

Value Judgments at the Heart of Green Transformation: The Leverage of Pension Fund Investors

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Abstract

As the urgency for green transformation grows, the question of whether finance capital can be harnessed to promote green transformation has been raised. Public pension funds are of particular interest since they are publicly governed, have long-term interest, and are growing in proportion to the global investment capital. However, transformative change demands a reprioritization of fundamental values in terms of trade-offs among economic, environmental, and social ends. This article identifies shifts in value judgments in public pension fund investments and particularly focuses on the institutional constraints by which value (re)priorities are resisted by investigating Swedish public pension funds. While there are signs of environmental embedding of the economy, I also note neutralization of the role and investment strategies of the funds, which has a stabilizing rather than a transformative function. The neutralization constrains deep green transformation, which demands politicization of the role of institutional investors.

As global environmental governance is struggling to shift development in a sustainable direction, increasing attention has been given to institutional financial investors as possible agents of green change (Harmes 2011; Spratt 2015). Whether finance capital may be harnessed to promote green transformation has been identified as a key challenge, given its heightened power in the current phase of capitalism (Newell 2015, 70). It has been argued that for transformative change to occur, investors and other financial actors need to develop their practices and norms such that they systematically support stewardship of the biosphere (Folke et al. 2019). Interest in the potential role of investors in global environmental change is reflected in the debates regarding the role and potential impact of activist investment, including divestment in fossil fuels (Mangat et al. 2018; Neville 2020; Rimmer 2016) and shareholder engagement strategies (Lewis and Mackenzie 2000; Proffitt and Spicer 2006). Within these debates,

there is an underlying tension between the economic perspective (are green investments efficient?), where the market is represented in neutral terms, and the moral perspective that emphasizes the political nature of investments and the normative impact of investment strategies. This article focuses on this tension and how it affects public pension funds, which are run by large-scale, politically governed institutional investors. Navigating this tension is essential for investors' political legitimacy, while the scale of public pension funds grants them influence on investment norms through investor initiatives and shareholder networks (McAteer and Pulver 2009; Proffitt and Spicer 2006).

A basic assumption of this article is that green transformation demands a reprioritization of fundamental values, i.e., the relations and trade-offs among economic, environmental, and social values or ends (Meadows 1999). The magnitude of the climate challenge is related to its intrinsic connection to *global capitalism* (Eckersley 2004; Paterson 2021). Growth has become the overarching imperative of national and global politics. Positive social development is generally considered to be conditional on positive economic development (Farley 2015). Economic growth is believed essential not only for stability and development of welfare societies but also for environmental consciousness and green technological progress. Thus, states, as players in the capitalist system, are motivated by the imperatives of securing competitive advantage and maintaining short-term domestic political legitimacy (Hay 1996), which is tightly connected to material progress (Friedman 2010; Hausknot 2020).

However, the primacy of growth has been contested. In an economy that continues to grow, the speed of decarbonization must be even greater (Daly 2014; Paterson 2021). The production of new energy infrastructure and new technologies uses cement and metals, which require energy to produce (Galbraith 2020), and mining, which is associated with environmental risks and impacts on nature and biodiversity. Some hope technology can solve the climate crisis; however, decarbonization will also demand significantly reduced production and consumption of energy-using goods and services (Galbraith 2020, 4). Thus, investments need to be channeled into green technologies, while investments that aim to expand future production and consumption need to be slowed or halted (Galbraith 2020). The latter is much more controversial because it challenges vested state and capital interests, raises questions regarding equal distribution or fairness, threatens continuous growth (Newell 2015) and requires a shift in how nature is valued. When considering the potential of public investors to leverage green transformation, we should consider the type of transformative change that it may foster (Paterson 2021; Spratt 2015), which in turn depends on the extent to which the fundamental value hierarchies among economic, environmental, and social values are contested.

In this article, I explore, first, the extent to which value priorities (among economic and environmental values) are contested and shifting among public pension fund investors and, second, how the value (re)priorities of public pension funds are shaped and constrained by institutional factors. First I assess the

literature concerning pension fund investors. Then I present a case study of Swedish public pension funds based on interviews with top management and leading strategists within the funds, along with documents and governmental reports. The Swedish public pension funds received new directives in 2019 that they should give particular attention to promoting sustainable development and establishing common explicit core values to guide investments and that their investment management should be exemplary. These directives actualized the tensions between the economic and political imperatives. By examining how value priorities are made and justified, I identify the institutional constraints on their transformative potential and the key issues to consider if deep green transformation is the goal. These institutional constraints are also likely to be prevalent in other investment funds.

Value Shifts and Transformative Change

At the heart of transformative change is a shift in understanding of values fundamental to organization of society, their prioritization, and their relations (Hall 1993; Meadows 1999). Deep-seated value assumptions are at the heart of dominant paradigms and are enforced by institutional settings (Jessop 2010). It is very challenging to question and alter such assumptions once they have become embedded and taken for granted. These assumptions are upheld and reproduced by societal institutions and are entrenched in cultures, identities, and social practices. Opposing views likely face strong resistance due to institutionalized (and thus normalized) practices and vested intellectual, political, and economic interests (Jessop 2010), thus encountering ideational path dependency (Blyth 2002). However, as societies develop, tensions and contradictions within societal institutions become apparent, particularly during crises, which reveal weaknesses in the current order (Hay 1999; Strandring 2018). Such a rupture in the dominant discourse opens it to a more substantial critique of core assumptions and concealed value judgments of the dominant discourse.

Environmental crises, particularly the climate crisis, have revealed a fundamental weakness in the growth-based economic order, which relies on increased production and consumption. Two fundamental assumptions are increasingly contested. The first is that natural resources are unlimited. This assumption is not necessarily stated explicitly, but it is an implicit assumption as long as the limits of natural resources do not shape how markets function and how growth politics are maintained (Hahnel 2011). It is increasingly clear that our way of living, consuming, and organizing society overexploits natural resources, pollutes environments, destabilizes major ecosystems, and risks destabilizing the Earth's natural system (Lenton et al. 2019). The second (related) assumption is that growth as we know it may continue indefinitely. This is particularly troublesome since social development, welfare, and redistribution are generally considered dependent on economic growth.

There is now broad agreement that green transformation is needed, at least rhetorically, but contestation remains over what such transformation entails (see, e.g., Spratt 2015). For this analysis, I distinguish between shallow and deep green transformation, where the fundamental difference is whether current value structures are challenged (cf. Newell 2015). Shallow transformation is based on technological transformation that targets a shift away from fossil fuels; its proponents express strong optimism regarding the potential of technical innovations to resolve conflicts between environmental and economic concerns through technical innovation and adaptation. In contrast, proponents of deep transformation challenge the possibility of green growth based on a transition to renewable energy, which neglects the effects of an expanding economy that remains based on exploiting natural resources (Jackson 2009). To date, technical innovations have not lessened system-level energy use (Alcott 2015). Efficiency gains have led to expanded production, which imply increased use of other natural resources and, at worst, continued use of fossil fuels, since expanded production maintains or increases energy demand. Thus, the possibility of decoupling growth in a consumption-based economy is questioned (Jackson 2009). The proponents of deep green transformation consider these tensions to be fundamental and irresolvable and seek to reconsider relationships among environment, economy, and social development. Deep transformation advocates consider nature the basis for human prosperity and the economic system (Daly 2014; Hahnel 2011). Thus, in this view, the economy is not considered an end in itself, but a means toward an end. A change in this direction requires a redefinition of prosperity and a flourishing society (Jackson 2009).

Investment strategies are critical components of both shallow and deep green transformation (Spratt 2015). Shallow transformation (within market capitalism) implies an opportunity for finance to move capital into technologies and sectors at the right time by giving careful attention to shifting policies and legislation. In this way, institutional investors may strengthen market signals and enforce a shift to renewable energy. Deep green transformation implies a radically different context for financial investment and a shift in investment rationality to weigh environmental and social ends against financial goals.

Concealment of Value Judgments

Several processes obscure the value conflicts and judgments in modern society, thereby preventing a shift in value priorities. This does not imply that society has become more neutral or that the moral dimensions are less prominent in societal developments, only that mechanisms have downplayed them. One such factor is how many states have historically been structured through *sectorial organization*, in which different values are nurtured through various social, environmental, and economic authorities. This ensures that different values are accounted for (Stewart 2006) but also has the effect of avoiding value conflicts and prioritization. More recently, some states have attempted to mainstream

sustainability and make it relevant to a broader set of public organizations (Wamsler et al. 2014).

The increasingly *organized and layered nature of modern societies* has also served to distance the decision-making subject from affected others. This implies that a person directs the moral impulse (a fundamental human trait, per Bauman) at agents surrounding herself, such as colleagues, while responsibility for affected individuals or groups is obstructed (Bauman 1994, 124–125). Thus, professional cultures and instructions are nurtured, while the moral effects on third parties tend to be concealed. Organizational rules and institutionalized practices may serve to guide and train moral judgment, however, institutionalized rules and practices can also be used to circumvent moral judgments when they supply blueprints for decisions (Bauman 1994). Ethical judgments within organizations are often shaped by the dominant rationale within the field, which prioritizes certain values over others and confines policy actors to a particular language that neutralizes rationality by obscuring value judgments of those within the institution (Stewart 2006).

Another aspect that obscures value judgments is *technocratic discourse*, in which value judgments are immersed in rational calculations (Berg and Lidskog 2018a; Fischer 2009). This tendency is reflected also in the objectivistic and linear knowledge view, which often shapes the science–policy relationship, and in many environmental knowledge assessments (Berg and Lidskog 2018b). The technocratic approach avoids value judgments by providing a technical fix and asserting value neutrality. Technocratic discourse is geared toward shallow green transformation driven by innovation and technical advancement (and is thereby not neutral). The focus is on greening transportation and production processes rather than interfering with them, such as by decreasing demand.

Technocratic discourse is well coupled with economic discourse and the *market rationale* that dominates most public spheres and institutions. Sandel (2012) argues that market reasoning empties public life of moral arguments, since the heart of market reasoning is a nonjudgmental stance toward values. Those who consider markets to be value-neutral regard this as a strength that provides a greater freedom of choice, including moral choices or judgments (O’Keefe 2004). Kirzner (2004, 96) argues that “the economics of capitalist prosperity is independent of the particular ethical principles subscribed to by the participants of a capitalist society.” Thus, value neutrality is the main ethos (du Gay 2000). However, the neutrality of the market is deceptive. Economic incentives, which are central to markets, tend to crowd out intrinsic and altruistic motivations (Bowles 2016). When market reasoning becomes the dominant principle, societal goods are valued in the wrong way (Sandel 2012). For example, if one can buy the right to pollute, then polluting ceases to be a moral offense. Nevertheless, the dominant measure used to promote environmental concern is pricing, such as attempts to price ecosystem services to value the natural environment and its many interconnected functions (Coffey 2016; Gómez-Baggethun 2015).

The premise for valuing the natural environment in economic terms is to assume commensurability, which allows for the inclusiveness of different values in a cost–benefit calculation. However, this requires that noninstrumental values, such as the intrinsic value of nature, become downgraded to instrumental values, such as ecosystem services, to fit the analysis (cf. Vadrot 2014). Furthermore, cost–benefit calculations provide no guidance for the judgment between different complex calculations (Martinez 2009, 27), which may rely on uncertain information, such as the innovations available to future generations and their potential risks. Such complex judgments have an interpretive characteristic, as actors identify and interpret signs or cues that help them reduce complexity and create meaningful heuristics and assumptions that may guide action (Swedberg 2012; Wansleben 2012). This means that dominant assumptions are reproduced through actions.

Sectorial and layered organization and technocratic and economic discourses are the essential components of modern liberal states and their (striving toward a) neutral bureaucracy, which serves the democratic system. However, together they also shape the moral climate in contemporary societies (Blackburn 2003) and downgrade moral judgments to rational judgments (cf. Bauman 1994), thereby setting premises and limitations for the governance of a transformation toward sustainability.

In this article I aim to shed light on the institutional factors that condition that tension between financial gain and moral judgment, between economic and environmental values.

Case and Method

Pension funds invest on behalf of millions of people, and they manage a substantial and growing proportion of global investment capital. The increasingly influential role of public pension funds within the financial system has long been acknowledged. So, what conditions their potential to lever transformative change? I address this in two steps. First, I assess the previous literature concerning pension fund investors to identify their transformative potential by exploring the extent to which value priorities (among economic and environmental values) are contested and shifting among public pension fund investors. Second, to gain a deeper understanding of what shapes and constrains funds' engagement with these values and the implications for governing a sustainable transformation, I build on an in-depth case study of Swedish public pension funds, the AP funds (*allmänna pensions fonderna*). These funds are particularly interesting since Sweden's environmental policy is relatively ambitious. In addition to adopting the UN's Sustainable Development Goals, Sweden has amended the so-called Generational Goal, which states that "the overall goal of Swedish environmental policy is to hand over to the next generation a society in which the major environmental problems in Sweden have been solved, without increasing environmental and health problems outside Sweden's borders." These are overarching

goals intended to govern all public organizations, and they thereby signify the concerns of pension fund beneficiaries (i.e., the Swedish population). Moreover, the National Pension Insurance Funds Act (2000, 192), which governs pension funds, was amended in January 2019¹ to state that managers of AP1–AP4 should govern their assets in an exemplary manner through responsible investments and responsible ownership and to give particular consideration to how sustainable development can be fostered without compromising the overall return objective and risk judgments.

AP1–AP4 have common guidelines for management and common core values that involve the integration of sustainability factors, “such as environmental aspects, social aspects and corporate governance aspects as well as ethical aspects.”² The funds have been recognized by the United Nations–founded network Principles for Responsible Investment (PRI) as among the institutional funds at the forefront of sustainable and responsible investment. However, when evaluating the funds after the first year of the new legislation, the government concluded that the funds should strengthen their sustainability work.³ In an interview on Swedish radio, the minister of financial markets expressed that the funds need to invest in accordance with the Paris Agreement,⁴ indicating that the political intention is not fully reflected in the work of the funds.

Since AP1–AP4 all work under the same conditions, I will focus on these funds and their common ethical council. I conducted ten semistructured interviews with the lead strategists at the funds and two chairs of the board; four interviewees represented the funds in their Council of Ethics. Two interviews were conducted with two respondents together, based on their request, for eleven respondents total. The interviews, conducted between December 2019 and May 2020, were designed to capture the value conflicts that the civil servants identified within the organization, their value judgments, and the institutional factors that shape their judgments and the priorities of the organization. Our access to further interviews within the funds was restricted. However, the interviews cover key actors in the top management of the funds. The interviews presented a relatively coherent image and illustrated a consistent professional culture that governs these organizations, although the respondents varied in their reflexivity regarding the rationale of the field. I have anonymized the funds and interviewees, since this information is not critical for the analysis, while it may allow respondents to be more open. A broad set of documents (such as steering documents, governmental bills, official reports, annual reports, and climate reports from the funds) informed the interview guide and were used to gain deeper insight into the arguments, examples, and information presented by the interviewees to strengthen and validate my analysis.

1. Government Bill 2017/18:271, *Changed Rules for the First–Fourth AP Funds (AP1–AP4)*.

2. As stated in the AP funds guidelines for exemplary management.

3. Skr. 2019/20:130, p 44.

4. Per Bolund, interviewed in *Våra fossila pensionspengar, del 1* on Swedish radio, December 7, 2020, P1.

Public Pension Funds: Financial Actors with Increased Influence

Large-scale institutional investors managing pension funds initially emerged and shaped Anglo-American economies (Clark 1998). Since around the turn of the last century, a shift toward a global model of capitalized pension arrangements has been seen (Dixon 2008). On one hand, this development is part of the financialization of the economy, which has enforced the interests of investment return on behalf of other considerations ranging from environmental concerns to healthy working environments (Ferreras 2019). On the other hand, the growing share of pension funds on the capital market opens a new position for citizens and workers in relation to management, either in their role as beneficiaries, or in terms of public funds, through political directives to funds.

The emergence, growth, and increasing dominance of pension funds changed the characteristics of global finance for structural reasons (Clark and Hebb 2004). The increased influence of these actors set terms for their actions and prompted the inclusion of noneconomic factors in investment decisions. The long-term interests and relatively large shares of these actors render exit (divestment) more difficult, as they may destabilize not only a company's stock but also overall markets, affecting the rest of the portfolio (Sethi 2005). Thus, as pension funds have grown, their interest in monitoring and controlling the companies in which they invest (i.e., using their voice) has also grown. Institutional investors work individually and collectively to shape firm behavior, which implies a shift from passive to active investment strategies, such as shareholder engagement. Pension funds have a particular potential to act collectively (which is necessary to achieve transformative changes) since pension fund beneficiaries are not in competition with one another and the funds are not in competition over members/clients (Thamotheram and Wildsmith 2007). To the contrary, they have a joint interest in a stable economic system (long-term returns); a livable, healthy planet; and a socially and politically stable world. This interest is reflected in the increased international cooperation and coordination among institutional funds, for example, the PRI, the International Center for Pension Management, and the United Nations Environment Programme–Finance Initiative (UNEP-FI).

These altered conditions within so-called pension fund capitalism (Clark 1998) demand new competences and practices. Fund strategists need to understand and account for overarching shifts in politics, legislation, and the environment and segmental developments in the market in terms of the social, economic, and technical developments that will affect how we live and what we value in the future. However, this also implies that the assumptions on which these actors act/invest become performative. The ideas and perspectives of these actors are a part of shaping future developments (Jung and Dobbin 2012; Wansleben 2012).

Shifts in Pension Fund Investment

In recent years, increasing attention has been given to institutional investors and their role in enhancing environmentally and socially responsible investments

(Jansson et al. 2014; Richardson 2009; Thamotheram and Wildsmith 2007). Pension funds have increasingly positioned themselves as responsible investors and are integrating sustainability into their business strategies (Sievänen et al. 2017). A cornerstone of the debate is *fiduciary duty*, that is, the legal obligation of one party generally entrusted with the care of money or property to act in the best interest of another party. The fiduciary duty to beneficiaries is interpreted in different ways, and the notion of the best interest of beneficiaries is contested. In its most narrow sense, according to financial theory and conventional wisdom within the field, best interest is confined to financial interest; thus, economic returns (Jansson et al. 2014, 214) and investment criteria should be based strictly on financial measures (Sethi 2005). This approach is considered the duty and strict moral obligation of the trustee.

The increasing social and environmental concerns among pension fund investors are generally motivated as being part of their long-term risk assessment (Richardson 2009). Environmentally and socially responsible investment is confined to financial assessment and thereby serves to fulfill these funds' fiduciary duty in a narrower sense (Clark and Hebb 2004, 144; Mees 2017). It is argued that companies seeking to minimize their environmental impact act responsibly in relation to their different stakeholders, account for unintended consequences (e.g., seek to minimize negative externalities), and therefore minimize future financial risks (Hoepner and Schopohl 2018; Sethi 2005). Thus, although social and environmental factors receive attention in investment decisions, there is no perceived trade-off among values, as these factors are incorporated into the economic valuation.

However, reliance on strict economic motives has been challenged. The influential Freshfields Bruckhaus Deringer (2005) report⁵ outlined when funds are legally allowed or even obliged to account for environmental and social concerns, as follows: permitted when deciding between investments that are exactly similar in financial terms; obligatory when such concerns are financially relevant; and obligatory when there is a consensus among beneficiaries to support it. The second point has received the most attention, whereas the third point allows for a broader interpretation (or application) of fiduciary duty, which challenges the conventional assumptions regarding appropriate actions or interferences with the financial market. It is particularly relevant to public pension fund reserves, which should arguably invest according to the overarching goals and conventions of the nation. Archer (2017) argues that the Freshfields report encourages investment decisions that were previously considered to be in a legal gray area, thus indicating an opening within the technocratic market-based rationale that governs institutional actors to shift institutionalized practices by adopting these principles.

It may be argued that pension funds have a particular duty to address the externalization of environmental and social risks, for the following reasons: first,

as public organizations, they should arguably invest according to democratically grounded decisions, such as general environmental goals; second, they are the major players at the top of the investment chain; and third, they are responsible for the financial well-being of their beneficiaries and for generational equity, and are thus motivated to account for the impact of externalized costs of CO₂ emissions on future pensioners' living standards (Thamotheram and Wildsmith 2007, 439–440). Thus, the motive to account for environmental and social factors may rely on a broader notion of beneficiaries' best interests, including ethical or welfare interests (Jansson et al. 2014; Richardson 2009). According to this perspective, it is not logical to invest money for future retirement in companies or businesses that place the future at risk, because they stimulate climate development with consequences that will at best demand enormous public investment to mitigate and adapt to (Rimmer 2016). However, a broader perspective on the fiduciary duty which accounts for environmental and social risks requires that different interests and gains of the public are judged and weighed against one another and that economic values and gains are not granted superiority.

Over the last few years activist groups, together with some politicians and media, have pressured public investment funds to protect environmental values, contribute to green transformation, and invest in accordance with the Paris Agreement (Mangat et al. 2018; see also the interview with Per Boland). To address the institutional constraints on such a shift and, thus, on the transformative capacity of these actors, I now turn to Swedish public pension funds to examine the tension between the financial imperative of securing growth in pension capital and the goal of promoting sustainable development.

Institutional Factors That Shape and Constrain Value Judgments

Neutralizing Effect of the Economic Discourse

The representatives of the Swedish public pension funds I interviewed underscored a change within the field of capital investment, particularly within the last few years, in which environmental concerns are being given increased attention. As one respondent expressed, the environment has become much more relevant for funds and their analysis because it has become clear that climate change has social implications (Interview 5). Environmental change, policy change, and shifting attitudes are changing the market context, and this shift needs to be understood to make good investment decisions (Interview 10). Several respondents underscored the need to develop macroanalytical scenarios in relation to climate change and policy. Swedish funds are currently breaking new ground in this area, paying careful attention to climate negotiations and other broader political initiatives and reactions (e.g., foreign trade policy). The Paris Agreement is described as a milestone symbol of the broad acceptance of the situation and commitment to act (although recognizing that such commitment is highly divergent internationally). A central presumption in the funds' analytical work is that policy action

that aligns with the Paris Agreement will be adopted. The longer the policy response takes, the stronger the policy reaction will be. Political and technical development are therefore considered the key factors to observe to anticipate developments in the financial market (Interview 4). Thus, although the Paris Agreement does not have direct political influence on the funds, it is considered important for the funds since it affects the market.

An active process of understanding and internalizing nonfinancial criteria in quantitative models is also evident (Interviews 3, 4, 5). The funds' management seek to identify sustainability indicators with predictive power and include more sustainability variables in their indexes and models. The increased attention to sustainability implies that there has been a strong increase in the spread of indicators and information related to sustainability and environmental impact, which is a development supported by European Union's disclosure regulations. One interviewee argued that enhanced transparency leads to greater responsibility among businesses. Others expressed a more critical concern regarding what these factors truly reveal and the extent to which the disclosed information is comparable and can act as a foundation for decision-making (Interview 8). Furthermore, this development might grant economic advantages to the companies and market segments that resist disclosure and do not bear (or internalize) their environmental costs (Interview 2). The respondents discussed this topic in "neutral" terms regarding the functioning of the market, where costs need to be internalized. However, increased transparency could also increase (or enable) norm pressure either directly on firms or indirectly through investor decisions. Increased transparency reveals the value priorities within businesses and the value structures that investors support, which is critical for a deep green transformation.

The reification of a value-neutral financial market system with neutrality as a virtue is palpable. Some interviewees expressed that investment decisions should not be based on environmental concerns even in a choice between two investments in which the economic benefits of both are judged to be equal. Regarding this direct question, a leading analyst considered it to be ethical decision-making, and therefore improper, since everyone may have their own ethics (Interview 4). Environmental concerns are thus degraded to individual preferences, and thereby are resisted even when they do not compete with profit. In contrast, the Freshfields report states that it is obligatory to account for social and environmental factors when there is consensus among beneficiaries to do so. Arguably the Swedish environmental goals represent such a consensus.

There was some tension within the funds; the respondents varied in terms of how strictly they were guided by the traditional economic view and their understanding of fiduciary duty. Some interviewees considered investments in oil or coal companies to be unreasonable, although they might provide profit for many years, while other interviewees were strictly concerned with anticipating the right time to sell before it ceases to be profitable and argued that any other action would be purely symbolic (Interview 1) (cf. Harmes 2011). The Swedish environmental goals are not considered applicable to the international businesses in

which they invest. One interviewee argued that the Swedish environmental goals therefore cannot be enforced through active ownership (Interview 1). Again, this neutralizes the role of investors and *their* responsibility to follow environmental goals. Attention is directed to businesses and regulation in the countries in which the businesses operate. The layered organization of the financial system allows for dispersal of responsibility and disownment of value-based action. In legitimizing their actions, the respondents used a consequentialist logic and returned to the limited effect of their (possible) actions in terms of promoting sustainable change. They did not, however, consider their role in maintaining unsustainable practices and stabilizing the status quo.

The persistence of the traditional economic view and understanding of fiduciary duty are comprehensible if we consider that the institutionalization and expansion of market discourse in modern society relies on its representation as a neutral and objective means of governance (Davies 2017) where value neutrality is the main ethos (du Gay 2000). The economic rationale remains strong and constitutes resistance to environmental values while praising value neutrality. Interestingly, one of the chairs of the board argued that it is important that concern for the environment be presented such that it is not perceived as an idea of the Green Party or the left; otherwise such concern will be resisted, since people within finance generally lean to the right (a statement which confirms that an ideological dimension is at work).

Toward a More Embedded Economic Discourse

I have argued that the institutionalized economic perspective within the funds impedes a reprioritization of value hierarchies. At the same time, the economic perspective itself is developing, and there are signs of an embedding of the economic discourse such that economic and environmental values are gaining recognition. The growth of pension capital and long-term institutional investors with a clear stake in the stability of the market are among the premises for the embedding. The funds' strategists expressed that it is essential for policy makers to step up, set the rules of the game, and level the playing field such that environmental costs are represented in economic costs. A common example mentioned by the respondents is CO₂ taxes, which they considered crucial. Thus, clear policy directives are welcomed by the funds. They seem to request a *visible green hand* that levels the field in favor of the environment to avoid societal risks and the accompanying stress to the economic system. The motivation is that clearer regulation will decrease uncertainties and facilitate financial analysis and investment decisions, setting the premise for shallow green transformation.

Another sign of embedding is that the funds base their strategies on analyses that seek to account for and thus internalize environmental costs that have thus far been externalized. Extensive resource use and unsustainable business models are judged by the funds to be risks. If large-scale investors, such as public pension funds with their large shares of investment capital, begin to act according to this

position, then the understanding of the natural environment and its relation to the economy may shift. The growing concern and accounting for environmental factors have already broadened the economic rationale of the funds. New competencies and practices are considered relevant and included, potentially leading to modified norms (cf. Mees 2017, 72). Only a decade ago, the proponents of the environmental perspective and those of the economic school were very far apart and rarely managed to communicate (Interview 1). Subsequently, sustainability has become integrated into the organizational language and become a concern for all parts of the organization. Another sign is the emergent shift away from “the face-less capital” as the investor collectives engage more in active ownership (Interview 1). Swedish funds are starting to target unsustainable branches and mobilize investors to instigate changing industrial policies and practices, with mining as their prime example; they won the PRI’s stewardship project of the year award in 2020, together with the Church of England’s pension board⁶.

As institutional investors give increasing attention to environmental and political factors, seek disclosure, and consider the externalization of environmental risks as financial risks, two effects may become evident. First, the market may become increasingly embedded in its environmental preconditions as principles for pricing change. Second, changes in policies, legislation, and consumer behavior are enforced and accelerated by the actions of large-scale investors. Herein lies the change prospective of rational technocratic discourse: if environmental consequences and prerequisites are acknowledged, then they are assumed to be acted on (eventually) and thus become integrated into strategic judgments and investment strategies, generating chain reactions between fields (politics, legislation, finance, business) and synergies by strengthening signals, which shape further judgments and action (Swedberg 2012). Thus, institutional investors may accelerate the changes initiated within the policy sphere and shape norms toward more responsible ownership. However, the image of the funds as neutral, that is, as only reflecting shifts in other spheres, is maintained.

Countering the Ethical Dislocation of Multiple Organizational Layers

Another structural factor that has served to downplay value judgments and has thereby hindered explicit value (re)priorities is the multiple organizational layers, in which investors comprise an additional layer. I will consider infrastructure investments to illustrate that public pension funds may either expand or close the distance between people with influence on decisions and those affected by them—and thereby the ethical dislocation that multiple organizational layers imply.

As the market is changing and the expectation of a high return on stocks is decreasing while rent is low and obligations thus give a poor return, funds seek other opportunities for investment with stable returns (Interview 2; cf. Skerrett

2017, 144–145). Such areas in which funds see potential include public infrastructure, real estate, and services (Interview 2; Organisation for Economic Co-operation and Development 2011). As a strategic manager explained, a municipality may wish to invest in its own renewable energy plant, and the funds may conduct the investment or join as a partner (Interview 2). Considering the amount of public money that resides within pension funds worldwide, this capital could play an essential role in energy transition, where the future economic benefits of new technology and infrastructure will benefit the public. Tim Jackson (2009) emphasizes that a change in investment rationale is essential for the transition to a low-carbon economy, where investments need to play a greater role in relation to consumption and public investment and ownership need to increase with long-term perspectives and benefits returned to the public.

However, current experiences with infrastructure investment may provide some warning. Canadian funds have been among the front-runners in pushing for the financialization of infrastructure, which is often achieved through public-private partnerships that transform physical and social infrastructure and natural assets, such as water, from low-cost collective instruments into ownable, tradable, and revenue-generating assets. Therefore, infrastructure has gained recognition as a distinct asset class (Skerrett 2017). For investors to invest in infrastructure, risks need to be managed. This is commonly achieved through clauses with guarantees and investor protection, which secures long-term profits, immunizes investors from political influence, and compromises democratic influence (Skerrett 2017). Thus, pension funds support the expansion of markets into new spheres.

Infrastructure investments may take two different directions. A public pension fund may be a stable investment partner and enabler. When investing domestically, ownership and profit remain in the hands of the public. Thus, the increasing size of public pension funds is an enabler for countries with such capital, which could use it to build sustainable, publicly owned infrastructure. However, it may also enforce neoliberal development by creating and expanding markets and prolonging or even blocking accountability chains in the governance of natural resources. The risk is more imminent when pension funds make infrastructure investments in countries depending on investment, which increases the distance between the affected public and those with decision-making power and opportunity for financial gain. Such development might even be considered a new, more insidious form of colonialization. Pension fund capital, currently a large share of global financial capital, is very unevenly distributed globally. With the increasing attraction of infrastructural investments, it will be essential to govern these institutions and acknowledge their normative role and responsibility for a just green transformation to be possible.

Conclusions

Transformative changes toward a sustainable society demand reconsideration of the values that structure the organization of society. I have argued that deep

green transformation is required and that its depth depends on the extent to which environmental values are prioritized, in relation to financial value. Increasing attention has lately been given to sustainable finance and the role of institutional investors in promoting global sustainable transformation (Harmes 2011; Sethi 2005; Sievänen et al. 2017). However, the economic perspective and the financial effect of their actions remain in focus (cf. Paterson 2021). Since the turn of the century, public pension funds have grown in size and activity and provided new possibilities for humanizing capital in the global market and rendering it more sustainable (Clark and Hebb 2004). The nature and size of public pension funds imply that they have an interest in long-term market stability, rendering them attentive to sustainability factors and shifting policies. By examining Swedish pension funds, I have argued that these conditions lead to an embedding of the economic discourse. Since pension funds are attentive to market stability and politics in their strategic analysis, they may strengthen such signals and enforce politically initiated change processes.

However, I also have shown that the professional culture and its economic rationale within funds serve to neutralize the political role of the funds. Within Swedish public pension funds, strategic management identifies more with the financial sector than with civil services. The funds interpret their role in neutral technocratic terms: to make rational judgments in reaction to contextual changes with financial goals as their guiding star. The economic and technocratic rationale serve to avoid explicit value judgements and value-related disruption and favor pragmatic piece-meal changes (cf. Stewart 2006, 192), which excludes deep green transformation. Indeed, public pension funds have an interest in stability, while deep green transformation requires fundamental changes in the financial system and investment rationale (Jackson 2009; Neville 2020, 8; Newell 2015). Actions that may destabilize the market do not make financial economic sense. Neville (2020) suggests that scholars and citizens should not turn to the financial system to address climate change but rather consider alternate economic models. However, change needs to take its starting point in the current system (Newell 2015, 84). It is more likely to change an encompassing system from within than it is to replace it.

The growing attraction of institutional investors to infrastructural investments emphasizes the urgency of a political understanding and approach to the role of these actors. Interest in infrastructural investments is driving an expansion of markets. While this is a process of fundamental political nature, the neutralizing mechanisms described in this article portray such development as natural and thereby unquestionable or undisruptable. The investor economy has anonymized capital and amplified interest in financial returns (Ferrerias 2019). For value (re)priorities to be attainable, it is preferable if the distance between investment decisions and the affected people decreases (cf. Bauman 1994). Public pension funds have the potential to achieve this goal if they embrace it. However, if funds invest globally in infrastructure and focus purely on returns, power will recede even further from the affected publics. Such

strategic choices are not neutral technicalities. Thus, in addition to asking what role institutional investors play for a green transformation, we must ask the normative and resisted question: which role they should play and what hinders them from doing so.

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