A brief history of ethical investing

By Quintin Rayer | September 19, 2017

In previous articles, Quintin Rayer asked why ethical investment matters [1] and gave an introduction to ESG investing [2]. Here, he gives a short history of ethical investing, so advisers can better understand its roots and the motivations behind it. Following articles will explore different aspects of ethical investment approaches and issues such as performance.

Introduction

Malthus's 1798 'Essay on the principles of population' warned of population growth outpacing the planet's ability to support human needs [3]. Including social aspects to business activity dates from the 1700s, with mutual societies and Quaker philanthropists such as Cadbury's. In the 1800s the Quakers prohibited members from participating in the slave trade.

Ethical investing also traces thinking from Methodism. John Wesley's sermon on the 'Use of Money', published in 1872, sets out principles of social investing [4]. He invited fellow worshippers and investors to not harm their neighbour through their business practices and to avoid certain industries. Methodism's religious roots meant investors were asked to avoid companies encouraging 'sin'. Association with pawn-broking, and the sale of anything which tends to impair health (thereby including guns, liquor and tobacco) were to be avoided.

More recent developments

Over time, the list of excluded business widened to include social and environmental problems [5]. The 1972 Stockholm Conference on the Human Environment named the environmental assessment component of its action plan 'Earthwatch', recommending environmental assessment as an operational area of the UN Environment Programme (UNEP).

Business pioneers such as The Body Shop (1976) and Ben & Jerry's ice cream (1978) placed ethical and social considerations deep within their offering [6]. The Stockholm recommendations were elaborated in the 1980 World Conservation Strategy – a collaboration between the International Union for the Conservation of Nature, the World Wildlife Fund and UNEP.

In 1983, growing realisation in national governments and multilateral institutions of linkage between economic development and environmental issues lead to establishment of the World Commission on Environment and Development by the UN General Assembly. Depletion of the atmospheric ozone layer by chlorofluorocarbons lead to the 1989 Montreal Protocol ban. In 1992, leaders set out sustainable development principles at the UN Conference on Environment and Development in Rio de Janeiro, Brazil. Three instruments of environmental governance were established: the UN framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD) and the non-legally binding Statement of Forest Principles.

Later in 1992, the UN General Assembly officially created the Commission on Sustainable Development. The 2006 Stern report [7] concluded that the benefits of decisive early action on climate change outweighed the costs. In 2007, the International Panel on Climate Change declared "it is no longer a question of whether climate change policy should be understood in the context of sustainable development goals; it is a question of how". Carbon emissions play a major role in climate change, and current efforts may prove to be insufficient to meet the 2015 UN FCCC (United Nations Framework Convention on Climate Change) intended aims of holding the increase in global average temperatures to well below 2°C above pre-industrial levels while pursuing efforts to limit increases to 1.5°C above pre-industrial levels [8].

The significance of ethical investment's roots

Ethical investing's history means several excluded sectors derive from religious roots, while civil nuclear power's association with atomic weapon development may taint that sector, despite its ability to reduce CO_2 emissions.

Sustainable (ESG) investment may be a useful development: by emphasising the need for sustainability, ethical investment can be placed on a more scientific basis, without the need to lean upon its religious origin. A religious basis for ethical investing could create disagreements about what can be regarded as ethical. For example, Islamic finance may prohibit payment of interest, meaning that conventional interest-paying bonds would be unacceptable, although acceptable to some other religions. The value of ESG factors is that they give clarity of focus and provide structure.

How this helps advisers

With improved understanding of ethical investing's origins, advisers will be better placed to appreciate the motivations of their ethical clients, which may include charitable organisations and trusts, in addition to individuals.

References

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