorient government procurement away from fossil fuel energy, toward clean energy and technology — to use the government's vast spending power to create a market for green energy. After all, the government didn't just fund the invention of the microprocessor; it was also the first major consumer of the device. For most of its first three decades of activity, IBM– which lead the creation of computers — got more than half of its business from federal contracts.

In other words, government consumption (not just its R&D investment) is a powerful force that has created whole markets and new technologies.

Elsewhere I have called this strategy the Big Green Buy. Consider this: Altogether federal, state and local government ("total government expenditures") constitute more than 38% of our GDP. The federal government spent about $3.6 trillion last year. It owns or leases more than 430,000 buildings (mostly large office buildings) and 650,000 vehicles. It is the world's largest consumer of energy and vehicles, and the nation's largest greenhouse gas emitter. Add state and local government activity, and all those numbers grow by about a third again.

A redirection of government purchasing toward wind, solar power, etc., plus robust action by the EPA – that is, imposition of a de facto carbon tax (if you emit too much you pay a fine) — would create massive markets for clean power, electric vehicles and efficient buildings, and would simultaneously drive private investment toward that market.

This strategy — call it cap and buy — could and should happen at the state and local level as well. I hope that 350 campaigners and others will add these ideas to their strategy. Activists can pressure their universities, churches and towns, as well as their state and local governments to buy clean power and electric vehicles, retrofit buildings for efficiency, and pressure the federal government to allow the EPA to do its job and enforce the clean air act, very vigorously.

Let's be honest. The only force on earth that can really control Exxon is the US government. Moral outrage and symbolic action — like divestment — won't bring it down.

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http://www.counterpunch.org/2012/12/03/is-350s-carbon-divestment-campaign-complete/

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