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# The Wrong of Investing in Immoral Corporations

ABSTRACT: It can seem like there is something wrong about investing in a corporation that is in some way immoral (e.g., selling harmful products, using forced labor, polluting the environment). However, it is difficult to explain what it is about investing in such corporations that is wrong, especially for retail investors. In this article, I consider explanations that have been given in the literature, and I measure them against two desiderata for a theory. No previous view satisfies the desiderata, so I develop a proposal that will. On my account, it is immoral to invest in a corporation you take to be immoral because so doing gives you a compelling reason to act in their interest. This incentivizes bad behavior, and we should not knowingly accept reasons to engage in bad behavior if it can be easily avoided.

Imagine a company engaged in behavior that you find immoral. Maybe it manufactures weapons, or exploits workers, or destroys local businesses, or pollutes the environment, or all of the above—whatever would make you say that this company is doing something unethical. There are of course practical reasons not to invest in such a company. Immoral practices may lead to social repercussions that lower the share price (Sethi 2004), and the specter of scandal might increase volatility risk. Still, looking at the stock price, you may realize that it's surprisingly cheap. The P/E ratio is low relative to peers, the political landscape is favorable, and the company has a new product out that you just know is going to be a hit. These are the makings of a financial case in favor of investing in the company. Nevertheless, I want to say that you have a *moral* reason not to invest, even as a retail investor. What's more, this is a reason that might outweigh the financial considerations in favor of the investment.

I have the intuition that there is this strong moral reason not to invest in such a company, and the data seems to agree. When made to focus on the implications of immoral corporate conduct, investors will tolerate a greater loss of returns to invest ethically (Glac 2009). Further, investors develop different strategies for thinking about weighing ethics and this financial cost (Mackenzie & Lewis 1999). Though it varies how much of a cost investors will bear (Berry & Yeung 2013), this suggests that investors do recognize moral reasons here that may beat out the financial incentive.

Relatedly, there has been an explosion of interest in socially responsible investing (SRI). Awoken to how their dollars can be channeled towards companies engaged in positive, sustainable practices, investor interest has led to the creation of funds tailored to reflect their values (Ballestero Pèrez-Gladish, & Garcia-Bernabeu 2015). Funds may be composed of companies screened for ethical criteria such as gender make-up of the board, labor practices, or the nature of the product. While some might view investing in this way as supererogatory, the idea is that investing in a certain kind of company is at least a good thing. This is not far from the thought that investing in a different kind of company is a *bad* thing, something to be avoided if possible.

My task here is not to say what conduct or products of firms are immoral, or what would make a firm 'immoral' on the whole. Any large firm is surely engaged in some moral and some immoral behavior, and most firms are not so transparently bad as to earn the labelling of being immoral full-stop. The thought is just that we may judge a corporation to be involved in immoral behavior such that there would be something wrong about investing in it, even as retail investors. Even if the immorality of a corporation does not provide a *decisive* reason not to invest in it, there is at least *some* moral reason why we shouldn't. We have a *pro tanto* reason not to invest in it. And this is a reason that at least *might* be sufficient to morally compel us to not invest in the company.

So, the question is: When confronting a company you take to be engaged in immoral behavior, what moral reason might be sufficient to compel you not to invest in it, even if the stock is quite cheap? To answer this question, a successful account will need to meet two desiderata: First, an account should connect investing in a corporation you take to be immoral with an activity that is more easily recognizable as wrong. Needlessly shooting someone dead is wrong (in part) because you are murdering them by shooting them, and we have a strong moral intuition that murder is wrong however it is committed. The question of why investing is wrong when it is turns on the question of what we are doing *by* investing. If it's hard to see what bad thing we are doing by investing, then it will not be clear how it can provide a moral reason to not invest.

Second, the account should deliver a significant reason to not invest in immoral corporations. It is not just that we have some slight, insignificant reason, which can be easily outweighed. When confronting a corporation we take to be acting in several morally egregious ways, it seems like it would genuinely be all-things-considered wrong to invest in it, unless there are very strong countervailing reasons. I take this to be true even for small-time retail investors like myself. So, an account will be lacking if it cannot capture how serious[1] of a reason we take ourselves to have.

Given these desiderata, in section [1] I consider three approaches that have been offered in the literature. While it may be that some of the accounts can generate sufficient moral reasons against investing for certain kinds of investors, they all struggle to articulate reasons sufficient to convince small-time, retail investors. These problems then motivate my own novel proposal in section [2]. Critical to that proposal is appreciating how investors align their interests with the interests of the object of their investment. Doing this when the investor judges the firm immoral risks warping their values and perspective in ways that are harmful to those around them and to the investor herself. I argue that accepting this risk is wrong even for small-time investors, and so we are obligated to avoid these investments. After laying out the proposal, I address three objections.

[1] I say that the reason is 'serious' rather than calling it 'weighty,' because exactly how the reason is taken as an input in practical reasoning may depend on the nature of the wrong. Insofar as the wrong discussed below is taken to involve a violation of rights, for instance, we may take the reason provided to be an *exclusionary reason*. As recently defended by Adams (2021), the reason as an exclusionary reason would not weigh against the financial benefit but instead exclude the benefit from consideration.

## 1. Other Views in the Literature

The past thirty years has seen an explosion of theories in the ethics of investing. To position my own view within this growing literature, I have sorted the views that have been given into three approaches.

The first approach concerns what investors are doing for the corporation by investing. A common but inaccurate picture of the investor is as directly giving the corporation money. They are depicted as facilitating and partially causing immoral conduct themselves. The question will be whether the depiction of the investor's misdeed can be maintained with a more realistic understanding of the insignificance of retail investors.

The second approach concerns what investors express about themselves through their investment. Investing in a company you know to be immoral says something about you, and so some theorists have thought to argue that what you express is immoral. This approach rests on whether you really are expressing something in investing, the nature of the immoral conduct in so expressing, and just how bad it is.

The third approach involves considering the unique relationship between a corporation and its shareholders. Some theorists have tried to use the idea that the shareholders *own* the corporation, or that managers act *on behalf of* shareholders, to argue for an obligation to not invest in immoral corporations. This rests on controversial views within business ethics. Even if accepted, it has a hard time capturing what is so bad about investing in immoral corporations.

### *1.1. What you do for the corporation*

Irvine (1987) offers an account of why it is wrong to buy stock in 'evil companies,' and his account appeals to a general principle, which he calls the Enablement Principle:

> It is morally wrong for a person to do something that enables others to do wrong. Thus, even if I don't profit from my investment in an evil company, my investment – as long as it enables others to do wrong – will be morally objectionable. (236)

This account concerns what I am doing for the company when I invest in it; I am enabling them to do bad acts. One intuitive advantage of this view is that I do not have to make a profit for myself in order to count as having done something wrong. Further, as Irvine observes, this principle is forward-looking. It concerns what you are making possible for the corporation in the future.[2] Irvine argues that this is to be preferred to a view that only takes into account the company's previous conduct, since their conduct could change (perhaps because of my investment).

Despite these advantages, the Enablement Principle faces clear counterexamples. As Larmer (1997) argues, there are many cases where you enable someone to do wrong without thereby doing something wrong yourself. I can innocently lend you my car, for example, and then you could commit vehicular manslaughter. What you have done is wrong, but it is not clear that I have done anything wrong in lending you my car, especially if I had no knowledge or reasonable expectation of your

[2] When we speak of enabling a bad act, we likely have in mind something causal. However, it's unclear exactly how we should think about enabling as a causal contribution. Is *enabling* a harm more akin to *allowing* a harm or *doing* something harmful? This is important, because the manner of our causal contribution may influence how wrong our behavior is, as some think that there is a moral difference between doing something and merely allowing it to happen (doing arguably being worse). See Rickless (2011) for arguments that enabling is morally equivalent to allowing; see Libbert-Rasmussen (2015) for arguments that enabling is morally equivalent to doing; and see Barry, Lindauer, & Øverland (2014) for empirical evidence suggesting that enabling is morally distinct from both doing and allowing. Each of these views would count enabling harm as wrong to some degree, which is all we need for present purposes.

malevolent intentions.[3] Indeed, everything we do constantly enables others to commit wrongs. Given this, we can offer the following fix to the view:

> *The Expectant Enablement Principle:* It is morally wrong for a person to do something that enables others to do wrong while expecting that they will do wrong given this opportunity.[4]

This principle maintains the virtues of the Enablement Principle, but it does not prohibit *mere* enabling. Also, the nature of the wrong appears to be different from the wrong involved in the Enablement Principle. The wrong of enabling involved making some kind of causal contribution to the wrong enabled; however, what is wrong about enabling with these expectations seems to be more a matter of engaging in a kind of reckless endangerment. You exhibit insufficient regard for the bad consequences of your action and are culpable for foreseeing these consequences. By investing, you are wantonly facilitating the harm caused by the corporation. This is bad, but does it fully capture what is bad about my investing in immoral corporations? I think that it does not. To see why, let's see how this account runs afoul of the desiderata discussed above.

Consider the first desideratum and grant that it is bad to enable corporations while expecting them to do harm. We will only have a moral reason to avoid investing in these corporations if we *actually do* enable them with our investment. This will certainly be true of some investors. Angel investors, venture capital firms, and large institutional investors surely do enable a corporation to act (when shares are issued; i.e., when the corporation is directly financed). As this principle does seem plausible, we have reasonable grounds on which to admonish them for investing in immoral corporations. But can it explain what *we* do wrong, as retail investors, in investing in these companies?

My buying stock in a secondary market in no way meaningfully finances or facilitates the conduct of public corporations. I'm too small-time. A typical retail investor cannot influence the price of a stock, and so the market value of the firm.[5] At best, individual retail investors contribute to the liquidity of the stock, perhaps indirectly influencing firm value by affecting liquidity risk. Given my insignificance in the market, it's just not plausible that everything that is wrong about *my* investing in immoral corporations comes down to what I do for them.

A fan of this approach is not without recourse.[6] While the difference I make is small, perhaps we should not admit that I do not enable the corporation *at all*. I enable the corporation a tiny bit, or I at least do something that is part of our *collectively* enabling the corporation. Given this, one strategy may be to appeal to the reasons I have as a part of the collective group of investors as a whole.[7]

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[3] If we did want to find some way to defend the Enablement Principle, we could bite the bullet here and say that in fact I have acted wrongly in lending you my car. Objective Utilitarians may take this line. If the action I perform in fact does not maximize happiness, then it was the wrong action to perform, although I may be excused for performing it. My objections will apply both to Irvine's original view as well as the augmented version of it given below.

[4] Irvine himself acknowledges the objection and offers a similar principle in response (though he maintains that both principles are successful). However, his augmented principle only involves knowing (or it being expected that you would know) that you were enabling. But knowing that you are enabling is very different than knowing that someone is likely to take advantage of your enabling. I know I am enabling my friend to commit manslaughter when I lend him my car, but I certainly do not expect him to. It is that expectation that makes me complicit in his wrongdoing.

[5] Hudson (2005) even purports to show that the actions of ethical investors collectively have not made a difference to share prices.

[6] Irvine recognizes this problem as well and argues on Kantian grounds that we are nevertheless obligated to invest ethically, as that is the practice that I would will to be adopted universally (238-40).

[7] See Kagan (2011), Nefsky (2017), and Barnett (2018) for appeals to this strategy in other contexts.

Investors in aggregate do enable the corporation, and that group has a moral reason to avoid so doing. So, maybe I have a moral reason to avoid doing my part, or at least being complicit,[8] in this enabling.

Consider the claim that we should recycle. Although we individually may make only a very small difference to the deterioration of the environment, we have a collective obligation to sustain the planet. So, I should do my part to satisfy our collective obligation, and this grounds a good reason for me to recycle. Similarly, perhaps we have a collective obligation to not enable immoral corporations. I should do my part to satisfy our collective obligation to avoid enabling immoral corporations, and this grounds a reason for me to not invest in them, despite my insignificance.[9]

This is appealing, and it may be right (cf. Sandberg 2011). All else equal, perhaps this is reason enough to choose a moral investment. However, things rarely are equal. A portfolio devoid of investments in immoral corporations might have lower yields, and the investor will incur the cost of the time that it takes to carefully construct a moral portfolio. The recent work on individual small contributions to collective actions at best show that I have *a* reason to do my part, but the question is whether I have a reason strong enough to merit bearing these costs at least *some* of the time.

Consider again the case of recycling. When the recycling bin is right next to the garbage can, you really ought to recycle. The cost of behaving sustainably is quite low. However, if the cost were much higher, we may lose the intuition that you ought to recycle. When the garbage can is right in front of you, and the recycling bin is across town, then plausibly (barring large trips to the recycling center) you really ought to just throw the bottle in the trash. Although you still have a moral reason to recycle, that reason can be easily swamped by other concerns given just how small a role you play in harming the environment. Similarly, although the moral reason given to not invest may compel you to invest ethically when the opportunity cost is extremely small, this reason will be swamped given any non-negligible differential in expected returns. But this goes against the second desideratum.

Though we may not think that the investor is obligated to invest ethically regardless of the personal cost, intuitively the investor has a moral reason to invest ethically that cannot be outweighed *so* easily. If the reason had is proportional to the difference made in enabling, then ethical investments would need to perform virtually equal to or better than their unethical peers. And this is asking too much. Surely ethical investments do not need to perform almost exactly as well as unethical peers in order to justify choosing them. So, the reason I have to not invest in immoral corporations must be stronger than the reason provided by the fact that I am to a very modest degree enabling the corporation with my investment.

### *1.2. Expressing approval of the corporation*

If we think about why an account that involves enabling the corporation fails, one thing to recognize is that it turns on what you are doing for the corporation. If we focus on actions done for the corporation, however, it's hard to see retail investors as committing any kind of significant moral wrong. Relative to institutional investors and others, retail investors just aren't *doing* that much. Instead,

[8] I leave untreated the topic of complicity, although it does seem to be a wrong that the retail investor can engage in, just as it's a wrong that other stakeholders engage in (Lawford-Smith 2017). I do so because I suspect that complicity is either itself to be understood in terms of the causal or participatory contribution that is already being discussed or else it is a distinct morally thick concept that is too complex to be able to do justice to here. See Sandbu (2012), however, which argues that shareholders are complicit in corporate wrongdoing because corporations represent the shareholders and act on their behalf. This is a distinct way of understanding shareholder complicity, but it is instead captured by third approach to shareholder moral liability discussed below.

[9] If the corporation is to be enabled regardless, then we may think that my obligation is to not do my part in the enabling. However, Dietz (2016) argues that individuals in non-cooperative groups lack reasons deriving from collective obligations.

we should focus on what investing does for the investor. The investment has a much larger impact on the investor's life, and so the fact that it will have a certain impact might provide a sufficient reason not to invest. That is, we stand a better chance of satisfying the second desideratum.

One thing that investing in a corporation may do for an investor is to communicate something about them—that they hold certain attitudes, beliefs, values, etc. It's a kind of signal with meaning in our society; we might take it as a kind of corporate endorsement. An investment is taken to express approval or support for the corporation's behavior or a solidarity with the corporation's mission (Judd 1990; Cowton 1998). If it is bad to express approval of something's bad actions, then investors of any size would seem to have a moral reason not to invest in immoral corporations on these grounds. There are many ways of spelling out this kind of view and of objecting to it that go beyond what we have space for here;[10] however, let's quickly see how it runs afoul of our desiderata.

Concerning the first desideratum, we can be skeptical that investing in a corporation actually expresses any particular (negative) thing. By investing in a corporation, an investor may mean to express some kind of solidarity with the corporation or a sharing of values, but they surely need not express this by investing, nor would we necessarily take them to. An investment could also be used to express general approval of the corporation's actions, but, again, it's not clear that it actually would express this absent a specific intention by the investor. The more we pack into what is supposedly expressed by investing, the less plausible that it is *actually* expressed by investors. It's just not clear that anything is expressed by investors beyond an acceptance of the corporation as an investable legal entity, a belief that it is likely to return profits to shareholders at or above the cost of their capital, and a willingness to capitalize on this. However, it does not seem morally wrong to express these things.

Suppose that investing in a corporation does involve the investor expressing something bad, and suppose that the investor actually has these views.[11] What is supposed to be bad about *expressing* these views, in addition to just having them? We could say that there is just something intrinsically wrong about voicing bad thoughts. More likely though, we will point to the influence such expressions have on others as communicative acts. A vegetarian's abstaining from eating meat may not do much to affect the meat market, but it might do more for the cause by normalizing this behavior among her peers (perhaps encouraging others around her to become vegetarian). Similarly, what we express with our investments may have a greater effect than how much our investments influence the market for some security.

While this may provide a stronger reason to avoid immoral investments than the last account, we should still wonder whether it is *as* strong of a reason as we take ourselves to have. I think it is not. Expressing one's values may be enough of a reason to forgo a steak, but is the kind of expressing that I do with my investment really worth sacrificing, say, 2% annual returns compounded over thirty years?[12] Whereas other eaters may see me ordering a salad, who even bears witness to my voluntary

[10] This approach is thoroughly discussed in Sandberg (2008:ch.3.4). Sandberg seems to agree that investing in a corporation expresses approval, though he is more concerned with arguing that this is insufficient to show that we ought to use any particular SRI strategy. For all that he says, though, if investing in immoral corporations does express something bad about us, then it would constitute a *pro tanto* reason not to do it.

[11] If investors do not have the views they express with their investment, then they may seem open to the charge of inconsistency or hypocrisy. See Sandberg (2007) for an assessment of these charges. Since I doubt that one does express approval via their investment, I doubt one can be hypocritical on these grounds. That said, investing in a company the investor takes to be immoral does seem to express a problematic indifference towards the corporation's behavior.

[12] As another example, consider the expressive theory of voting advocated in Brennan and Lomansky (1993). They argue that voting is a means of expression, and this can provide a sufficient reason to vote even when it won't make a difference to an electoral outcome. We may agree, but voting is a fairly low-cost activity. Would it be as reasonable to spend a thousand dollars to express ourselves by voting?

investing sacrifice?[13] Nobody. It is hard enough to measure collective perceptions of investors, and it will be even harder to feel the force of those retail investors *not* investing in a given stock.[14]

### 1.3. *The relationship between the investor and the corporation*

Rather than being a matter of what you do for the corporation or what investing allows the investor to express, there are views in the literature that try to ground the immorality in investing in immoral corporations in the *relationship* between investors and the corporation. This is reasonable insofar as morality itself is often construed in terms of our relationships to others. So, in this tradition it would be reasonable to expect the obligations of investors to come out of the relationship that they stand in to the corporation.[15]

This idea stands the best chance of grounding a good reason not to invest in immoral corporations if we take for granted that investors stand in the *ownership* relation to the corporation. If investors own the corporation, then they may also own or be responsible for what the corporation does.[16] In line with this thought, Kolers (2001) suggests that investors count as *participating* in the corporation's wrongdoing. If investor 'participation' were merely causal (their causal contribution to the corporation's action), then this would not be distinguishable from the first account above. Instead, it must be that by being an owner of the corporation, the investor counts as themselves engaging in the corporate wrongdoing.[17]

It may be unintuitive to say that the corporation's action *is* the action of the shareholders, just as we wouldn't say that the actions of my dog are my actions. Even if we will not go this far though, we may want to say that the fact that investors own the corporation makes investors responsible for what the corporation does. Langtry (2002) appeals to this idea by pointing out that managers manage the corporation on behalf of the shareholders, and we are more generally responsible for what is done on our behalf. Sandbu (*op. cit.*) says much the same, adding that corporate actions count as the investors' actions because the corporation represents the shareholders. These are appealing ideas, but I think they face insurmountable problems, again failing to satisfy either of the desiderata.

First, Langtry and Sandbu's views rely on strong assumptions concerning the theory of the firm. This kind of account can only get its footing if we are working from the view that managers are agents of the shareholders (*à la* Jensen & Meckling 1976) and we can decisively show that investors

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[13] What might be visible is what is expressed by investors in a company on aggregate. Here though, it's even less clear that what is expressed by the firm's investors is necessarily something akin to approval or support. And, of course, what I do as a part of this larger expression is still too insignificant to satisfy the second desideratum.

[14] Again, I will say that I think this does provide a more significant reason for higher profile investors, such as universities. Investors with important public profiles and requirements to disclose their investments may do harm by expressing the wrong values with those investments. By comparison, however, I have virtually no public profile, and my investments are not subject to public knowledge and scrutiny.

[15] This is slightly problematic insofar as we are concerned with the moral reasons of *prospective* investors not currently invested in the immoral corporation, but we may think that they can have reasons for or against investing that stem from the relationship that they will bear to the corporation once invested.

[16] Though we are focused here on investing in particular companies, it is worth noting that this view may not be suited to other investment vehicles. If I am invested in a European call option, then I have the right to purchase shares at a certain price on some date. My investment will not amount to ownership of a company as much as the right to future ownership, yet it could still seem immoral to invest in call options for an immoral corporation. As I will still be incentivized to help this corporation succeed, the immorality of this investment can be captured on my account below.

[17] Kolers is not committed to this idea that investors 'own' the corporation, and he seems to accept the causal interpretation of 'participation'. For him, other stakeholders will count as participating in corporate wrongdoing (452).

do 'own' the corporation (*contra* Stout 2012). Even if we were willing to accept these assumptions, they are very controversial within business ethics today.

If we accept that managers act on behalf of shareholders, to satisfy the first desideratum investors must be doing something wrong by authorizing managers to do this. It must be that investors are in some way responsible for the immoral conduct done on their behalf. However, it can be hard to see in what sense investors are responsible.[18] We have already taken it for granted that the actions of retail investors do not influence the actions of the corporation, so we shouldn't hold investors accountable. They had no control over the corporation's action. Alternatively, whereas typical agents might be answerable for the conduct of those acting on their behalf, it's also not clear that investors are answerable for the actions of corporations. This is in a sense guaranteed by shareholder limited liability. Shareholders cannot be made to answer for corporate wrongdoing.[19]

We might think that the actions of the corporation are at least in some minimal sense attributable to the investors, since they are the source of the corporation's behavior. This is what Langtry suggests (117). However, as per the second desideratum, the question is whether this burden of responsibility is enough to provide a strong reason to not invest in immoral corporations. I do not want bad conduct to be attributable to me, but the cost of this seems fairly low for anonymous retail investors. Preserving my reputation for my own benefit hardly seems worth foregoing an extra 2% of returns.

## 2. What We Do by Investing

To come to my own view, let's begin by considering the nature of the action that the investor engages in *by* investing. This will help us to see what is distinctively wrong about investing in immoral corporations.

When someone invests, they may not have delivered their own capital directly to the corporation, but they have purchased shares. And the value and attending rights of those shares depends on the firm's success (or at least the perception of that success). So, what it is for an investor to be invested in a corporation is in part for the investor's financial success to be tied to the success of the corporation. This is unsurprising, since of course investors have a financial stake in the corporation. Indeed, depending on the proportion of one's portfolio that is invested, an investor's home, retirement, and financial future may depend on the corporation's viability.

Put another way, investing in a corporation (partially) aligns your interests with that of the corporation. There is nothing immoral about this so far. However, it makes space for a distinct kind of immoral conduct on the part of the investor. By investing, the investor has given herself an incentive or a motivating reason to act in favor of the corporation in whatever way and at whatever opportunity that might arise. She is incentivized to promote their products, favor certain legislation, and defend them against opponents.

This is not unique to investing in corporations. If I have traded dollars for yuan, I am invested in the value of the Chinese currency. Accordingly, I am incentivized to support policies that discourage

[18] In the following discussion, I will be assuming Shoemaker's (2015) tripartide theory of responsibility. Shoemaker distinguishes and discusses three different types or 'faces' of responsibility: accountability, answerability, and attributability. I am not committed to this account, but I appeal to it to demonstrate that shareholders will not seem responsible for corporate wrongdoing on several popular ways of conceiving of moral responsibility.

[19] Shareholders can be made to suffer when corporations are punished or sanctioned. However, this may not always be the case (cf. Wesley & Ndofor 2013). Regardless of whether shareholders can be punished in some direct or indirect way, this may not suffice to show that they should be held to *answer* for corporate wrongdoing, since they will not be in a position to justify corporate conduct.

inflation of the yuan or wars that would freeze the market for my yuan. This fact about investing even extends beyond capital markets to other areas of investing in our lives. If I have children, then I will be invested in their well-being. My well-being will be tied to theirs, and I would have a reason to act in ways to keep them happy and safe. This is a general feature of investing as an activity.

Even for corporations, this is not unique to shareholders. Employees are 'invested' in the firm to the degree that they have taken on reasons to act in the firm's interest. If the corporation goes bankrupt, they will be out of a job. And if the firm acts unethically and gets caught, their reputations will be damaged. This openly and purposefully incentivizes employees to act in ways favorable to the firm. The same can be said for suppliers, customers, and other stakeholders. Being a stakeholder generally involves your well-being in some way depending on the firm, and stakeholders are themselves invested in the firm's success to the degree that their interests are aligned.[20]

Regardless of whether investors directly financially support the corporation, they are incentivized to support the corporation in whatever way possible once invested. Again, this need not be immoral. If you are invested in an ethical corporation (and it makes money by acting ethically), then you are incentivized to facilitate their ethical conduct. However, if you are invested in a corporation that you know to be unethical, then you are incentivized to facilitate their unethical conduct. This could be a matter of remaining silent when learning of their immoral conduct, or encouraging others to buy their stock, or voting for government officials friendly to the corporation.

If the investor does these things, then she will have done something immoral. She will have been complicit in the corporation's bad conduct. And, insofar as the investor is trusted by peers and proselytizes for the firm, she will have epistemically harmed these peers by propounded false beliefs. She will have made it harder for them to know what is right, more likely for them to accidentally come to support immoral behavior, and abused the trust these peers have in her. These are legitimate harms, and they go beyond the harm of slightly enabling the firm or expressing something bad. But still, it may be admitted that these particular harms are not *so* grand. The retail investor is still small-time, and she may never bother to discuss her investments. Focusing just on the actions taken because of this investment will again risk running afoul of the second desideratum—the badness of her actions likely does not provide a significant reason to not make the investment. However, I think the investor has done something wrong even if she never acts in these ways.

What the investor does wrong *in investing* is knowingly accepting these deleterious incentives. The investor is knowingly accepting a reason to facilitate an immoral agent in their bad conduct. Insofar as it is immoral to facilitate an immoral agent in their bad conduct, the investor in the immoral corporation is knowingly accepting a reason to act immorally herself.

Now, knowingly accepting a reason to act immorally itself might not seem so bad. In fact, we all too regularly accept such reasons. That I would save money is a reason to steal food at the store, but it's fine for me to go to the store despite gaining this reason. Still, our reasons stemming from self-interest that are in conflict with morality are typically thought of as reasons to overcome, not reasons to contribute to. We may incidentally pick up reasons to act immorally in the course of our lives, but it's another matter to knowingly accept such reasons. In the case of investing, we could just as easily

[20] Of course, employees and other technical stakeholders need not be invested in the sense that I'm interested in. If an employee is indifferent to her job, knowing that she could easily transfer her skills to a different company, then she may not have any reason to facilitate the corporation beyond her work functions. Similarly, customers may be in a position to easily switch to different brands. For that matter, even equity investors may not properly be *investors* in the sense that concerns us here. I could purchase stock but not care about the fact that I am invested. If my shares are things I merely buy to have, then I am more of a consumer of stock than I am an investor. This does not undermine my argument. The question is what the typical retail investor does wrong in investing in something like Big Tobacco, and the typical investor *will be* invested in the sense that matters.

invest in a more ethical corporation, or at least one that does not so obviously give us incentives to act poorly.

Still, opponents might press that there is nothing wrong with knowingly accepting reasons to act immorally. Not only do we always have reasons to act immorally, but we frequently get new reasons to act immorally, and it seems that it is okay to accept them. By accepting an invitation to contribute to an edited volume, this gives me a reason to neglect my loved ones. I may be able to finish the contribution without doing so, but I would certainly do it more quickly if I were to. Knowing this, it still may not seem like I have done anything immoral merely by accepting the invitation. The view on offer seems to overgeneralize in that it would count this case as a case where we are acting wrongly.

To answer this, we should appeal to the same resources that were helpful for the Enablement View. We saw that there is nothing wrong with *mere* enabling, but there does seem to be something wrong in enabling bad behavior with an expectation that it will occur. Similarly, perhaps there is nothing immoral about *merely* accepting a reason to act immorally. It's not a good thing, but perhaps it is so ubiquitous that it must be accepted. Instead, we can suggest the novel view of this article: what is immoral in investing in an immoral company is the investor's acceptance of a reason to act immorally while expecting that they are likely to act on it (or while not in a position to be fairly sure that they will *not* act on it). This is what I think investors do by investing in immoral firms, and they should not do it.

Going back to our example of the invited contribution, it may not be bad to accept the invitation despite the incentive to neglect. However, our intuitions likely shift if we stipulate that I very much expect that I will be led to neglect my loved ones. If I have this expectation, then I surely should not accept the invitation. Doing so would evince a reckless disregard for the well-being of people I should care about. I at least risk neglecting them. Or, if I really do expect to neglect them, we could say more dramatically that I wish neglect onto them, and this is surely a bad thing for me to do.

Are we in this position when we invest? If I invest in a company that I take to be immoral, and I know this gives me an incentive to facilitate their bad conduct, should I expect that I will act on this incentive? Yes, I should. Being invested involves more than mere temptation. Our interests are aligned with our investments, and so we are not only tempted to help these corporations, but we will naturally start to see things from their perspective. Regardless of whether being an 'owner' makes you a participant in corporate crimes, being invested in the company will inevitably bias you to see things in their favor. You are on their side, after all. You want them to succeed, and you want to maintain the belief that they did so morally.

Our allegiances in life shape us cognitively, including influencing our preferences, what we pay attention to, and what we think is wrong. And this often occurs subconsciously, or beneath our volitional control. Investing in a company may lead us to rationalize their conduct, prioritizing their good actions while ignoring their bad behavior, whether we mean to or not. We may fail to perceive problems that we might have recognized if not invested, or we may inordinately trust the testimony of representatives of the corporation. Despite our best efforts, this kind of process may be unavoidable (Melnikoff & Strohminger 2020).[21] This should at least make us skeptical that we can *know* that we will not act on the bad incentives that our investments provide. We may be fairly sure of our values and resolve before investing, but investors are so predicably led to rationalize corporate behavior that we should accept that we cannot expect ourselves not to act in ways to promote our investment once invested.

[21] We could even argue that we *should* engage in this kind of preferential treatment. If we are invested in something, as a parent is to her child, then this arguably justifies being partial to or the special treatment of the object of that investment. (See Lord [2016] for a discussion of how partial reasoning can be justified.) In this way, the wrong of investing in an immoral company would be akin to the wrong of making or keeping an immoral friend (Isserow 2018).

Since investing in an immoral company involves needlessly incentivizing yourself to act in favor of that company (while you cannot expect that you will not), this seems to satisfy the first desideratum. To satisfy the second, we can appreciate how accepting these incentives seems to not only make it likely that you will harm your peers in certain ways, but it now involves insufficiently caring about them. You are aware of the kind of epistemic harm that is likely to come to people that trust you because of your investment, and you do not sufficiently respect them to stop yourself from imposing the risk of your misguidance upon them. As we will bring out more below, I think this is worse than the actual harm that may befall them, and so we should avoid it.

With the account articulated, let's move on to consider several objections. Answering them will make it clearer how this account captures the desiderata and better flesh out the nature of the wrong engaged in by investors.

### *2.1. First objection: The view misunderstands hedging*

There is a common use for investing that does not seem to involve aligning your goals with those of the corporation. Indeed, there are times when you may invest in a corporation *precisely because* the corporation does not share your goals. This is a part of the ubiquitous practice of *hedging*.

Hedging more generally involves acting in some way to secure against downside risk. Although I may be quite confident that a particular stock will rise, it would be unwise to invest all of my investable funds in that one corporation. Instead, I should hedge by investing part of my portfolio somewhere else (ideally in an industry that will profit if my favored stock underperforms). Suppose I allocate ten percent of my portfolio for this alternative stock. In this case, we might think that I am still committed to the successful performance of my favored stock. After all, it still makes up ninety percent of my portfolio. Hedging will mitigate my potential losses, but I have not fundamentally changed what it is in my interest. If facilitating the company that I am using to hedge will harm the corporation that is the majority of my portfolio, then I will not be incentivized to do it. This appears to show that my account fails to satisfy the first desideratum. Even if it were bad to give yourself a reason to facilitate bad behavior, we do not necessarily do this by investing. Hedging is a part of investing (or a form of investing), and hedging with an investment in an immoral corporation would not necessarily give you a reason to facilitate their bad behavior.

To make the problem seem even worse, consider a case of moral hedging. Suppose that I am fully invested in a company that I take to have good values, but then I start to worry. If this company underperforms, not only will my moral mission suffer, I'll lose money! That seems doubly bad. To avoid this, I may decide to hedge by allocating ten percent of my portfolio to a rival corporation I take to be immoral that is sure to profit should my favored firm founder. I absolutely do not want the immoral corporation to flourish. In fact, I'm counting on the fact that people are in general moving away from immoral corporations and that my investment does not meaningfully enable them. Even more strongly, I would rather lose the ten percent of my portfolio than have made a difference in enabling the immoral corporation to profit. Here, I may think that I am in no way incentivized to facilitate the immoral corporation. I have no reason to. So, this is a form of investing that does not incentive bad behavior.

This case may seem to involve me just playing psychological tricks with myself, but in fact we have a whole category of investment vehicles centered around this kind of hedging—it's called insurance. Insurance as a product category is a means of mitigating downside risk. Suppose that you put some amount of money towards a life insurance policy every month. As a result, if you die in the next thirty years your family receives one million dollars. The policy would not benefit you in death, and perhaps the money given to your family will provide less than your accumulated income over the

thirty years. In this case, it is in your interest to continue living. You and your family will be worse-off in just the circumstance in which the policy would kick in, so we may think that it is not in your interest to meet the terms of the policy. It's not that you have a reason to die, but that reason is constantly outweighed by the benefits of living. This misconstrues the purpose of insurance. Life insurance is about mitigating lost income from death, not incentivizing death! So, we again have a case where we appear to be investing yet not aligning our interests with the items we are investing in.

To this objection, two responses are appropriate. First, we may agree that hedging does not involve aligning your interests with your hedging instrument, but we can go on to notice that we do not generally consider hedging to be immoral. The account at hand attempts to show *why* it is immoral to invest in immoral corporations when it is. It is immoral because you have incentivized yourself to facilitate the immoral corporation's bad conduct. However, if it is not immoral to invest in immoral corporations *when you are merely hedging*, then the given account is what is needed to provide an explanation as to why it is justified. It is okay to hedge, because you are not incentivizing yourself in favor of the immoral corporation. This objection successfully shows that not all instances of equity investing are instances of gaining corporate incentives. However, rather than showing that the account gets the cases wrong, instead it provides further evidence for the view that what is wrong about investing in immoral corporations is how you incentivize yourself by so investing.

If, however, we are not convinced that it is always morally acceptable to hedge, then another response is available. We might consider the case of moral hedging described above, for example, and think that it is calculated, overly pragmatic, and ultimately immoral. To capture this intuition, we need only put pressure on the claim that you really are in *no way* incentivizing yourself by so investing. You may hope that the immoral corporation that you only own a few shares of does not succeed, but is it really true that it is not in your interest *at all* for it to succeed? Surely it is partially in your financial interest. It may not be holistically in your interest given your portfolio allocations, but if you really were 'all in' for more ethical corporations, then you would not have invested any in immoral corporations. The fact is, you have lowered the stakes of the failure of the ethical corporations for yourself, and so at a minimum chipped away at the strength of your incentive to see them flourish. Even if we will not say that investing in immoral corporations when hedging gives you a reason to facilitate their success, it at least tempers the strength of your reason to facilitate the success of moral corporations. To put the point another way, buying car insurance may be moral in general (and obligatory), but it is immoral to the extent that it makes you comfortable with driving carelessly.

### *2.2. Second objection: This is bad, but not worth 2%*

The last objection concerned whether the account satisfies our first desideratum. In response, I argued that in investing we really do incentivize ourselves to act and reason in favor of our investment, even when hedging.[22] Taking this for granted, then, I now want to question more deeply this idea that it is actually wrong to do this. It may not be hard to elicit the judgment that there is *something* bad about taking on these incentives. But the question is to say what is bad about it. And, moreover, to say exactly what is *so* bad about it that it is wrong to do even if it would mean forfeiting 2% higher returns over the course of our lifetime. Thus, this concerns whether the account satisfies our second desideratum.

We granted that, as a retail investor, you will be unable do much by way of facilitating the corporation's bad conduct. We also granted that, should you act on the bad incentives that you have

[22] Although, as I made clear in the response and in some of the notes, there may be circumstances where we do not so incentivize ourselves by investing, though these will be occasions where we also lose the intuition that you act wrongly.

adopted, and though this would be harmful, the harm done to those around you by your singing the praises of the company is also likely not *so* bad that it should outweigh a decent financial case for the investment. So, I suggested that the thing we do wrong is just in accepting these incentives in the first place.

Even accepting an incentive that would possibly lead you to harm others is itself a way of wronging others. You are risking harm for others, and it is wrong to do this (Oberdiek 2017). In other contexts, this is quite clear. It would be obviously immoral, for instance, to compel someone to play Russian Roulette and gamble with their life, even if it turns out that they get lucky and are not physically harmed. It is still wrong to impose a risk of harm on them. In many cases, it can seem that individuals have a right not to have risks imposed on them, especially unnecessary risks, and this gives us a corresponding duty not to impose them.

Although the harms imagined here are not as dramatic as loss of life, risking these harms still constitutes a kind of betrayal of trust, something that we are obligated to not do. My new incentives may lead me to inappropriately praise the company and morally confuse those around me, and so merely accepting them evinces a level of disrespect for my peers and their interests. I have unilaterally compromised my position as a trustworthy interlocutor. So, I have a duty to avoid this, a duty to not invest in companies I believe to be immoral.

Of course, it is not always bad to impose risk on others. Driving, for example, is a dangerous activity that risks the lives of people in the car and outside. The risk involved in driving seems quite high in comparison (at least in terms of the possible harm that may follow), yet we all accept driving while abiding the law as permissible. The difference in our case, of course, is that investing in immoral companies is not something that we all *have* to do to facilitate our modern way of living. In contrast, that somebody drives is necessary in this way, and we collectively accept this risk (waive our right against having it imposed on us) by continuing to live in our modern society.

Alternatively, we may think that the fact that the harm risked is minimal means that we are justified, or at least excused, in imposing the risk of it. I am not so sure. Suppose that someone would pay me a good deal of money to run around a party of my friends recklessly stomping my feet as hard as I can. Assuming I do not absolutely need the money to survive, I am not permitted morally to do this. Though I am not going to kill anybody in so doing and at most may bruise some toes, it is utterly disrespectful to the wellbeing of my friends to do this. It is the wrong thing to do. Similarly, assuming I do not absolutely need the extra 2% return to survive,[23] I am not permitted to invest in a way that incentivizes me to epistemically harm my peers.

I think there is a sincere basis for not investing in immoral companies despite the monetary cost. However, in case this danger to others is insufficiently persuasive, I hasten add that the danger to *ourselves* is just as great. If you invest in a company you take to be immoral, you are epistemically harming yourself. As we noticed, investing in a corporation leads the investor to reason in certain ways favorable to the corporation. Insofar as the values and conduct of that corporation are not shared by the investor, it distorts her reasoning. Trying to maintain one's values in the face of this incentive is cognitively costly. She is more likely to err in her own judgments about what the corporation is doing, who can be trusted, and what she should do in response.[24] It is important to us to feel competent in

[23] Realistically, I certainly will not need this money to survive. We may be talking about a lot of money, but we are talking about extra money that I eventually get from my investments, not money needed immediately to survive. 2% may go a long way towards our own later happiness or be useful to our children, but this does not excuse acting poorly right now.

[24] [Name omitted for review] has pointed out to me that these risks are involved when investing in companies that we take to be ethical as well. We will also be more likely to fail to recognize problems and to trust their representatives. By investing in corporations that we have good reason to believe will act in line with our values, however, we can at least mitigate this kind of distortion. Pressing the problem further, we may say that even if we are not led astray because of our investment, it will incentivize us to proselytize for the company for the wrong reasons. We will speak highly of the company for

our own reasoning (even if there are always certain biases we cannot avoid). Knowingly investing in an immoral corporation undermines the security of our own competency.

Not only does having a bad incentive make it more likely that we will reason to incorrect conclusion, but it alienates us from the source of our own actions. Suppose you have a strong financial incentive to support the passing of a certain regulation; however, there is also sufficiently strong moral reasons to support the regulation. How can you trust that you are supporting the regulation for the right reasons, that your support of the regulation is robust enough to remain were you to lack the incentive, or that you would even judge it worthy of support without the incentive? Taking on strong incentives undermines our trust in our own deliberative processes.[25] This is bad for us, and not in a simple way that can be measured and outweighed.

In certain cases of temptations, there is a discrete cost associated with fighting it that can be worth accepting all things considered. For example, it can be worth going into a chocolate shop to marvel at the chocolate treats on offer even if you have temporarily forsworn chocolate. You will be tempted to eat chocolate, and it will be mildly painful to fight that temptation; but it's not *that* bad, and it will be worth it to check out the shop. It would be paternalistic in this case to demand that you avoid the shop to avoid the temptation. I want to say that matters are importantly different when we invest. We are not accepting discrete costs;[26] we are accepting persistent incentives that erode our self-knowledge of acting for good reasons. In short, we are accepting corruption.[27]

It may not be bad to invite temptation from time to time. We may think that it generally strengthens our resolve. But to accept a persistent incentive is to corrupt the will; it is to undermine our self-confidence as rational agents; it is to alienate us from our own motivations. While corruption as retail investors may not make a tremendous difference to the world, it would make a big difference to us, and so it provides a strong agent-relative reason to avoid it. I think that's worth 2%.[28, 29]

prudential reasons, rather than moral ones. I lack the space to fully address this concern, but I doubt that the prudential reason undermines our ability to push the company for the right reasons. After all, it was the right reasons that motivated us to invest in them in the first place. It is interesting to note, though, that this general question of whether it can be bad to be incentivized to do the right thing also arises in the literature on criminal punishment, where the issue is whether the law corrupts our motives by leading us to avoid breaking the law out of prudence for avoiding punishment, rather than out of concern for justice. Here, I will side with Thaysen (2020) to say that the law does not necessarily corrupt our motives, though it is harder to judge that we have acted for the right reason. However, in both the legal and investing contexts, this is a price that we may be willing to pay.

[25] This emphasis on trust is critical, and it in part explains why we have such a strong aversion to public figures with private investments. Even if politicians succeed at doing the right thing for the right reasons, the presence of private incentives undermines public trust.

[26] Although long-term investors accept persistent incentives, day traders likely do not, as they are constantly trading in and out of positions. These investors seem to lack a reason against investing in immoral corporations. As with hedging, I am less convinced that there is something wrong in their conduct. While they may exacerbate volatility, day traders provide liquidity and assist in finding the price of securities. We may think this is independently valuable and outweighs the contribution to an immoral corporation's liquidity, or whatever other reasons we might drum up against this behavior.

[27] For another discussion of responsibility for reasoning in the context of corruption, see Ceva and Radoilska (2018).

[28] We may wonder though: If investing in immoral companies is *so bad* for us, then why do we still do it? Moreover, if we do it, haven't we consented to these harms and judged that the 2% returns are worth the cost? Nevertheless, this does not justify our risking harm for others, and in general this is not to say that we *should* make that investment even by our own lights. After all, we freely choose to do lots of things that we should not do. Many people smoke and should not, given the value of their health. Though it may not always be the case, individuals surely often smoke because they do not rationally assess what is best given their ends, or else because they are addicted and cannot help it. By the same token, in a fervor to make excess returns, we may invest despite knowing that the company acts contrary to our values. This is not to say that we have acted rationally.

[29] I have tried to make this argument without committing to a particular normative framework. That this is a significant harm to the self is clear enough without any such commitment, and I think the story can vary depending on the reader's theoretical leanings. For those that think we should foster epistemic virtues, I have indicated that what is threatened here

*2.3. Third objection: The view encourages ignorance*

My view concerns investing in a company that you judge to be immoral. But what about a company that you *would* judge to be immoral if you looked into it, only you have not bothered? We might think that you still have a significant reason not to invest in this company either, but it cannot be the *same* reason. After all, if you are not quite sure how the corporation operates, how to help it, or even what businesses it is in, then you will not be incentivized to act any particular way. Being invested in a basket of equities (you are not sure which) or an index, the only way you are likely to be incentivized to be vaguely pro-market. At best, you could be charged with being invested in the status quo.[30] But you are sure to be invested in some companies that you would find unethical if you checked. Put as a challenge, then, we may say either that there is something wrong with investing unknowingly in this way which is not captured by my account or else the account seems to perversely encourage us to remain ignorant about the immoral conduct associated with our investments.

First, notice that we were not looking for a view of what we are doing wrong by investing in companies that are in fact acting wrongly (whether or not we could be aware of it). We were searching for a view of what we were doing wrong by investing in a company that we took to be immoral. What reason do we have not to invest in *that* company, and is it big enough to outweigh superior returns? This is the question I have endeavored to answered.

To respond this objection, though, I think we should bite the bullet. If you do not know that the corporation is engaged in immoral conduct, then it's not immoral to invest in them *as long as you have satisfied whatever obligation you have to find out about the nature of their conduct*. If managers hide immoral conduct from investors, then those investors do not have a moral reason available to them not to invest. If, however, the conduct is not hidden, or at least it is available for the observant, then the question turns on the extent to which you were obligated to look for it. It comes down to the obligation for due diligence.

Institutional investors, hedge fund managers, and brokers cannot use ignorance of immoral conduct to escape judgment, because they have an obligation to investigate firms. Part of the due diligence necessary to learn if a corporation is a wise investment involves an exploration of risks, including reputation risks, that could encompass immoral conduct. Even if savvy investors were capable of stopping short of learning of immoral conduct, they would still be guilty of willful ignorance.

Retail investors do not have the same due diligence obligations. And exactly the extent of their due diligence obligations is unclear. Given the effort required, it might be asking too much to do the due diligence to determine whether an investment aligns with their values. Given the sprawling SRI literature, it's almost asking too much to even determine whether a particular SRI fund genuinely would advance their values (Schwartz 2003).[31]

While it would be convenient from the standpoint of my view to know as little about one's investments as possible, investors of all stripes still have standards of due diligence to meet. In fact,

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is the agent's competence and trustworthiness. For proponents of deontology, I have suggested that accepting these incentives involves the agent's undermining her own autonomy and as acting against a duty she has to herself. Consequentialists may be less moved, but the corrupting effects are negative, and they are more negative for the agent than the consequences mentioned by other views on the table.

[30] Though see Nebel (2015), which challenges the idea that status quo bias is always irrational.

[31] This might suggest that retail investors have *no* due diligence obligations and should engage in purely passive investing. This is too quick, as there might be moral reasons against passive or index investing. Such investing on aggregate can distort the prices for securities (Miwa & Ueda 2016), or it may lead investors to fail to hold managers accountable.

there are even familiar circumstances where ignorance of one's investments is not only permissible, but encouraged. We as an electorate often demand that politicians place their investments in the hands of a blind trust. This avoids their gaining incentives to favor particular corporations or industries without forcing them to divest prior to taking office. In an ideal world, they would acquiesce to this public demand.

## 3. Conclusion

My concern has been with the retail investor who sees a company, takes its conduct to be deeply immoral, but figures that they are justified in investing in it anyway. Better to make as much money as you can now and donate some of the proceeds later perhaps (*à la* Zweig 1996). Depending on just how much is to be gained, this might in the end be the right thing to do. It might not be though. There is a strong intuition that there is a moral reason not to invest in immoral corporations and that it can outweigh at least a certain degree of superior performance.

For certain investors, that they would enable the corporation may be enough of a reason not to invest in them. Though this may give all investors *some* reason to not invest, I think it is insufficient for most retail investors. Instead, I have argued that a significant reason comes from the corrupting effect that investing in a corporation can have on the investor herself. This effect at least has a more meaningful negative impact on her life and rational capacities, and I have argued that the investor is obligated to avoid this risk of harm to herself and peers. Despite this obligation, an investor may be still lured by the promise of gains to make the investment anyway. The hope, though, is that this strong reason and the others brought out in this article will together be sufficient to induce investors to forgo even fairly significant gains.

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