Corporate Environmentalism and an Oversupply of False Bad News

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What has led to the rise of corporate environmentalism? We argue in this paper that much of it has been driven by the increase in supply of false bad news, which has fueled the ascension of the environmental, social, and governance (ESG) movement in corporate America, as chronicled by Stephen R. Soukup's (2021) book *The Dictatorship of Woke Capital*. Soukup (87) notes that these origins go back to 2005, when "the United Nations Environmental Program (UNEP) commissioned a study from Freshfields Bruchhaus Deringer, a London law firm." The purpose of the report, according to Soukup, was to consider how to incorporate ESG concerns in modern investing. The firm concluded that ESG considerations would be an important consideration and "arguably required" for reliable predictions of financial performance (87). Soukup goes on to chronicle how these recommendations began to become legal requirements in several jurisdictions. Thus, ESG was born.

All three components of ESG are worth studying, but we are interested in examining the issue of corporate environmentalism in particular. It should be noted that concerns about businesses and environmentalism predate the ESG model; so our paper, while relating to the incorporation of the *E* in *ESG* in company decisions, extends to all

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instances of corporate environmental policies.

In this paper, we consider the ideological tilt of corporate America regarding environmental policies. In particular, we examine the corporate tendency to adopt green policies. We argue that rationally ignorant voters demand an oversupply of what Julian Simon termed "false bad news," which drives demand for green corporate policies that adhere to a particular ideological approach to evaluating and solving environmental problems.

We argue that despite improving trends, environmental outlooks remain pessimistic, indicating that the demand for bad news is being fulfilled by false bad news. Since voters do not bear the cost of voting according to this false bad news, they will do so more than they otherwise would. This leads politicians to create or threaten regulations that influence corporations to be ideologically tilted toward green policies. Special interest groups and bureaucrats reinforce the views of voters, due, in part, to a "bootleggers and Baptists" dynamic (Yandle 1983). To support our argument, we begin by highlighting that public attitudes about the overall environment have not improved even though many environmental trends have improved (or at least have not deteriorated). This insight is built on prior work by Simon (1999). We then identify how these attitudes work their way into the political system.

In doing so, we utilize and contribute to several literatures. First, we contribute to the work of economist Julian L. Simon. Throughout Simon's career, he focused on combating incorrect, pessimistic depictions of environmental issues. Simon's first popular monograph (1981b) focused on overly pessimistic predictions about the impacts of population growth; in particular, Simon targeted the work of Ehrlich (1968), which predicted mass death on account of population growth.

Simon's work then expanded beyond population to environmental trends in general, as evidenced by the second edition of *The Ultimate Resource* having nearly double the number of chapters as the first edition. Simon challenged overly pessimistic environmental outlooks in every form from challenging nongovernmental organizations' reports to compiling important positive trends (Simon and Kahn 1984; Moore and Simon 2000).

Finally, Simon tackled the presence of false bad news in the corporate press (Simon 1980; 1981a). This, among other of his works, was compiled into the posthumously published book *Hoodwinking the Nation* (1999). We build on this underappreciated work by applying his analysis to the question of how ESG became popular in corporate America. Simon offered many speculations on what may be driving false bad news, and in our paper, we try to explain how these speculations are related by an underlying theme that suggests a root cause of rational ignorance.

Second, we contribute more generally to the burgeoning literature on corporate social responsibility and stakeholder capitalism. ESG is a particular set of values that implies a set of responsibilities

to various stakeholders rather than a narrow responsibility to shareholders to utilize their resources in their best interest. Sometimes ESG advocates will claim the values are compatible with something like long-term maximal returns, but this is true of stakeholder theory more generally. We consider ESG to be a particular form of stakeholder-focused capitalism.

In Milton Friedman's (1970) famous essay on corporate social responsibility, he claims that "the doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means." This article, which set out what became the "Friedman doctrine," led to an avalanche of writing and debate on whether shareholder theory (represented by Friedman) or stakeholder theory (articulated by Freeman [1984]) represented the best path forward for ethical management of business assets.

Much of the debate that followed was based on mistaken understandings of Friedman's argument. As Soukup (2021, 73) points out, a common critique of Friedman involved maligning his view as being obsessed with pursuing "shareholder value" alone. This critique of Friedman argues that corporations, and even their owners, often prefer outcomes other than some maximized value of resources.

The problem with this critique is that it fails to address the actual argument put forward by Friedman. Friedman never argued *only* for a narrow focus on increasing the value of shareholder's capital. In contrast, Friedman acknowledged that shareholder desires may depart from the narrow end of value maximization. Friedman's major argument, as summarized above, was that prioritizing stakeholders over shareholders would result in the extension of the political mechanism to all aspects of life.

In this paper, we build on Friedman's insight into collectivist ends by demonstrating how false news and ESG principles could interact to extend the political mechanism. The paper will proceed as follows. In the next section, we review Julian Simon's work in *Hoodwinking the Nation* and argue people remain overly pessimistic about the environment. Then we develop a theory of how false bad news strengthens corporate America's focus on green policies. The final section draws conclusions and offers insights for future research.

Julian Simon's Explanation for False Bad News

In the introduction to *Hoodwinking the Nation*, Ben J. Wattenberg of the American Enterprise Institute made the following observation: "Julian loved to make bets. Fifty years from now readers who peruse *Earth in the Balance* by Albert Gore and *Hoodwinking the Nation* by Julian Simon will giggle at one of them. Let's bet which" (Simon 1999, x–xi). Well, since the book was published in 1999, we're now halfway to Wattenberg's fifty-year hypothetical bet. So at the midway point, who looks

silly in hindsight—Simon or Gore? Part of the goal of this paper is to address why the answer to this question is not straightforward. On the one hand, many of the environmental trends Simon catalogued in *Hoodwinking the Nation* have improved or at least not worsened since his writing. This seems to indicate Wattenberg would be winning his hypothetical bet. But let's not decide so fast.

Wattenberg's bet is not about whether the trends have improved in Simon's favor or worsened in Gore's favor. Instead, it's about whether *readers* of Simon and Gore will assess one more favorably than the other. Generally, we would assume readers would be more likely to assess Simon favorably if trends improve as they have, but Simon's whole point in his book is that the public is persuaded by an oversupply of false bad news, which turns people's opinion *away* from the actual evidence. What we see is that, despite improving trends, public attitudes don't always improve in a commensurate way.

Simon's thesis in *Hoodwinking the Nation* is relatively straightforward. He starts with a simple tension: Things are getting better, but people don't act like it. Simon's evidence for the improvement is littered throughout the book. He begins by saying,

> The current gloom-and-doom about an environmental crisis is all wrong on the scientific facts. Even the Environmental Protection Agency acknowledges that U.S. air and water have been getting cleaner rather than dirtier in the past few decades. Every agricultural economist knows that . . . life expectancy almost tripled in rich countries in the past two centuries and almost doubled in poor countries in just the past four decades. This is the most important and amazing demographic fact. (7–8)

Throughout the book, Simon (13–14) offers numerous data points to back up these claims. And yet, despite this optimistic picture, public opinion in the years leading up to 1999 was very pessimistic about the state of these things.

Simon covers a wide variety of trends throughout the book. As a sample, he finds those surveyed viewed themselves as

- living in a less healthy environment than their parents,
- living in a more polluted environment relative to ten years prior,
- breathing more polluted air, and
- living in a world where scientific and technological advances are riskier.

On a similar note, about the environment in particular, surveys of public opinion found that the majority of people saw vehicle air pollution, electric power plant pollution, and acid rain as very serious problems. Forward-looking environmental opinions were mixed. Some surveys found people expected a better environment in five years, while other surveys showed the plurality expected pollution to increase.

Simon also does a case study on the vanishing farmland scandal, which occurred throughout the 1970s and 1980s. In 1977, the National Agricultural Lands Study data inaccurately projected an extreme decline in available farmland due to urban sprawl. Simon highlights in the case study how this mistaken data made its way into headlines of top media outlets into the late 1980s, well after the old 1970s data had been debunked.

The inaccuracy even landed in Simon's backyard in Champaign-Urbana, Illinois, where it took life in local government efforts to "protect farmland" based on the errant data. Simon's case perfectly illustrates how false bad news in the context of the environment can lead to political environments that favor overly conservative approaches to dealing with environmental problems.

Simon establishes the puzzle: Environmental trends were improving in the 1990s, but *attitudes* about those environmental trends were not improving. An oversupply of false bad news was designated as the cause. This brings up a new question: Why does false bad news persist, and why is the public fooled?

While Simon doesn't define false bad news, he gives several examples in the aforementioned book and article on the topic. Modern examples of false bad news akin to Simon's examples abound. Such examples are well chronicled, for example, by Michael Shellenberger (2020). It's important to note, however, that Simon is concerned not merely with false bad news but also the relative absence of good, true news. Simon concludes his 1980 paper by observing, "The question, then, is: Who will tell us the good-and-true news?" (1437). In this sense, the systematic bias in publishing true bad news over true good news is also a form of lying.[1]

Simon gives several different mechanisms to explain how this happens. First, Simon points to the fact that Malthusian logic, which emphasizes an apparent finite nature of resources, is extremely seductive. He highlights that this logic is particularly interesting to experts because "the closure of the system enables one to use interesting mathematics, especially calculus and other optimization devices" (33).

Second, there is an issue that stems from the difference between short and long-term costs and benefits. Simon argues that often, the costs of phenomena such as population growth tend to be short-term. For example, children who go to public school require resources via tax dollars and will impose other immediate costs. On the flip side, the visible benefits produced by children are more long-term in nature. You pay for a child's education right away, but the education doesn't bear fruit until they are older.

Third, Simon points to public choice concerns associated with the proliferation of false bad news: "There is a funding incentive for scholars and institutions to produce bad news about population, resources, and the environment" (2).

Fourth, he argues that people view problems as needing centralized solutions in the vein of Hayek (1952), because often people view society as analogous to a family wherein parents (i.e., planners) are needed. Similarly, Simon extensively discusses why particular groups of experts are predisposed to alarmism about the environment. In particular, Simon highlights how the models used in biology and ecology predispose the fields to pessimism concerning open-ended adaptation. As a result, many news stories have key insights developed by experts

1. We are thankful to the anonymous referee for pointing this out and highlighting examples of how disproportionate focus on true bad news can lead to issues (Powell 2011; Velásquez et al. 2020).

who exclude open-ended adaptation from the possible grouping of solutions.

A common theme unites these mechanisms. In each of the four explanations, the false bad news is less costly to see than the true positive news. While it may be easy to see a car producer's immediate impact on the environment when it uses energy to produce vehicles, it's more difficult to see the environmental improvements the car producer makes, such as when the fuel efficiency of cars is improved, leading to a permanently lower level of emissions. It's easier to see the pollution the company creates than it is to see the pollution that is never created due to the improvements made. This common theme will be valuable in explaining how false bad news generates an ideological tilt for corporations on environmental issues.

The Continued Supply of False Bad News

To this point, we've highlighted Simon's evidence that public opinion in the 1990s was far more pessimistic about the environment than would be expected given the actual trends. We also discussed his explanation of false bad news being the ultimate driver and discussed some of his explanations for how false bad news is selected. This leads us to another question. Do we still, twenty-five years after Simon's book, suffer from an oversupply of false bad news? Is it still the case that false bad news impacts pessimistic attitudes toward the environment today?

The narrative surrounding environmental issues is often dominated by pessimism and the belief that conditions are worsening. This perception is fueled by continuous reports highlighting negative trends, whether in air quality, water pollution, or rainforest deforestation. A closer examination of historical trends and current data suggests a more nuanced reality, however. In contrast to popular perception, there have been significant improvements in various environmental metrics driven by technological advancements, regulatory measures, and improved management practices.

Simon's work emphasized how public perception often skews toward negativity despite empirical evidence of progress. For example, 59 percent of Americans believe that the environment is getting worse (versus 35 percent who perceive that the environment is improving) (Saad 2022). This paper supports Simon's work by examining contemporary issues like air quality, water safety, and forestation, revealing that while challenges remain, notable improvements counter the prevailing gloom-and-doom narrative.

Air Pollution

The proportion of those who thought air pollution by vehicles was a "very serious" problem increased from 33 percent in 1982 to 59 percent in 1990 (Simon 1999, 14). The proportion of those concerned that "air pollution from acid rain, caused by sulfur dioxide emission from power plants," was "very serious" increased from 42 percent in 1986 to 64 percent in 1990 (14). Additionally, the number of respondents saying "air pollution by coal-burning electric power plants" was "very serious" increased from 30 percent of respondents in 1986 to 49 percent by 1990 (14).

This pessimistic perception of air quality has remained consistent. For example, in March 2024, 70 percent of Americans were worried about air pollution at least "a fair amount," with 42 percent of those being worried "a great deal" (Gallup 2024). That has remained consistent, as 69 percent of Americans responded that they worried about air pollution at least "a fair amount" in 2004, with slight variations around 70 percent between 2004 to 2010. Pessimistic views of air quality have persisted despite data suggesting improving trends.

The public perception is unsurprising, given that major institutions and news outlets often depict air pollution as a worsening problem. For example, Christensen (2023) via CNN reports that one in four Americans puts their health on the line every time they step outside, as air pollution threatens to harm these people's well-being and shorten their lives. Even more alarming, Environmental Health News (2024) warns that there will be a 50 percent increase in Americans exposed to unhealthy air by 2054. The American Lung Association suggests that increasingly more Americans live in areas with unhealthy air, emphasizing environmental factors such as heat, drought, wildfires, and air pollution. The Association's *State of the Air 2024* reports that nearly 39 percent of Americans, 131.2 million individuals, live in regions with declining air quality. This problem seems to be getting worse, with 11.7 million more individuals breathing dangerous air compared with the 2023 report (American Lung Association 2024).

Moreover, the World Air Quality Report by IQAir (a Swiss air quality technology company) points out that despite the United States enjoying cleaner air than 75 percent of 134 countries measured, the levels of air pollution are increasing (Kitajima Mulkey 2024). These increases are incredibly pronounced in some areas, such as Milwaukee, which experienced up to a 50 percent increase in "unhealthy air." Though the report acknowledges that smoke from Canadian wildfires contributed to many of the spikes, the air quality still suffers from perennial offenders, such as fossil fuel industries.

IQAir collected data from more than thirty thousand monitoring stations worldwide to quantify the amount of PM2.5 (invisible particles that can enter your lungs and bloodstream). Per World Health Organization (WHO) guidelines, pollution averages should not exceed five micrograms of PM2.5 per cubic meter of air, and Americans are exposed to nearly double this level. In 2023, PM2.5 levels across the United States averaged about 9.1 micrograms.

Data from the U.S. Environmental Protection Agency (EPA), however, suggest that air quality has improved over time despite claims of worsening air conditions. For example, data show substantial declines in concentrations of several key air pollutants (U.S. Environmental Protection Agency 2024):

- Carbon monoxide decreased by 88 percent from 1980 to 2022.
- Nitrogen dioxide (annual) decreased by 66 percent from 1980 to 2022.
- Ozone (eight-hour) decreased by 29 percent from 1980 to 2022.
- PM2.5 (annual) decreased by 42 percent from 2000 to 2022.
- Sulfur dioxide (one-hour) decreased by 94 percent from 1980 to 2022.

So despite IQAir's findings related to PM2.5, the data show that levels in 2023 were lower than any recorded time before 2001, and well below the levels in 1999 when Simon's book was published.

Data support that major pollutant emissions have declined concurrently (U.S. Environmental Protection Agency 2024):

- Carbon monoxide decreased by 75 percent from 1980 to 2022.
- Lead decreased by 99 percent from 1980 to 2022.
- Nitrogen oxides (NOx) decreased by 72 percent from 1980 to 2022.
- Volatile organic compounds (VOCs) decreased by 61 percent from 1980 to 2022.
- Direct PM10 decreased by 65 percent from 1980 to 2022.
- Direct PM2.5 decreased by 35 percent from 2000 to 2022.
- Sulfur dioxide decreased by 93 percent from 1980 to 2022.

Contrary to prevailing environmental narratives, there has been notable economic growth, increased travel, higher energy consumption, and population growth, all accompanied by significant reductions in air pollutants. In this time frame, gross domestic product (GDP) increased by 196 percent, vehicle miles traveled increased by 108 percent, energy consumption increased by 29 percent, and the U.S. population grew by 47 percent (U.S. Environmental Protection Agency 2024). Despite these factors, total emissions of six principal pollutants (carbon monoxide, lead, nitrogen oxides, volatile organic compounds, PM10 and PM2.5, and sulfur dioxide) have decreased by 73 percent from 1980 to 2022. When considering improving air quality over a longer time horizon, it would appear that technological advancement has allowed for increased growth while achieving significant reductions in pollutants. Despite this reality, overall attitudes remain pessimistic.

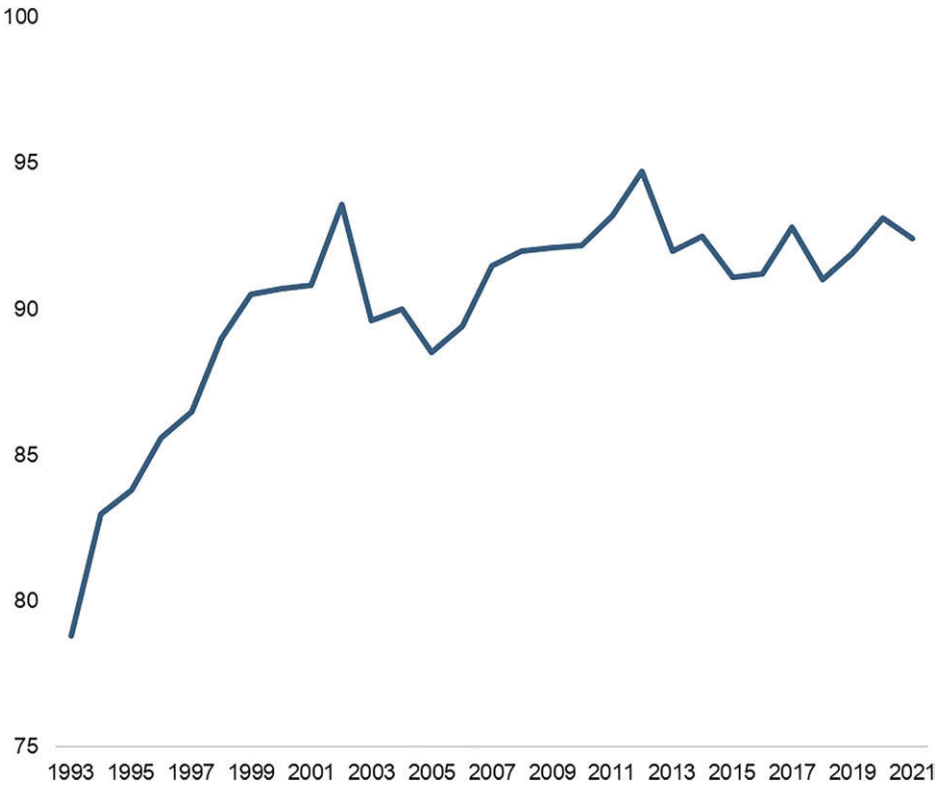
Water Quality

This environmental pessimism is also evident regarding the public perception of clean drinking water. Results from a 2024 Gallup survey indicate that 82 percent of U.S. adults are worried a "fair amount" or a "great deal" about the pollution of drinking water (with 56 percent of adults being worried a great deal). Similarly, 54 percent are greatly concerned about the pollution of rivers, lakes, and reservoirs (Saad 2022). Historically, this concern has been consistently high. For instance, in 2008, 81 percent of Americans were worried either a great deal or a fair amount about the pollution of drinking water, with 53 percent worried a great deal. This concern has fluctuated slightly but remained notable over the decades, with 87 percent worried a fair amount or a great deal about drinking water pollution in 1990 (65 percent of those being worried a great deal). Similarly, concern about the pollution of rivers, lakes, and reservoirs was 72 percent in 1989 (Jones 2008). While public perception reflects some improvement in terms of the degree of concern, there are still consistently high levels of concern despite data suggesting that drinking water and water systems have become cleaner in the long run.

Drinking water systems' high standards and reliability are difficult to deny. From

2005 to 2022, almost 100 percent of the American population has consistently had access to safely managed drinking water, with access rising from above 95 percent in 2005 to above 97 percent in 2022 (WHO/UNICEF JMP 2024). Moreover, the quality of drinking water provided by community water systems (CWSs) in the United States has consistently been high and improving over time. A CWS is a public water system that supplies water to the same population year-round. As of 2021, more than 315 million Americans (roughly 95 percent of the population) received at least some drinking water from a CWS. These CWSs have health-based standards demanded by the EPA, which include maximum contaminant levels, maximum residual disinfection levels, and treatment techniques (U.S. Environmental Protection Agency 2022). Figure 1 reports the percentage of the U.S. population served by a CWS that reported no violations of health-based standards to the EPA from 1993 to 2021, including data relating to surface water treatment, microbial contaminants, disinfection byproducts, and other contaminants. Over time, the percentage served by compliant water has remained high, generally

Figure 1
Percentage of U.S. Population Served by Community Water Systems with No Reported Violations of EPA Health-Based Standards, Fiscal Years 1993–2021



Source: Adapted from U.S. Environmental Protection Agency (2022).

above 90 percent. With such high water standards, it's hard to understand how 82 percent of Americans are worried at least a fair amount about water pollution.

The quality of our rivers and streams is also improving, illustrated by the EPA's *National Rivers and Streams Assessment (NRSA) 2018–2019*, which provides significant insights into these improvements. The NRSA, conducted by the EPA in collaboration with state and tribal partners, assessed the condition of the nation's rivers and streams using biological, chemical, and physical indicators. This comprehensive survey involved sampling 1,851 sites and comparing the results to previous assessments from 2008–09 and 2013–14 (U.S. Environmental Protection Agency 2023).

Key findings from the 2018–2019 NRSA indicate positive trends.

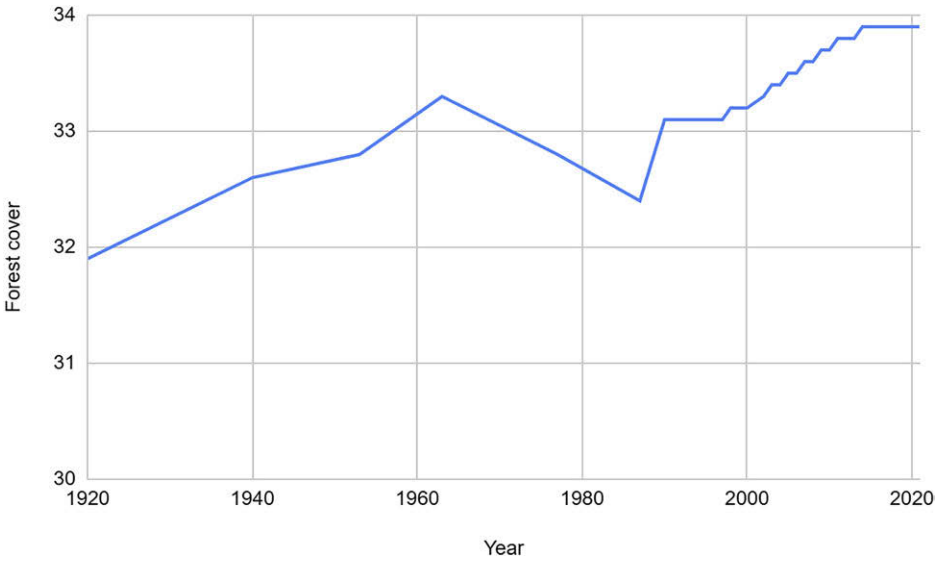
- **Fish community:** The proportion of river and stream miles in good condition for fish communities increased from 25 percent in 2013–14 to 35 percent in 2018–19.
- **Streambed sediments:** The percentage of river and stream miles in good condition for streambed sediments increased by 6 percent between 2013–14 and 2018–19.
- **Riparian disturbance:** The percentage of river and stream miles with low levels of riparian disturbance (rated good) increased by 9 percent, and those with high levels of disturbance decreased by 5 percent.
- **Riparian vegetation cover:** More than half (56 percent) of river and stream miles had good riparian vegetation cover.

These findings highlight the progressing conditions in the biological, chemical, and physical conditions of the nation's rivers and streams, suggesting that efforts to manage and restore these vital water resources are yielding positive results. Contrary to the prevailing narrative of environmental degradation, these improvements reflect successful interventions and regulatory measures that contribute to the overall health of aquatic ecosystems.

Forestation

Another environmental dimension about which Americans have a dismal outlook is the state of forests. Americans have not been surveyed consistently about all forests, but tropical rainforests in particular have been a point of concern. In 1989, 67 percent of Americans were concerned at least "a fair amount" about tropical rainforest deforestation; in 2024, that number remained at 67 percent (Gallup 2024). Before discussing tropical rainforests, we should discuss forestation more generally. Historically, the United States experienced significant forest loss, with a net decrease of 19 million hectares per decade from 1700 to 1995. This loss peaked in the 1980s at 102 million hectares (Ritchie 2024). The trend has improved in recent decades, however, with the share of land covered by forests in the United States increasing since the late twentieth century (see Figure 2). This positive trend highlights the impact of improved forest management and

Figure 2
Percentage of U.S. Land Covered by Forest



Source: Adapted from Ritchie ([2021] 2024).

conservation efforts. U.S. forest cover's substantial recovery reflects successful environmental policies and practices.

Ultimately, global data compiled by Our World in Data indicate that deforestation levels peaked in the 1980s before significantly reducing in recent decades (Williams 2003). The Kuznets-style curve shows that every country with more than one hundred years of data displays a pattern of initial forest loss before stabilization and burgeoning recovery, reflecting the stages of economic growth and the effectiveness of forest management policies. Globally, 54 percent of forests have a long-term forest management plan, and 59 percent of North American forestlands have a long-term management plan. Within the United States, the total forest area increased by 18 million hectares from 1990 to 2020—an average of 1,200 National Football League playing fields per day (Rowzie 2020).

How about tropical rainforests? Historical data (Williams 2003), combined with data from the UN's Food and Agriculture Organization (FAO 2020) compiled by Our World in Data (Ritchie 2024), indicate mixed results. Since 1989, tropical rainforests have continued to shrink; however, the rate at which they are shrinking has been falling ever since the early 1990s. In other words, rainforests appear to be following the same trend as forestation more generally. There is an initial period of deforestation, which peaks and falls. So although the total tropical rainforest area is down, the rate of deforestation is lower than at any time in recent history.

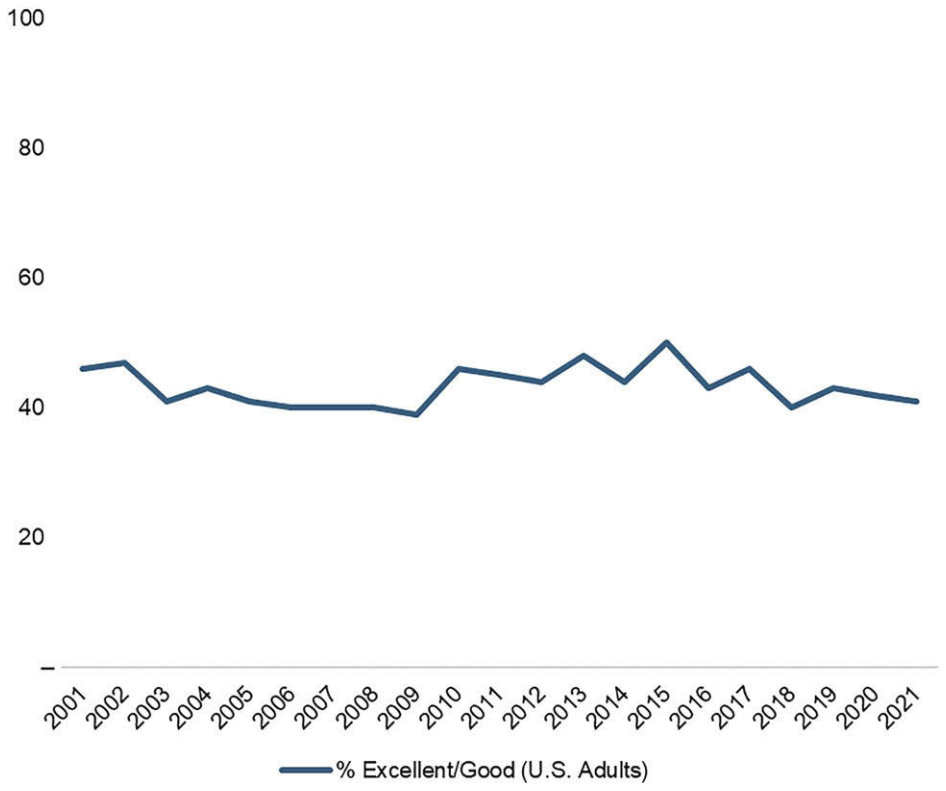
Overall Environmental Sentiment

Despite the empirical evidence of improving environmental trends, overall public perception remains stubbornly pessimistic. As shown in Figure 3, the overall quality of the environment rated as "excellent" or "good" by U.S. adults has declined from 46 percent in 2001 to just 41 percent in 2021, according to a Gallup poll compiled by Brenan (2021).

This sentiment is reflected by more Gallup data (2024) in which a significant portion of respondents consistently express dissatisfaction with the quality of the environment. In 2024, 51 percent of respondents indicated they were somewhat or very dissatisfied, compared with 40 percent in 2001. This persistent dissatisfaction reflects a significant portion of the population consistently viewing the environment negatively, despite improvements.

Specific environmental conditions also reflect this disparity between perception and reality. The polling reveals that in

Figure 3
Percentage of U.S. Adults Rating the Environment as Excellent/Good



Source: Adapted from Brenan (2021).

Note: Respondents were asked, "How would you rate the overall quality of the environment in this country today—as excellent, good, only fair, or poor?"

2024, only 8 percent of Americans rated the environment as "excellent," and 36 percent as "good," while a substantial 55 percent rated it as "only fair" or "poor." These perceptions have slightly worsened over the years: In 2001, 6 percent rated it "excellent," 41 percent "good," and 53 percent "only fair" or "poor." This enduring pessimism persists even as individual environmental trends, such as air quality, water safety, and tropical deforestation, have shown notable improvements. In 2001, just two years after Simon's book came out, 36 percent of surveyed Americans said the environment was getting better, and 57 percent said it was getting worse. In 2024, those numbers were almost identical, at 35 percent and 57 percent, respectively (Gallup 2024).

False Bad News and Corporate Environmental Policies

False bad news might not be worth worrying about if it only led to a dreary outlook. That is not the only effect of false bad news, however. Overly pessimistic outlooks could drive corporate America to adopt politically tinged environmental policies. These outlooks could affect corporate policy through different channels.

First, if consumers are systemically overly pessimistic about environmental issues, this may generate a demand for environmentally conscious corporations. If two companies sell identical goods for identical prices, all else equal, a consumer on the margin with environmental concerns will be more likely to purchase from companies that signal a willingness to tackle environmental issues. It's unclear from the literature, however, whether consumers value these practices.[2]

Alternatively, pessimism generated by false bad news can manifest in business policies *through the political realm*. Our theory is that environmental pessimism manifests in regulation and the threat of regulation via voter attitudes, which drives corporate America to be ideologically tilted toward green policies. Standard public choice analysis of political markets gives us reason to believe these mistaken views will manifest even more clearly in political decision-making because of the different incentives for learning in politics.

Political markets can be thought of as composed of four groups: voters, interest groups, politicians, and bureaucrats (Simmons 2011). False bad news manifests first in the voting booth because of rational ignorance (Downs 1957). Since individual voters in large polities are so unlikely to affect the outcome of the election with their single vote, they are unlikely to receive the benefits or bear the costs of casting a well-informed or poorly informed vote. In contrast, individuals in markets will certainly bear the cost of

2. Velte (2017) finds no relationship with Tobin's Q but a positive relationship with return on assets. Freide, Busch, and Bassen (2015) find positive results. Henisz, Koller, and Nuttall (2019), writing for *McKinsey Quarterly*, find greater consumer willingness to pay for products of a corporation perceived to be ESG-friendly, but recent findings (Green and Hand 2024) may indicate a need for caution in reliance on *McKinsey* research on corporate values and performance. Raghunandan and Rajgopal (2022) find that ESG funds contain companies with more disclosures but not necessarily lower emissions and that ESG funds underperform and often charge higher fees. This finding may indicate that consumers' apparent greater willingness to pay does not outweigh the cost downsides. However, higher fees may be evidence of the willingness of investors to pay premiums for ESG-friendly companies.

a bad purchasing decision, because their purchase (unlike their vote) will certainly change personal outcomes. Voters who are unlikely to bear the cost of mistaken votes have a relatively low incentive to make well-informed votes and, as a result, will spend relatively few resources to become informed about elections. Thus, voters in large polities are ignorant, but their ignorance is based on a rational understanding (implicit or explicit) that spending resources to shed ignorance is unlikely to result in better outcomes.

If consumers have a demand for bad news, there are two mechanisms for fulfilling that desire: true bad news and false bad news. As trends improve, the supply of true bad news decreases, meaning the cost of finding true bad news will rise and people will tend to consume less, ceteris paribus. This provides an opportunity for producers of information to advertise false bad news (Kirzner 1972). Since voters do not directly bear the cost of consuming false bad news (mistaken policy decisions made in the voting booth), and because it is costly to differentiate between true and false bad news, rational ignorance allows voters to consume false bad news.[3] The false bad news acts as a substitute, making the demand curve for bad news more elastic and lowering the overall price to consumers. This fits with Simon's various aforementioned speculations. Simon provided several reasons that false bad news is often costly to dismiss relative to true good news. If voters bore the cost of embracing the false bad news on an individual level, they would tend to do research that would allow them to discover the truth. However, the political mechanism allows them to spread the cost of embracing the false bad news.

We can now examine how false bad news could work its way through the political system into corporate America through corporate environmental policies. Even if consumers *are not* willing to pay a premium for green products, it is a low-cost option to vote for politicians who support so-called green policies. The presence of false bad news can lead consumers to an opinion they have little incentive to learn about. Politicians pursuing their own best interests seek reelection and, in doing so, need to cater to rationally ignorant or irrational voters who demand these policies. Politicians, responding to demands from voters, will tend to favor policies and regulations aimed at minimizing the negative environmental impact of corporations. These policies may result in corporations voluntarily taking on outward-facing green policies. In summary, an oversupply of false bad news works its way through the political system and manifests as a corporate ideological tilt in the form of green policies.

Special interest groups and bureaucrats reinforce these tendencies. Self-interested bureaucrats, in line with Niskanen (1968), will seek to increase their budgets by increasing bureaucratic output. The Environmental Protection Agency, among others, would significantly expand agency output if the associated bureaucrats were in charge of some sort of national corporate green policy audit. Finally, several special interest groups stand to

3. We thank the anonymous reviewers for this insight.

gain from this sort of regulation. For example, individuals who have established relationships with regulators could take on the role of being proxy "green advisers" to ensure companies meet standards. Furthermore, companies heavily associated with green technologies (such as those relating to so-called renewable energy sources) also stand to gain financially from these sorts of regulations.

Overly pessimistic sentiment need not even manifest in existing regulations to affect firm behavior. Alchian and Kessel (1962, 161–62) argue that even a threat of regulation is enough to change firm behavior:

> Even a firm that has successfully withstood the test of open competition without government protection may manifest the behavior of a protected monopoly. Thus a firm like General Motors may become very large and outstanding and acquire a large share of a market just as a protected monopoly does. If, in addition, its profits are large, it will fear that public policy or state action may be directed against it, just as against a state-created monopoly. Such a firm constrains its behavior much in the style of a monopoly whose profit position is protected but also watched by the state. . . . In effect, state regulation is implicitly present.

Alchian and Kessel's point here is about the regulation of monopolies, but the same point remains true for environmental regulation. If a corporate board or managers believe their corporation is too out of step with the desires of voters (well-informed or not), then they may self-police their policies to avoid being targeted with regulations. Furthermore, Alchian and Kessel argue that when companies are being targeted for being too profitable, the appropriate response is for the company to indulge in "inefficient" nonpecuniary consumption. Similarly, companies that worry about green regulations bear no real cost for any inefficiencies taken on to try to placate regulators. This fits well with the findings of Raghunandan and Rajgopal (2022) that ESG funds tend to contain companies with more disclosures but not necessarily fewer emissions.

Because it is expensive to recognize false bad news, voters will tend to consume more false bad news than they otherwise would since they do not bear the cost. Politicians respond to voters' desires based on the bad news, and special interest groups and bureaucrats participate in lobbying for these regulations. At this point, we should note the tendency for a "bootleggers and Baptists" dynamic (Yandle 1983). In our description above, voters act as "Baptists" who wrongheadedly believe regulations are necessary to save an environment they believe is getting worse. Politicians, insofar as they cater to their constituents, act as Baptists. On the other hand, special interest groups and bureaucrats act as "bootleggers" who stand to personally gain from policies made on false bad news. This is a simple outline of the process, but, in reality, there are likely bootleggers and Baptists spread out among all four groups.

Changes provoked by the *threat* of environmental regulation appear to have already occurred. Adapting to current

or anticipated future regulations driven by environmental concerns has become a pivotal force in shaping corporate strategies. For example, multiple states—including California, Vermont, New York, Washington, Oregon, Massachusetts, Virginia, Rhode Island, Maryland, and Connecticut—have mandated a complete ban on the sale of gas-powered vehicles by 2035 (Parry 2024). In response, corporations like General Motors (GM) are proactively advocating for uniform policies across all fifty states to achieve nationwide net zero emission vehicle (NZEV) targets. This strategy reflects a dynamic in which public support for environmental causes (Baptists) legitimizes policies that align with the profit motives of corporations (bootleggers), allowing GM to shape and prepare for regulatory frameworks in ways that potentially benefit the company's market positioning. By allocating significant resources to influence the regulatory landscape for decarbonization, GM not only aligns with public sentiment but also secures strategic advantages against competitors (General Motors 2023).

Additionally, firms can capitalize on perceived climate risks to attract environmentally conscious investors. Gnabo et al. (2024) indicate that sustainable funds see increased capital inflows, especially during periods of heightened climate-related concerns, as investors seek to align their portfolios with environmentally friendly options. Notably, the top 10 percent of sustainable funds receive a substantial share of investment when climate risk concerns are high, even if the underlying financial fundamentals remain unchanged. This trend illustrates how investor behavior is driven more by perceived climate risks than by economic performance, underscoring the role of climate risk perception in fueling demand for sustainable funds (Gnabo et al. 2024). If these concerns were well-founded, then this would be an appropriate response. If the concerns are driven by disproportionate pessimism, however, then companies may be preempting regulations demanded by pessimistic voters.

False bad news, then, is truly bad news. It's not just that people will have unrealistic gloomy outlooks; if they bring those gloomy outlooks to the voting booth with them, environmental regulations and the threat of environmental regulations may result in otherwise nonviable corporate policies.

Conclusion

In this paper, we've argued that Julian Simon's concerns regarding an oversupply of false bad news are as relevant today as they were in 1999. Despite improving trends, public perceptions are such that someone reading *Earth in the Balance* by Al Gore is likely to take it more seriously than Simon's *Hoodwinking the Nation*. On the surface, it appears that Ben Wattenberg would lose his bet based on perception alone, even though trends indicate Simon was correct. Some crises fade away (such as acid rain) and others rise in prominence (such as climate change), but the theme of people being overly pessimistic in the face of improvements seems to remain the same.

We've also explained mechanisms by which the overpessimism that is identified

in Simon and persists today manifests in corporate America. If individuals wrongly believe the environment is worse than it is, this can generate a latent demand for products or policies that correspond with apparent environmental improvements. This is particularly pernicious in political markets wherein voters have low incentives to overcome ignorance or personally valued irrational beliefs. Self-interested politicians seeking reelection will have an incentive to make policies and regulations in line with consumer environmental fears, and corporations will seek to align themselves with present or anticipated environmental policies. Thus, the systematically biased pessimistic news will result in systematically biased corporations on issues of environmentalism.

Our work here provides several potential avenues for future research. First, the research agenda of Simon merits continuation. Simon was an *entrepreneurial economist*. Simon consistently uncovered areas where prevailing beliefs were systematically incorrect and built research programs around correcting them. Simon's previously mentioned work on population and environmental trends, his contribution to the airline oversales problem (Simon 1968; Boettke et al. 2023), and his proposal for academia (Simon 1991) demonstrate this consistent theme of utilizing economic knowledge and market institutions to correct errors. The findings of our work suggest that although many environmental trends continue to improve with human adaptation, pessimism still reigns supreme. Work that continues to point out how human ingenuity outpaces environmental difficulty is called for. Some work in this area has already been accomplished by the Cato Institute's Simon Abundance Index and the accompanying book *Superabundance* (Pooley and Tupy 2018; Tupy and Pooley 2022), which measure increasing resource abundance via time prices.

Second, this research opens the question of the degree and severity of false bad news. Simon's examination of false bad news was comprehensive but not systematic due to technological limitations. Quantitative analysis of newspapers was difficult and expensive in the time of Simon; however, access to new technologies and online archives has made textual quantitative analysis cheaper. This opens the door for future researchers to not just describe but also measure the prevalence of false bad environmental news.

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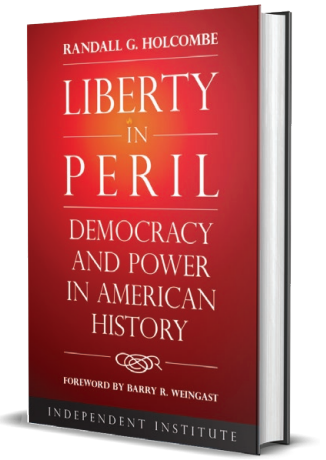

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