Discussion of

Voting on Public Goods: Citizens vs Shareholders

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This paper

Interaction between political voting and shareholder voting
in determining the provision of corporate public goods

⇒ Heterogeneity among households: median shareholder's preferred level of public good investments differ from the median citizen's preference

Model setup

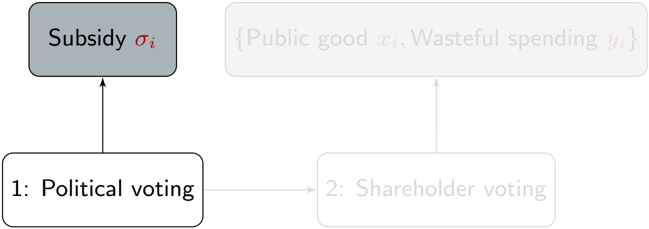
Subsidy σ_i

$\{$Public good x_i, Wasteful spending $y_i\}$

1: Political voting

2: Shareholder voting

Model setup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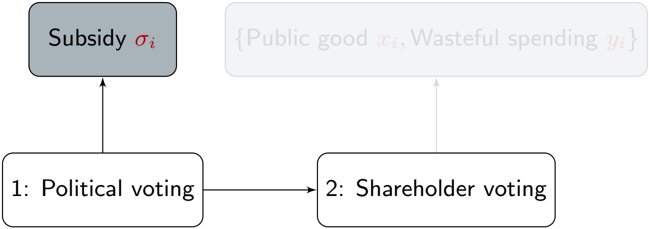
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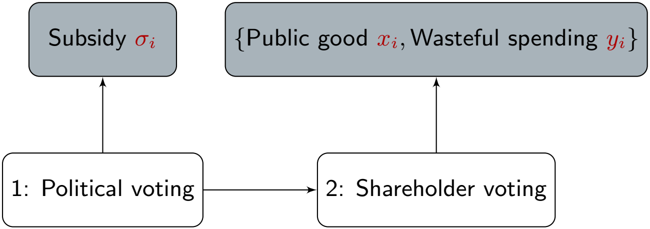
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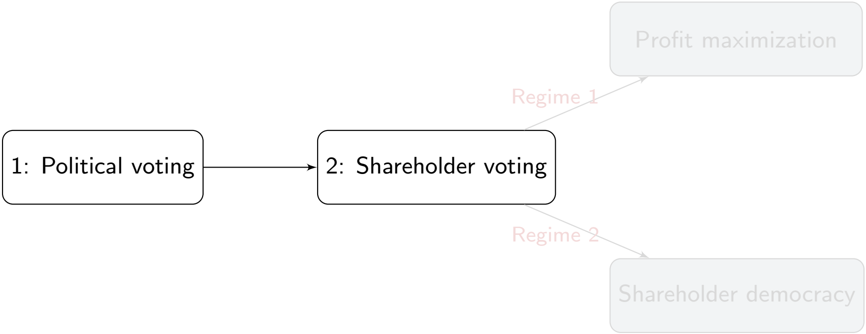
Profit maximization
Regime 1
1: Political voting
2: Shareholder voting
Regime 2
Shareholder democracy

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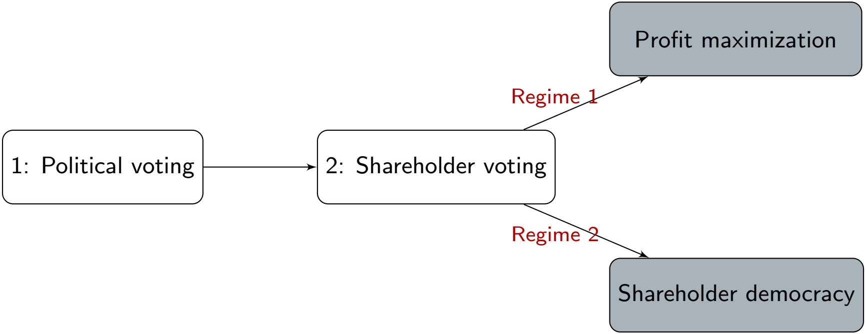
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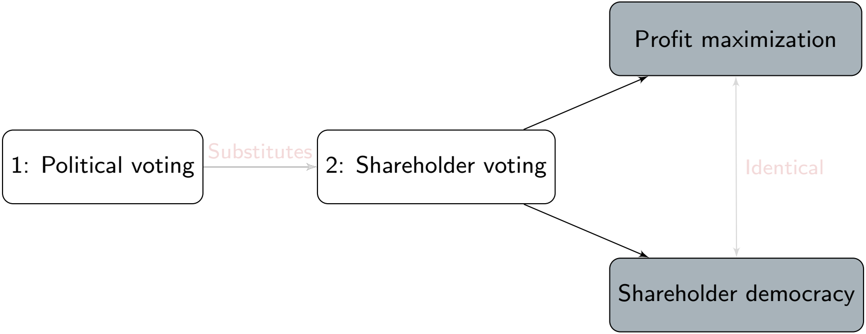
Without policy frictions



- Political voting results in policies that completely neutralize the effects of shareholder engagement
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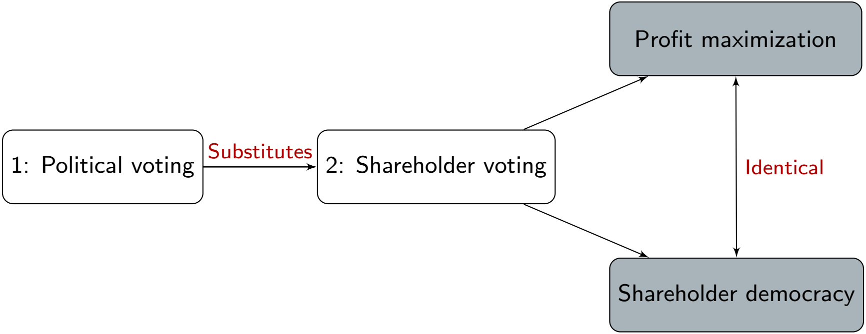

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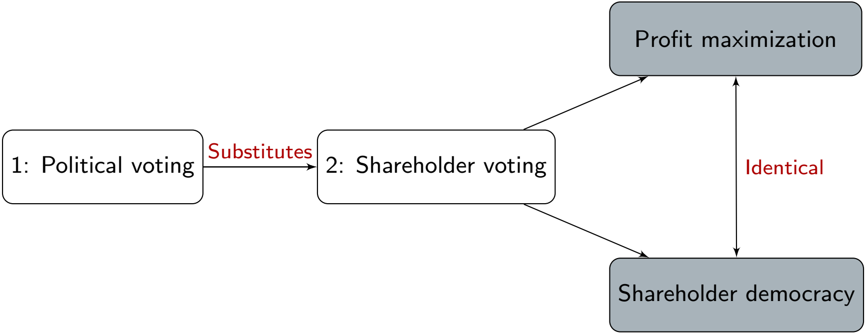

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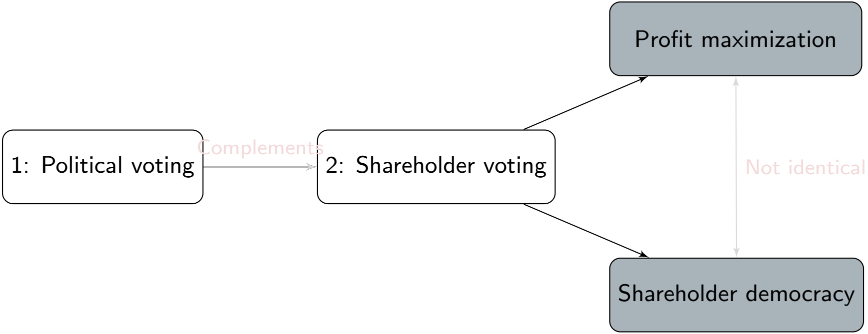

- Pros: Shareholder democracy can lower the deadweight costs and enhance the provision of public goods
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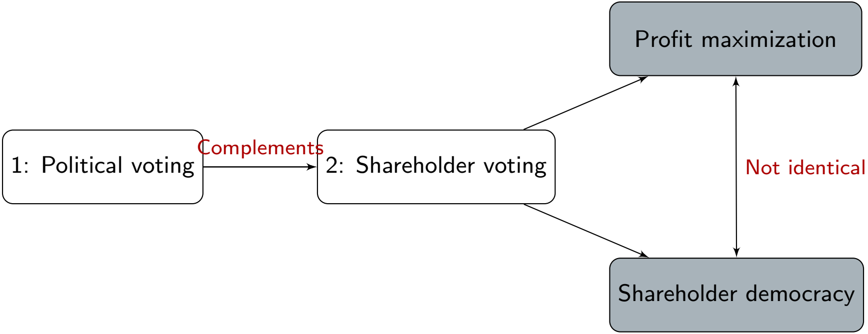

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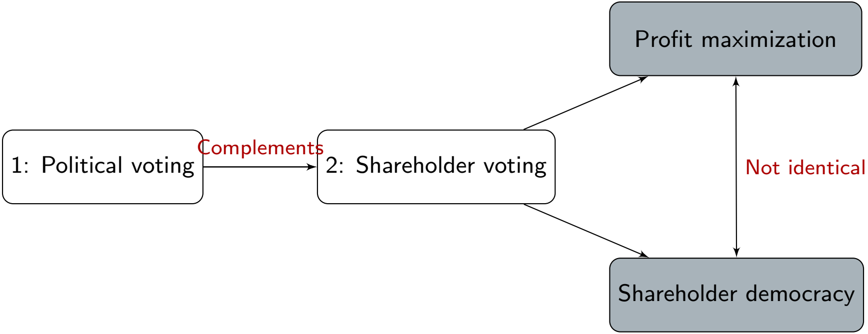

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Overall assessment

- Excellent paper!
- ESG backlash: important and trendy topic of ESG investment policies
- Index funds: important and trendy topic of asset management industry
- Elegant framework and rigorous analysis
- Comprehensive discussion of extensions and financial market characteristics
- Maybe a few comments to improve its empirical and policy relevance...

Comment 1: Game setup

- Does the order of decisions matter?
  - government decisions before shareholder decisions
  - shareholder decisions before government decisions
- Do political democracy and shareholder democracy function as
  - complements or substitutes?
  - under which circumstances?
  - through other channels (e.g., information channel)?

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Comment 2: Voting & endogenous turnout

- Theoretical benchmark: abstract away from "voting"
- Endogenous turnout in political elections
  - in the model: all citizens exercise "one person-one vote"
  - in practice: low turnout (possibly correlated with wealth or ideology)
    ⇒ interact with wealth distribution and change "median citizen" preferences
  - how differential turnout might worsen or dampen the preference representation problem?
  - how robust is "ESG backlash" if wealthy voters are more likely to turn out?
- Endogenous turnout in shareholder voting
  - in the model: all small shareholders vote or care about representation
  - in practice: only 30% of non-institutional shares are voted out of approximately 30% of the shares they hold (Brav et al., 2022b)
    ⇒ attention constraints, incomplete information, framing effects...
  - are they rational/strategic/able to coordinate in corporate voting?
    ⇒ firms with more green shareholders not always make higher public goods investments than those with less green shareholders (Jin and Noe, 2025)
  - incomplete participation in pass-through voting?

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Comment 2 related: Pass-through voting

- Pass-through voting vs. fund delegation in more detail
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  - in practice: partial formats (e.g., limited menu, default assumptions), advisory recommendations, funds tailoring votes based on majority preferences, incomplete participation...
  - is pass-through voting really different from delegation?

- In an ideal case as described in Section 4.3.3
  - median shareholder could be different
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  - firms differ substantially in their technologies, size, marginal abatement costs
  - heterogeneous firm technology might yield different welfare outcomes
  - marginal costs may decrease due to green technology externalities
  - the irrelevance result ($\delta = 0$) or the form of ESG backlash shift if heterogeneities exist?
  - new insights on whether ESG backlash is more/less pronounced in certain industries?
- Consistent pro-social preferences among households
  - $g_i = 0$: results still hold
  - heterogeneous preference with some $\gamma_i < 0$ (Section 4.2.1)
  - how would the distribution of household preferences affect the results? $\Rightarrow$ it's all about the sign of $\tilde{G}_s$
  - robustness of shareholder democracy implications?
  - other primary drivers of "ESG backlash"?

Comment 3: Heterogeneity (firms & households)

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Comment 4: Policy relevance

- Policy implications
  - optimal voting method that improves social welfare
  - positive/negative attitude towards pass-through voting (factoring in other concerns like incomplete participation)
  - how improvements in regulatory precision (e.g., technologically improved "taxonomy" of green spending) affect corporate choices
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Minor comments

- Demand for public goods
  - how would international demand for public goods affect the results?
  - how do stock trading affect the composition of shareholders and their demand for public goods?
    $\Rightarrow$ e.g., capital market competition (non-pro-social investors buy in if pro-social shareholders push the policies too far in an unprofitable direction)
- Oversimplification of assumptions
  - binary approach: all policy aimed at encouraging a public good will inevitably subsidize “wasteful” spending y as well
    $\Rightarrow$ distinction between “wasteful” and “truly useful” activities non-trivial
  - frictionless: shareholders can straightforwardly translate their preferences into firm policies without frictions
    $\Rightarrow$ activist costs, asymmetric information, coordination (back to Comment 2)
- Dynamics and time inconsistency
  - corporate investments in public goods can be multi-year
  - voters or regulators can dynamically update their policies
  - voter sentiment can change
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Conclusion

Thank you & Best of Luck!