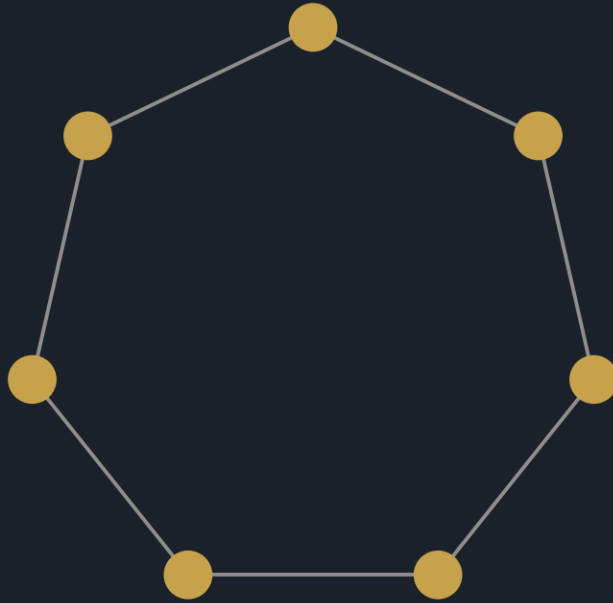




THE
ANTI-ESG
ECOSYSTEM

Politics, Capital, and Climate

ROBERT G. ECCLES

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THE ANTI-ESG ECOSYSTEM

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Dedication

I dedicate this book to the most amazing woman I know in this world: my wife Anne Laurin Eccles. We met on a blind date 43 years ago and got married one year later to the day. We have four children and 11 grandchildren. She always wanted four children, and we were fortunate to be able to do so. We didn't anticipate 11 grandchildren, so that's been an unanticipated and lovely consequence. Every day with Anne is a joy and a privilege. I treasure every single one of them and want as many more as I can get.

Acknowledgements

This book is a result of countless conversations with too many people to name who cover the political spectrum. But this center-left registered Democrat would like to call out three conservatives who are good friends. I've known Dan Crowley of K&L Gates for over twenty years. When the ESG Culture Wars starting heated up, he and I launched our GOP Outreach Campaign. I met Tim Doyle on a webinar about the ESG Culture Wars, and we kept talking long after the webinar had ended. We have formed the Responsible Business Initiative with a focus on finding common ground for people who recognize that the only stable solutions are bipartisan ones. I met Eli Lehrer, the founder and president of The R Street Institute through a mutual friend. R Street was the first center-right NGO to come into my life, and I'm all the better for it in lots of ways. I have published pieces with all of these guys and will continue to do so. But I take sole responsibility for everything in this book. They will no doubt like some parts and won't like others, which is the healthy result of people talking to each other with very different political views. These discussions will be candid and even raucous at times but always fun and convivial. Some of them will be in a bar in D.C.

*Robert G. Eccles
Concord, MA
July 2026*

Prologue

Few contemporary concepts in American political economy have generated as much sustained conflict, confusion, and institutional friction as ESG. Over little more than a decade, what began as a loose set of voluntary disclosure practices and risk-assessment tools has evolved into a contested terrain spanning capital markets, corporate governance, regulatory policy, state politics, and public narrative. ESG is now routinely invoked as a source of fiduciary controversy, legal uncertainty, and ideological dispute—often without shared agreement on what the term itself denotes.

This book does not attempt to resolve that disagreement. It does not argue that ESG is beneficial or harmful, necessary or misguided, legitimate or illegitimate. Nor does it advance prescriptions for how institutions should respond. Instead, it asks a more basic question: How did ESG become a durable site of conflict in the US, and how does that conflict now operate as a system?

Answering that question requires setting aside debates over who is right and focusing instead on structure. ESG did not emerge as a coherent doctrine or a centralized program. It developed as an umbrella label covering heterogeneous practices: corporate disclosures on environmental and social risks, governance reforms, investor stewardship activities, and analytic frameworks for assessing long-term financial exposure. For a time, that heterogeneity was not a flaw but a feature. Participation was voluntary, definitions were fluid, and institutional authority was diffuse.

As adoption widened—particularly among large asset managers, pension systems, and multinational corporations—ambiguity became consequential. Disputes emerged over whether ESG considerations constituted conventional financial analysis, expressions of stakeholder preference, or political positioning. Each classification carried different implications for fiduciary duty, regulatory jurisdiction, and competitive behavior. Yet no single institution possessed the authority to settle those questions definitively. Markets, regulators, courts, legislatures, and standard-setting bodies each advanced partial, and sometimes conflicting, claims.

The absence of unified authority did not produce resolution; it produced contestation. In the US, that contestation was amplified by federalism, by the fragmentation of regulatory responsibility, and by the politicization of corporate purpose more broadly. State-level interventions—through legislation, investigations, and pension policy—interacted with private-sector risk management, voluntary disclosure regimes, and litigation strategy. ESG became a proxy battlefield because it operationalized longstanding tensions over capital allocation, corporate responsibility, and the boundary between markets and politics, while remaining sufficiently ambiguous to support competing interpretations.

This book approaches that environment as an ecosystem rather than a linear policy debate. The ecosystem perspective emphasizes interaction effects, feedback loops, and path dependence. Early choices—about disclosure frameworks, materiality definitions, and institutional positioning—shaped subsequent responses in ways that were not easily reversible. Once reputational, legal, and political investments were made, positions hardened even as underlying technical questions remained unresolved. Conflict persisted not because empirical questions were resolved, but because institutional incentives increasingly favored stability of stance over reconsideration.

Viewed through this lens, ESG conflict requires attention to several structural features. One is definitional drift: the use of a single term to describe practices with different objectives, metrics, and governance implications. Another is measurement heterogeneity, which allows selective citation and limits empirical adjudication. A third is principal–agent complexity, particularly within asset management, where fiduciary interpretation, beneficiary heterogeneity, commercial incentives, and reputational considerations intersect. A fourth is authority competition, where no single domain—markets, politics, regulation, or law—can fully impose its interpretation without resistance from others.

Information and narrative dynamics further complicate the picture. Disclosure regimes are often framed as neutral transparency tools, yet they also shape organizational behavior by establishing categories, metrics, and expectations. Narrative framings—whether supportive or critical—can amplify symbolic stakes beyond technical disagreement, reinforcing positions through reputational signaling rather than evidentiary resolution. Over time, these dynamics generate feedback loops that stabilize conflict even in the absence of decisive outcomes.

The system described here is not deterministic. It does not imply that outcomes are inevitable, that particular actors control the system, or that current configurations will persist unchanged. The ecosystem exhibits adaptation as well as rigidity, and its responses to shocks—legal, political, economic, or environmental—are contingent. The purpose of this analysis is not to forecast outcomes but to clarify the structural conditions under which those outcomes are produced.

Climate policy enters this account not as an argument but as a downstream domain of effect. Disputes over ESG disclosure, fiduciary duty, and corporate purpose shape how climate-related financial risks are assessed, reported, and managed within US institutions. They influence emissions disclosure practices, transition planning, capital allocation frameworks, and the legal exposure associated with each. Understanding the ESG ecosystem is therefore relevant to understanding the terrain on which US climate policy now operates—even when no explicit climate policy is being debated.

The chapters that follow do not advance a program for reform. They do not recommend institutional realignment or adjudicate competing claims about corporate responsibility. Instead, they trace how the anti-ESG ecosystem emerged, how it functions, and how its internal

dynamics condition the visibility and governability of climate-related financial risk in the US. The analysis is descriptive by design. Its ambition is not persuasion, but clarity.

Part I: A Primer on ESG

The story most readers think they know—ESG rises, ESG overreaches, ESG collapses—sounds tidy and is therefore tempting. But it mislocates the object. ESG is not the system this book is trying to explain; it is the episode through which deeper dynamics became newly visible. What matters is not whether ESG worked or failed, nor whether its proponents or critics had better arguments. What matters is how a modern risk-sensing infrastructure—built from disclosure practices, fiduciary interpretation, institutional intermediaries, and shared vocabularies—became politically contestable, legally vulnerable, and behaviorally constrained. Part I therefore begins with orientation rather than adjudication. It defines the ecosystem the book will track and clarifies why the familiar debate over ESG’s virtues and vices is analytically insufficient.

Chapter 1 establishes the core claim: The anti-ESG ecosystem is not simply opposition to a set of metrics or a backlash against a cultural symbol. It is an emergent pattern of mutually reinforcing actions that narrows what kinds of long-horizon risk can be named, legitimized, and integrated into decision-making without penalty. In that sense, the story is not ESG versus anti-ESG, but a struggle over institutional visibility—over when probabilistic and systemic risks become admissible as serious inputs to governance and finance. Chapter 2 then shows how this narrowing becomes operational. It traces the mechanism by which pressure enters institutions in sequence—letters, laws, and lawsuits—shaping behavior before doctrine is settled and often without requiring formal victory. Together, these chapters provide the book’s starting conditions: a system in which uncertainty itself becomes a tool, constraint can be imposed upstream of enforcement, and institutional adaptation occurs not because actors have reached agreement, but because the safest posture under asymmetric downside risk is restraint.

Chapter 1: What Is the Anti-ESG Ecosystem?

The question most people ask about ESG is some version of “What went wrong?”

It is a reasonable question, and a misleading one. It presumes that ESG was a coherent object with a clear trajectory, that it functioned as intended for a time, and that something—excess, ideology, backlash, hypocrisy—intervened to derail it. It invites diagnosis at the level of labels, intentions, or political alignments. It also invites a search for villains or mistakes: too much virtue signaling, too much regulation, too much finance pretending to be ethics, too much politics in markets, or too much market logic in politics.

This book is not interested in resolving that argument.

The problem it examines does not begin with ESG, and it does not end with ESG’s apparent retreat. ESG is better understood as a moment—a surface expression—of deeper institutional dynamics that predate it and will outlast it. What changed was not simply the popularity of a set of metrics or the reputational value of certain corporate disclosures. What changed was the tolerance of the American system for seeing certain categories of risk at all.

That shift is easy to miss because it did not arrive as a single decision or crisis. It did not announce itself as a reform or counter-reform. It did not require a unified theory or a mass movement. It emerged instead through a series of legal actions, political incentives, market adaptations, and narrative reframings that collectively altered how long-term risk is perceived, legitimized, and acted upon. Not eliminated. Altered. This is a book about that alteration.

What Is ESG?

There is a temptation, when a term becomes ubiquitous, to treat it as a stable thing. ESG is now a term that seems to have always been present, as if it had a fixed meaning and then, like a brand, acquired competitors and critics. But it arrived the way most institutional language arrives—gradually, inconsistently, and through improvisation. For a long time it lived as a loose umbrella—three letters that could contain many different practices, motivations, and constituencies without forcing them into a single coherent program. That looseness was an advantage. It allowed a large number of actors to gesture toward similar concerns without agreeing on definitions or tradeoffs.

It also meant that ESG was never one thing. Inside some firms it meant reputational management and stakeholder expectations. Inside others it meant long-term risk assessment, the recognition that exposure to environmental regulation, climate volatility, labor instability, or governance dysfunction could affect cash flows, cost of capital, and operational continuity. For some asset managers it was a product category, a way to segment investors and offer new funds. For others it was an attempt—more earnest, more tentative—to integrate nontraditional information into valuation models that had become too narrow in what they could admit. In

policy spaces, it could mean anything from corporate disclosure norms to investor stewardship practices to a moral claim about responsibility.

This heterogeneity matters because it shaped how the term moved through time. ESG did not emerge in a single year. It gathered momentum through a sequence of developments that did not share a central command: (a) growing attention to climate risk as a financial issue rather than an environmental one, (b) scandals that reminded boards and investors that governance failures can be existential, (c) demographic and labor shifts that made workforce diversity a strategic issue, (d) and the gradual institutionalization of disclosure practices that made previously qualitative issues appear measurable.

The pacing was uneven. In some places ESG moved quickly, as a marketing label can move quickly once there is demand. In others it moved slowly, because integrating new categories of risk into established decision processes is slow by design. Institutions do not change their internal languages overnight. They absorb new concepts through committees and memos, through the cautious work of compliance teams, through the quiet adjustments of analysts who do not want to sound naïve in front of colleagues who have been doing valuation the same way for decades.

At first, ESG often arrived not as a political symbol but as an administrative nuisance or a strategic opportunity. It arrived through questionnaires from large clients, through new reporting expectations, through the growing presence of ratings agencies and data providers offering scores that promised to translate messy realities into manageable numbers. It arrived through board conversations about “tone at the top” and risk oversight. It arrived through the slow recognition that climate impacts are not merely distant phenomena but can shape insurance costs, supply chains, and infrastructure reliability.

In that early period, ESG was not primarily experienced as an ideological intrusion. It was experienced as a diffuse pressure to broaden attention and to demonstrate awareness of risks that did not fit neatly into existing categories. For some organizations, it was a way to show modernity. For others, it was a way to reduce vulnerability. For many, it was simply something that could not be ignored because counterparties, regulators, or investors were beginning to ask questions that would not go away.

Then the term consolidated, and consolidation changed its meaning. When a loose umbrella becomes a label, it becomes available for capture. Once ESG could be placed on a fund prospectus, once it could be used in marketing materials, once it could be invoked in shareholder letters, it became something that could be sold. That did not make it illegitimate—markets are full of categories that are partly descriptive and partly promotional—but it made it easier to caricature.

The more ESG was treated as a product, the more it became vulnerable to the charge that it was performative. The more it became vulnerable to the charge that it was performative, the more it

became vulnerable to politicization. And the more it became politicized, the harder it became to treat it as what it often was in practice—a clumsy attempt to widen the aperture of institutional attention.

The Politicization of ESG

Politicization rarely begins with substance. It begins with interpretation. It begins when a term becomes useful as a proxy in larger conflicts about identity, authority, and control. ESG became useful in this way because it sat at an intersection of domains that already carried cultural charge: environment, labor, corporate power, regulation, and the role of markets in public life. It also became useful because it was broad enough to contain almost anything. One could point to a disclosure requirement, a diversity initiative, a shareholder vote, an index provider's criteria, or a corporate statement after a social crisis and call it ESG, even if the underlying actions had little to do with one another.

This elasticity allowed opponents to assemble a narrative of encroachment and proponents to assemble a narrative of progress. The term became a vessel for projection.

Once that happens, the question “What went wrong?” becomes almost irresistible, because the term is now treated as if it had a singular purpose. But the more accurate question is not what went wrong with ESG. It is what the ESG episode reveals about institutional capacity for risk sensing and governance, and why that capacity becomes a political target.

The common criticism of ESG treats it as an ideological project that intruded into domains where it did not belong. In this view, environmental and social considerations were smuggled into financial decision-making, distorting markets and distracting managers from their proper function. The backlash, then, becomes a corrective—a reassertion of neutrality, discipline, or fiduciary duty.

There is another framing, just as common, that treats ESG as a fragile attempt to internalize real externalities in a system that prefers not to see them. In this telling, the backlash is reactionary, driven by incumbents threatened by transparency or accountability.

Both framings share a hidden assumption: that ESG itself is the object worth analyzing.

It is not.

ESG did not invent climate risk, demographic risk, governance failure, supply chain fragility, or political instability. It did not invent the fact that many of the most consequential risks facing firms, portfolios, and states unfold on time horizons longer than quarterly earnings or election cycles. It did not invent the tension between short-term performance metrics and long-term system stability. What ESG attempted—sometimes clumsily, sometimes opportunistically—was to make certain categories of risk more legible within existing decision structures.

That attempt triggered a response. Not a single response, but an ecosystem of them.

Pecuniary vs. Non-Pecuniary

At the core of that response is a definitional move that sounds technical, even responsible, but is structurally consequential. Many ESG critics at the state and federal level simply define ESG as non-pecuniary. Once that definition is asserted, the rest follows. If ESG is non-pecuniary, then it is a preference. If it is a preference, then it is a political or moral imposition. If it is a political or moral imposition, then fiduciaries who consider it are violating their duties.

But that chain depends entirely on the opening move—the reclassification of ESG considerations as non-pecuniary by default. The problem is that this is not an empirical finding; it is a rhetorical and legal posture. Climate risk can be pecuniary. Governance risk can be pecuniary. Workforce diversity can be pecuniary. The fact that these risks may be hard to quantify in the short term does not mean they are irrelevant to risk-adjusted returns.

This is why pecuniary versus non-pecuniary is as central to the book’s analytical spine as fiduciary duty itself. Fiduciary duty governs obligations; pecuniary relevance governs what may legitimately be considered in satisfying those obligations. If pecuniary relevance is narrowed to “what can be proved quickly and priced today,” then long-horizon risk sensing becomes vulnerable by design.

The anti-ESG ecosystem is not simply a collection of critics or laws or talking points. It is a set of mutually reinforcing actions and incentives that reshape what kinds of information are considered legitimate, what kinds of questions are deemed appropriate, and what kinds of uncertainty can be acknowledged without penalty. It operates across domains that are often analyzed separately: state-level legislation, federal regulatory posture, asset management practices, litigation strategies, political messaging, and media narratives. None of these elements is decisive on its own. Together, they alter the feedback loops through which institutions perceive and manage risk.

This book is about those feedback loops.

The Emergent Anti-ESG Ecosystem

Institutions rarely fail because they lack intelligence or goodwill. They fail because the signals they rely on become distorted, delayed, or suppressed. Long before a crisis becomes visible, the system’s ability to observe itself degrades. Warnings are reframed as opinions. Uncertainty is treated as bias. Foresight is cast as speculation. Over time, some decision-makers come to believe that what they cannot confidently measure does not need to be governed. That is drift.

ESG became entangled in this process not because it was uniquely powerful, but because it touched a nerve. It exposed a long-standing discomfort within American governance and finance with explicitly naming risks that are systemic, probabilistic, and politically inconvenient. Climate change is the most obvious example, but it is not the only one. Workforce diversity,

social trust, regulatory legitimacy, and geopolitical exposure all share a common feature: They matter enormously over time, and they resist simple quantification in the present.

Modern institutions are built to manage what can be specified, priced, and attributed. They are less comfortable with what emerges across systems, accumulates slowly, and manifests unevenly. ESG, for all its flaws, functioned as a loose proxy for that discomfort. Its rise signaled an attempt—partial, contested, often incoherent—to widen the aperture of what counted as relevant information. Its backlash signals something else. It signals a reassertion of boundaries around acceptable knowledge.

Throughout this book, questions of visibility recur, not as a settled framework but as a persistent tension. Some risks remain abstract until they are translated into data, disclosures, or formal standards; others become undeniable only when they are experienced directly, through disruption, loss, or shock. These modes of seeing do not align neatly in time. Risks can be widely discussed and still discounted or painfully experienced and still poorly integrated into institutional response. Much of the conflict around ESG turns on disagreements about when a risk should be acknowledged as legitimate—whether institutions should be expected to respond while harms are still probabilistic and distributed, or only once they are concrete and localized. That tension is unresolved here and deliberately so; its consequences unfold over the chapters that follow.

The legal dimension of this reassertion is especially important and often misunderstood. Many of the most consequential anti-ESG actions do not ban consideration of environmental or social factors outright. They raise the legal and reputational cost of doing so. They introduce ambiguity about fiduciary duty. They encourage preemptive compliance through risk aversion. They invite litigation not to win on the merits, but to chill behavior through uncertainty. Chilling effects are rarely experienced as censorship. They are experienced as prudence.

Inside large institutions, decisions are made by teams whose incentives are misaligned in predictable ways. In moments of uncertainty, the most conservative logic tends to win, because it is easiest to defend *ex post*. Language is revised. Internal memos become more cautious. Conversations that once felt routine become hedged. The organization does not stop thinking about long-term risk; it stops naming it in ways that could be construed as suspect. This is how institutional avoidance works. It is not typically an explicit decision to ignore reality. It is a decision to reduce exposure by narrowing what is said, recorded, or formalized.

Compliance structures reinforce this narrowing by privileging what can be audited and defended. Much of what matters in long-term risk sensing, however, is qualitative judgment—how to weigh uncertain signals, how to interpret incomplete data, how to distinguish noise from emerging pattern. Under chilling conditions, incentives shift toward what can be defended in a deposition rather than what might be true.

Political dynamics amplify this effect by framing ESG as ideology rather than infrastructure. Once framed that way, opposition can be justified as a defense of objectivity or neutrality rather than as a choice about which risks deserve attention. Institutions adjust accordingly, often in ways that feel adaptive rather than cynical. The result is not silence. It is noise of a particular kind.

In a system experiencing drift, there is no shortage of data, metrics, or commentary. What is missing is integration. Signals fragment across domains that do not communicate well with one another. Legal constraints discourage synthesis. Political incentives reward certainty over humility. Financial structures favor liquidity and exit over stewardship and adaptation. Observability declines not because no one is looking, but because looking becomes professionally hazardous.

The anti-ESG ecosystem operates, in part, by making learning costly. It makes experimentation risky. It makes it safer to insist on narrow definitions of materiality that exclude systemic externalities until they become immediate financial shocks. This posture privileges the present as the only legitimate horizon for accountability and treats long-term risk as speculative until it arrives.

A Short, Disciplined Origins Story

It is tempting to look for a single origin point—a book, a speech, a backlash moment, a villain. That temptation should be resisted. The anti-ESG ecosystem did not begin with one author or one op-ed, nor did it unfold according to a single blueprint. It emerged quickly, but unevenly, through a recognizable sequence of alignment rather than a linear plan.

Arguments about the proper scope of fiduciary duty and the dangers of mixing social goals with financial decision-making long predated ESG. As climate and other long-horizon risks began to be described more explicitly in financial terms, those arguments found a new object and a wider audience. Around the early 2020s, a shared vocabulary took shape—less because of who coined particular phrases than because the language became usable in hearings, letters, litigation, and legislation. From there, theory moved into practice through legal pressure, political signaling, and institutional response. As organizations adjusted—sometimes subtly, sometimes visibly—those adjustments fed back into the system, reinforcing the approach and accelerating its spread.

This account does not claim precision. It claims something narrower and more defensible. Between roughly 2021 and 2023, a set of ideas, incentives, and tools cohered into an operational ecosystem with real effects on behavior. The details of that sequence matter, but they belong later in the book. Here, it is enough to note that the ecosystem did not simply appear; it learned from its own consequences.

The Emergence and Consequences of Drift

Drift emerges from this interaction of law, politics, finance, and narrative. It is not created by any single domain, and it does not announce itself as decline. It often feels like normalization—a return to basics, a defense of core principles. Yet neutrality in practice often means defaulting to inherited assumptions about what is measurable and what matters.

Many of the risks ESG attempted to make visible are not external to finance and governance; they are endogenous. Climate risk interacts with insurance markets, infrastructure investment, and political stability. Workforce risk interacts with education systems, demographic change, and social trust. Governance risk interacts with regulatory legitimacy and institutional resilience. In a drifting system, these interactions are compartmentalized until they become unavoidable. That is why ESG, as a proxy, mattered: not because it was the right tool, but because it attempted to connect what happens slowly with decisions made quickly, what is systemic with what is attributable, and public legitimacy with private valuation.

To critique ESG is easy. It deserves critique. But critique is not architecture, nor does it address the issues many applications of ESG were trying to address, however imperfectly.

The anti-ESG ecosystem reshapes the environment in which critique can occur, narrowing the space for experimentation and learning. It replaces imperfect integration with more comfortable fragmentation, justified by appeals to neutrality or tradition. Language becomes evasive. Shared vocabulary erodes. Coordination becomes harder. When vocabulary fragments, accountability fragments. If a risk cannot be named, it cannot be governed. If concern must be disguised to avoid controversy, responsibility diffuses.

The deeper question is not whether ESG was good or bad. It is whether the institutions that govern capital, law, and policy are becoming more or less capable of perceiving the risks that will shape their future. That question requires attention to how decisions reverberate across domains and across time. It requires humility about uncertainty and seriousness about what cannot be ignored. A system with high observability can adapt gradually. A system with low observability oscillates between complacency and panic. ESG's rise briefly offered the possibility of a steadier relationship with certain uncertainties. The backlash rewards a posture of denial disguised as discipline.

What Happens Now?

This book asks the reader to notice what happens when risk sensing becomes politicized, when legal ambiguity becomes a behavioral force, when institutions respond to threat by narrowing speech and, over time, narrowing thought.

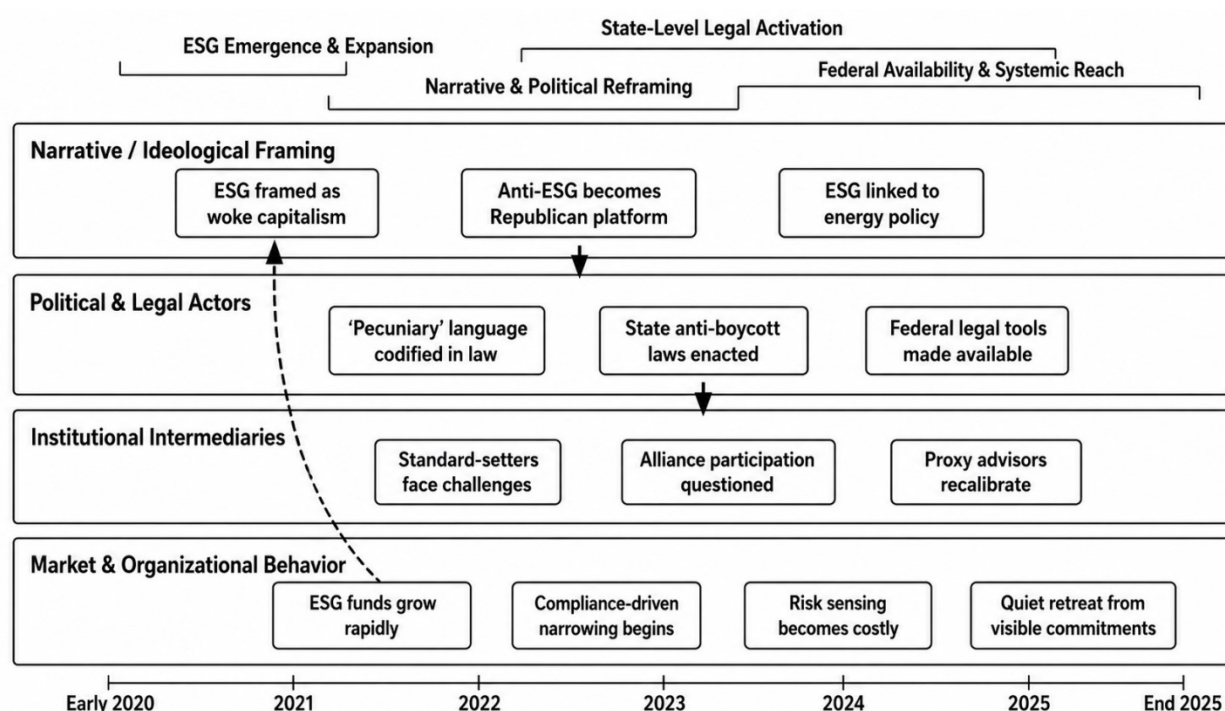
ESG is not the story. ESG is the surface on which the story became visible. The story itself concerns what happens when rational behavior at the micro level produces diminished capacity

at the macro level—when institutions continue to function while their ability to think across time erodes.

The purpose here is not to assign simple blame or offer solutions. It is to hold the structure in view long enough for it to become legible, and to make it harder to mistake drift for stability or the politicization of risk sensing for a mere culture-war skirmish over a three-letter acronym. The issue is not whether markets should be moral or whether politics should stay out of finance. The issue is whether the systems that allocate capital, enforce law, and govern collectively are becoming better or worse at sensing the risks that will define their future.

Figure 1 provides a conceptual orientation to the emergence of the anti-ESG ecosystem between roughly 2020 and 2025. It is not a precise timeline, nor a comprehensive causal map. Instead, it shows how shifts in narrative framing, legal and political action, institutional mediation, and organizational behavior unfolded in overlapping phases and reinforced one another over time. The diagram is organized vertically by institutional layer and horizontally by broad time period, illustrating how changes in meaning and legitimacy at the narrative level translated into legal constraint, institutional adjustment, and, ultimately, altered patterns of market and organizational behavior. Its purpose is to help the reader hold the system in view before examining its components in detail.

Figure 1. Emergence of the Anti-ESG Ecosystem (2020–2025)



The Jump to the Federal Level and Why It Matters

One final contextual point belongs in Chapter 1 because it shapes how the rest of the book should be read. Much of the ecosystem’s early growth occurred through state power and private coordination: legislation, model policies, letters from public officials, and legal threats aimed at institutions that operate nationally. This matters because it shows how quickly a functional campaign can scale even without federal authority.

But once anti-ESG pressure becomes available at the federal level—through agency posture, rulemaking agendas, enforcement priorities, and congressional signaling—its potential scope changes. The system gains new levers over disclosure, fiduciary interpretation, and regulatory visibility. The question stops being whether institutions will adjust their marketing language or exit voluntary coalitions. It becomes whether the risk-sensing infrastructure of the country is being rewired.

This is the bridge to Chapters 8 through 10. Those chapters are not about whether ESG “comes back” or “dies.” They are about whether the ecosystem’s effects—particularly on climate risk—become durable across political configurations, and whether the system’s drift becomes a stable feature rather than a temporary episode.

That is a question worth asking before the answers are forced upon us.

Chapter 2: Letters, Laws, and Lawsuits: How Pressure Enters the System

This chapter explains how anti-ESG pressure becomes operational. It traces the path by which opposition moves from rhetorical positioning into institutional constraint, altering behavior before formal outcomes are reached and often without those outcomes ever being reached at all. The focus is not on ideological disagreement or normative claims about ESG's merits, but on the instruments through which pressure is applied and internalized.

Threat, authority, and uncertainty do not enter institutions all at once. They arrive in stages, each lowering the cost of escalation while increasing the cost of inaction. Letters, laws, and lawsuits form a sequence in which each instrument prepares the ground for the next, reshaping incentives well before doctrine or enforcement provides clarity. This chapter is therefore not about beliefs.

It is about instruments.

Anti-ESG pressure did not emerge as a series of isolated reactions or episodic controversies. It developed as a sustained campaign characterized by repetition, variation, and escalation across multiple institutional instruments. Tracking efforts conducted by policy research organizations and legal analysts show that between 2018 and 2025 anti-ESG activity took the form of seven distinct state and federal actions, including letters, executive directives, legislative proposals, and formal investigations. Of these, letters constituted the most frequent and earliest instrument, appearing well before widespread statutory adoption or litigation. Their prevalence is not incidental. Letters offer a low-cost, high-credibility mechanism for introducing pressure without committing to enforcement, making them an efficient first move in a broader sequence.

Legislative activity followed a similar pattern of scale and selectivity. Between 2021 and 2024, 373 anti-ESG bills and resolutions were introduced across 39 states, yet only a small fraction became law. This gap between proposal and enactment does not signal failure. It reflects the way pressure operates through volume, visibility, and uncertainty rather than through uniform statutory success. Even bills that stall or are narrowed during passage contribute to a climate of anticipatory compliance by signaling political scrutiny, redefining acceptable justification, and forcing institutions to assess exposure under multiple hypothetical regimes.

By contrast, lawsuits have remained comparatively rare, but their function is distinct. Litigation appears later in the sequence and carries higher cost, greater salience, and longer time horizons. Its power lies less in frequency than in amplification. The existence of plausible legal theories—antitrust, fiduciary breach, and misrepresentation—extends uncertainty and validates earlier restraint. Taken together, these instruments form a layered pressure stack. Letters introduce authority without binding force. Laws codify constraint without requiring immediate enforcement. Lawsuits amplify threat without requiring victory. Scale matters not because every

action succeeds, but because repetition across instruments reshapes incentives well before clarity arrives.

Table 1 presents these three types of anti-ESG pressure: letters, legislative activity, and lawsuits. Although legal action ending in successful lawsuits is considered rare, the passing of anti-ESG legislation is even more so, with only six anti-ESG laws passing since 2018 compared to eleven successful lawsuits.

Table 1. Anti-ESG Pressure Stack

Instrument	Illustrative scale	Frequency	Cost/burden	Timing	Core mechanism
Letters	~58 letters (illustrative; multi-state and single-state letters combined)	High	Low–moderate	Early-stage	Authority signaling: "Authority without binding force"
Laws	161 bills / 6 enacted (illustrative, single-year snapshot)	Medium	Moderate	Mid-stage	Codified constraint: "Constraint without requiring enforcement"
Lawsuits	Selective / rare	Low	High	Late-stage	Threat amplification: "Amplification through procedure"

Note. Frequency decreases from top to bottom. Escalation/salience increases from top to bottom.

From Signal to Constraint: How Power Operates Before Law

At its origin, ESG disclosure was not designed as a system of control. It emerged as a patchwork response to a practical question posed by certain investors. What risks are not yet visible in the financial statements? The answers were necessarily incomplete, uneven, and often speculative. That incompleteness was not a failure of the system; it was its defining feature. ESG disclosure developed at the margins of conventional accounting, in a space where uncertainty was acknowledged rather than resolved and where informational experimentation was possible precisely because no single authority was tasked with adjudicating adequacy.

For a period, this ambiguity was tolerated and, in many cases, actively valued. Firms disclosed selectively, guided by judgment rather than mandate. Investors interpreted selectively, filtering information through their own models, preferences, and risk tolerances. Participation was optional, standards were fluid, and enforcement was nonexistent. ESG disclosure functioned less like regulation and more like conversation—an exchange of signals between capital providers and capital recipients about long-term exposure, governance quality, and external dependencies. The information was provisional by design, offered with the understanding that it was neither exhaustive nor definitive.

The transformation that followed did not occur because ESG achieved coherence, maturity, or universal acceptance. It occurred because the environment around disclosure changed. Institutional behavior began to shift not in response to final rulings, statutory clarity, or settled doctrine, but in anticipation of risk. Power entered the system before law did. The operative change was not prohibition or mandate, but constraint. The ground did not collapse. It tightened.

Before letters, laws, and lawsuits can operate as instruments of constraint, the terrain on which they act must already have shifted. ESG disclosure did not move directly from voluntary experimentation to political contestation. It passed through developmental phases that gradually altered how information was produced, interpreted, and relied upon—well before formal authority intervened.

In the first phase, ESG functioned as exploratory signaling. Disclosure was episodic, heterogeneous, and explicitly provisional. Firms disclosed what they believed might matter. Investors treated that information as input rather than instruction, incorporating it selectively into long-term risk assessment, governance analysis, or thematic strategies. There was no presumption of completeness, comparability, or enforceability. ESG existed at the margins of financial reporting precisely because it was understood to be incomplete and evolving.

In the second phase, ESG began to stabilize institutionally. Disclosure practices became more regular, frameworks proliferated, and third-party intermediaries—ratings providers, proxy advisors, consultants—emerged to translate disparate information into comparable forms. While still formally voluntary, ESG disclosure started to acquire structure. Repetition created expectations. Consistency created reliance. What had begun as signaling increasingly resembled infrastructure.

The third phase marked a shift from information to accountability. As ESG metrics and narratives became more standardized, they became easier to reference, challenge, and contest. Investors, regulators, and civil society actors began to treat ESG disclosures not merely as descriptive but as indicative of intent, governance quality, or strategic posture. The informational asymmetry that had protected early disclosure narrowed. Statements could now be compared across firms, tracked over time, and used as evidence of consistency or deviation. ESG disclosure had not become mandatory, but it had become legible—and legibility changed its risk profile.

That institutional stabilization was reinforced by the emergence of formal sustainability disclosure frameworks that treated environmental and social information as decision-relevant rather than aspirational. At the international level, the establishment of the International Sustainability Standards Board (ISSB) under the IFRS Foundation consolidated disparate reporting initiatives into a single global standard-setting body focused explicitly on investor-relevant sustainability risks. The ISSB's standards emphasized financial materiality,

interoperability with existing accounting standards, and usability for capital markets, signaling that sustainability disclosure was no longer peripheral to mainstream financial reporting.

In parallel, the European Union's Corporate Sustainability Reporting Directive (CSRD) significantly expanded the scope, detail, and enforceability of sustainability disclosure requirements for firms operating in or accessing EU markets. By extending reporting obligations to a far larger universe of companies and embedding sustainability disclosure within statutory corporate reporting regimes, the CSRD transformed ESG from a largely voluntary practice into a legally structured compliance domain. Together, these developments increased the salience and durability of sustainability disclosure across jurisdictions, even where domestic regulatory regimes remained fragmented or contested. This institutionalization altered the risk calculus for firms and investors alike, setting the stage for the subsequent political and legal backlash analyzed in the remainder of this chapter.

In the fourth phase, ESG disclosure became entangled with legal concepts without being fully governed by them. Materiality, fiduciary duty, reliance, and misrepresentation entered the conversation, not through settled doctrine but through anticipation. Institutions began to assess ESG statements not only for informational value but for defensibility under hypothetical scrutiny. Legal review expanded. Compliance functions asserted greater influence over language. Disclosure practices adjusted in advance of any definitive ruling, reflecting a growing awareness that voluntary information could generate involuntary exposure.

The fifth phase is where political pressure becomes effective. Once ESG disclosure was routinized, intermediated, and legally legible—but before it was formally mandated—it became vulnerable to contestation through indirect means. Letters could question it. Laws could redefine its permissibility. Lawsuits could test its boundaries. Crucially, none of these instruments needed to succeed on the merits to alter behavior. The system had already evolved to a point where uncertainty itself imposed cost. ESG disclosure was no longer fragile because it was immature; it was fragile because it was integrated.

This developmental arc explains why pressure operates upstream of enforcement. Letters, laws, and lawsuits do not create constraint from nothing. They activate and exploit a disclosure environment that has already crossed the threshold from experimentation to institutional reliance. By the time formal authority enters, the ground has already tightened.

This tightening is best understood not as a dispute over disclosure ideology, but as the result of a sequence of pressure mechanics. Letters, laws, and lawsuits are not interchangeable tactics. They are sequential instruments that escalate constraint while exploiting uncertainty at each stage. Letters signal authority without binding force. Laws codify constraint without requiring immediate enforcement. Lawsuits amplify threat without requiring victory. Each instrument changes incentives by increasing the perceived cost of articulation and decreasing the perceived value of precision.

Uncertainty itself becomes the operative resource. Institutions adapt to the possibility of consequence rather than its realization. Because downside risk is asymmetric and difficult to bound, rational actors adjust behavior upstream, before clarity arrives. This anticipatory adaptation explains why ESG-related practices changed even in jurisdictions where no definitive legal resolution was reached and why restraint often preceded formal conflict.

Letters: Political Signaling with Coercive Force

Letters are the first activation mechanism—cheaper than law, more powerful than advocacy. Letters occupy a deliberately ambiguous institutional space. They are not statutes, regulations, or judicial orders, and they do not carry binding force in the formal sense. At the same time, they are not merely expressive statements or political commentary. Issued by actors with oversight, investigatory, or enforcement authority, letters function as quasi-legal instruments whose significance lies in their credibility rather than their immediacy.

A letter can request information, question practices, or signal scrutiny without initiating formal proceedings. This flexibility is central to its power. It allows the sender to impose cost without committing to escalation, while leaving the recipient to confront uncertainty about next steps. Legal review is triggered. Compliance functions are activated. Senior management is briefed. Boards are informed. Even when no follow-up occurs, the institution has been forced to internalize the signal.

What letters are not is neutral correspondence. Their authority is implicit, their audience often extends beyond the immediate recipient, and their implications are deliberately open-ended. The absence of formal obligation is not a limitation; it is a feature. By avoiding specificity, letters preserve optionality for the sender while maximizing interpretive burden for the recipient.

Letters matter because they force institutions to treat ambiguity as risk. A public inquiry from an authoritative source introduces reputational exposure and legal uncertainty simultaneously. Practices that may have been managed as operational, strategic, or reputational concerns are reclassified as potential compliance issues, requiring formal assessment and documentation.

The cost of response is real and immediate. Institutions must coordinate across legal, compliance, communications, and executive functions. Decisions must be made about what information to provide, how to frame it, and how that framing might be interpreted in future contexts. Even a carefully crafted response can create a record that constrains future discretion or invites further scrutiny.

Perhaps most significantly, letters elevate issues to the board level. What might previously have been addressed within management becomes a matter of governance and oversight. This elevation reshapes internal prioritization, as boards tend to be more risk-averse and more sensitive to open-ended exposure. The result is not simply responsiveness, but reorientation.

Letters also operate through narrative framing. By questioning ESG-related practices, they recast those practices as suspect rather than presumptively prudent. Early ESG disclosures were typically justified through long-term risk management, resilience, or strategic positioning. Letters introduce an alternative frame, one in which such activity is associated with non-pecuniary motivation, political preference, or deviation from fiduciary norms.

This reframing shifts the burden of justification. ESG activity is no longer assumed to be consistent with financial interest unless proven otherwise; it must now be affirmatively defended within a narrowed conception of acceptable rationale. The ambiguity between risk management and preference becomes a liability surface, particularly when benefits are indirect, probabilistic, or long-dated.

This abstract mechanism is visible in the volume, coordination, and content of anti-ESG correspondence issued by state officials beginning in 2021 and accelerating through 2023. Multi-state letters signed by attorneys general, state treasurers, and financial officers were sent to major asset managers, banks, proxy advisory firms, and insurers, questioning ESG-related investment practices, voting policies, and participation in climate-focused initiatives. These letters typically did not allege specific statutory violations. Instead, they framed ESG activity as potentially inconsistent with fiduciary duty, antitrust law, or state contracting requirements, leaving recipients to assess risk under multiple, unresolved legal theories.

The structure of these letters follows a recognizable pattern. They assert jurisdictional authority, cite investigatory or enforcement powers, and request information about internal policies, decision-making processes, and external affiliations. The requests are often broad and open-ended, encompassing internal communications, voting rationales, and participation in collaborative initiatives. This breadth is not incidental. It maximizes the interpretive burden placed on the recipient, forcing institutions to consider not only how to respond in the moment, but how any response might be re-used in later proceedings or cited by other actors. The absence of formal compulsion does not reduce the cost imposed; it shifts that cost inward, onto internal review, documentation, and governance processes.

Several high-profile letters illustrate this dynamic. In August 2022, a coalition of 19 state attorneys general sent a joint letter to BlackRock Inc. questioning whether its ESG-related practices were consistent with fiduciary obligations owed to investors and state pension beneficiaries. Similar letters followed in 2022 and 2023 targeting major financial institutions for their participation in climate alliances, their lending policies toward fossil-fuel companies, or their reliance on ESG metrics in underwriting and investment decisions. In parallel, state officials submitted coordinated comment letters opposing federal ESG-related rulemaking, including the Department of Labor's ERISA rule and the SEC's climate disclosure proposal, reinforcing the same fiduciary and legality frames across venues.

The institutional effect of this correspondence does not depend on escalation. Many letters did not result in enforcement actions, referrals, or formal findings. Their impact lies in how they

recode routine practices as potential compliance liabilities. Once ESG-related activity is placed under authoritative inquiry, it must be treated as a governance risk rather than a discretionary business judgment. Legal and compliance functions gain influence over language and process. Decisions that once involved strategic or reputational considerations are re-routed through defensibility analysis. In this way, letters accomplish their primary function without resolution: They normalize caution, elevate uncertainty, and shift internal balances toward restraint.

House Hearings

House hearings, investigations, and document demands operate as functional equivalents to letters in their pressure effects, even when they are not framed as formal enforcement and do not culminate in enacted law. In the 118th Congress, anti-ESG work in the House moved from sporadic rhetoric to a more structured campaign, with committees using hearings and investigative tools to impose cost, reputational exposure, and uncertainty on both financial firms and NGOs. These actions operate in the same pre-law register as letters. They signal authority, create a record, and compel institutional response under conditions of open-ended consequence. In this sense, the instrument is not only the written inquiry but the broader apparatus of compelled attention—public questioning, investigative framing, and document production—that forces an organization to treat contested ESG activity as a governance risk rather than a discretionary communications choice.

The mechanism is straightforward and procedural rather than doctrinal. A hearing notice, an investigative letter, or a document request initiates internal routing that resembles the response to an attorney general inquiry or regulator correspondence—legal triage, compliance coordination, communications planning, and executive briefings. Preparation costs are incurred regardless of whether the proceeding results in a referral or a legislative outcome. Testimony requires scripts, approvals, and defensive calibration. Document demands require collection, review, and the creation of a compliance posture that can withstand scrutiny. The institution's immediate problem is not whether the inquiry is legally binding in the way a court order would be, but that non-compliance, misstatement, or poor framing can produce follow-on risks that are difficult to bound. As with letters, the value of the instrument lies in compelling the recipient to internalize uncertainty and behave as if escalation is possible.

In the 118th Congress, multiple committees served as conduits for this pre-law pressure. The House Financial Services Committee organized a coordinated “ESG month” in July 2023, with full and subcommittee hearings such as “Protecting Investor Interests: Examining Environmental and Social Policy in Financial Regulation” (July 12, 2023) and “How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing” (July 14, 2023). The committee continued ESG-focused oversight in 2024, including hearings on the SEC's climate rule and an Oversight and Investigations Subcommittee hearing titled “The Fall of ESG: Scrutinizing the Failed Use of Environmental, Social, & Governance Standards and the Influence of Proxy Advisors.”

In parallel, the House Judiciary Committee’s Subcommittee on the Administrative State, Regulatory Reform, and Antitrust held a high-profile hearing on June 11, 2024 titled “Climate Control: Decarbonization Collusion in Environmental, Social, and Governance (ESG) Investing,” accompanied by an interim staff report alleging that environmental groups and financial institutions formed a “climate cartel.” The House Oversight and Accountability Committee also used hearings framed around ESG and related “woke” themes, including the June 6, 2023 subcommittee hearing “ESG Part II: The Cascading Impacts of ESG Compliance,” as well as subsequent activity questioning EPA climate grants and NGO recipients under the Greenhouse Gas Reduction Fund. None of these venues requires statutory change to exert pressure; their value lies in forcing institutions to respond publicly and administratively to a contested frame.

The targets of these House instruments differ, and that targeting shapes how burden is distributed. The Financial Services Committee’s ESG hearings largely summoned large financial actors and intermediaries—asset managers, proxy advisors, insurers, and legal or think-tank witnesses—to discuss ESG mandates, climate disclosure, and proxy voting. Within this mode of oversight, intermediaries become critical nodes because their recommendations and voting policies can be portrayed as upstream drivers of corporate behavior. For example, hearings on proxy advisory services called senior representatives from Institutional Shareholder Services (ISS) and Glass Lewis, treating their ESG-related recommendations and voting policies as a core problem. The institutional effect is less about establishing illegality than about forcing these actors to defend routine governance and advisory practices within a hostile frame, under oath, and in a setting designed to generate a public record that can travel beyond the hearing room.

By contrast, the Judiciary Subcommittee’s antitrust-focused probe illustrates a different targeting strategy, one that places NGOs and public-interest actors at the center rather than the periphery. The committee’s report named Ceres, activist investor Arjuna Capital, the Climate Action 100+ investor initiative, and the California Public Employees’ Retirement System (CalPERS) as “radical offenders” and alleged members of a climate cartel, and Ceres, Arjuna, and CalPERS were called as witnesses. In this configuration, the instrument functions as a letter addressed not to a single firm but to an ecosystem. It publicly recodes collaborative engagement as potentially unlawful coordination, invoking antitrust concepts to place ordinary coalition activity under suspicion. The Oversight Committee’s activity around the Greenhouse Gas Reduction Fund extends this approach by placing environmental NGOs receiving EPA grants directly under investigative scrutiny, with committee leadership announcing investigations and demanding documents from eight organizations about their use of climate grant funding. In these settings, NGOs are not treated as incidental experts but as investigative targets, portrayed as conduits for “radical” agendas financed by public money—an approach that increases reputational exposure even absent findings.

Asymmetric Burden

The burdens imposed by these instruments are also asymmetrically distributed, and that asymmetry is part of why the mechanism works. For major financial institutions summoned before the Financial Services Committee, the primary burdens involve substantial preparation time, internal coordination, and legal review. These demands are expensive, but they fall on organizations with in-house legal teams, established government-relations staff, and routine experience testifying before Congress. In that sense, hearings can be absorbed within existing structures and treated as a recurring cost of operating in a highly regulated sector. The work is disruptive, but it is legible. Firms can staff it, manage messaging, and fold it into ongoing risk management.

For NGOs, public-interest groups, and advocacy-oriented investors, the same instrument can represent a qualitatively different disruption. The Judiciary Committee’s antitrust-ESG probe illustrates the scale. Ceres’ CEO testified that, in response to the committee’s investigation, the organization “fully cooperated” and produced more than 90,000 pages of documents, a volume that implies months of staff time, outside counsel review, and document-management work for a nonprofit that does not routinely manage congressional-scale discovery. Coverage emphasized that the Judiciary investigation swept in more than a dozen parties, including financial institutions both large and small, nonprofits, and a public pension fund, and that the committee obtained more than 2.5 million pages of documents overall—an indicator of compliance demands extending far beyond a single day of public questioning.

Oversight’s EPA grant investigations similarly require NGOs to gather and submit internal communications, grant documentation, and strategy materials, tasks that typically require legal counsel and divert staff from program work, with uncertain endpoints and possible repercussions for future public funding. The instrument therefore imposes not only reputational exposure but organizational strain, which can reshape future participation even without formal penalty.

Because large financial institutions generally maintain robust internal capacity, the marginal cost of responding to congressional inquiry—while high in absolute terms—can be absorbed and normalized. For NGOs and smaller actors, the marginal cost can be structurally destabilizing, forcing tradeoffs that are not merely financial but operational. They may need to retain outside counsel for congressional investigations, reassign limited staff to document production and preparation, and manage heightened donor and partner sensitivities around allegations framed as “collusion” or misuse of public funds. The same act of compelled response thus produces different behavioral incentives across the ecosystem. A bank may treat it as managed exposure, while a nonprofit may treat it as existential risk. This differential impact matters because it shapes who remains willing to engage publicly, who retreats into quieter forms of collaboration, and how the broader disclosure and engagement environment evolves.

This asymmetry reinforces the chapter’s central dynamic. Pressure does not require ideological dominance or legal finality to be effective. It operates through uncertainty, fragmentation, and the uneven reminder that national institutions must satisfy the most restrictive applicable regimes. In this context, blue-state responses complicate governance decisions but do not reverse the incentive structure established by letters, laws, hearings, and litigation. They add noise to the system without removing constraint.

Rhetorical Framing

Rhetorical framing is not incidental to these mechanics; it is one of the ways uncertainty is generated and made portable. Across these House arenas, ESG and climate-related activity is framed in terms associated with fiduciary breach, politicization, and collusion rather than neutral risk management. Financial Services hearings and related outputs describe ESG as “politically motivated” regulation that “distorts markets,” raises costs, and subordinates “pecuniary” investor interests to ideological goals, explicitly questioning whether ESG considerations are consistent with fiduciary duty. The Judiciary Committee’s Climate Control report and hearing characterize NGO–investor collaboration as “decarbonization collusion,” invoke antitrust law, and label targeted organizations a climate cartel, suggesting that their non-pecuniary, political objectives are incompatible with markets and competition.

Oversight’s ESG-related hearings and EPA grant investigations similarly cast NGO climate and equity work as radical or woke activity funded by taxpayer slush funds, implying ideological misuse rather than routine public-interest advocacy. These frames, entered into the Congressional record, operate like the language of an authoritative letter. They create a vocabulary that recipients must rebut, and they create interpretive risk for anyone associated with the labeled activity.

Notably, these actions often produce limited formal outcomes while sustaining persistent pressure. Many of the House actions described have not produced enacted statutes or direct enforcement actions against the NGOs and civil-society organizations scrutinized, and some hearings explicitly revealed a lack of evidence meeting antitrust or fiduciary-breach thresholds. Financial Services hearings contributed to a package of anti-ESG bills and a critical working-group report, but those measures did not translate—within the dates covered—into a comprehensive federal ban on ESG investing or a repeal of climate-risk disclosure. The Judiciary antitrust investigation yielded a staff report and public confrontations, but, according to witnesses and minority members, no demonstrated agreement or market harm, underscoring that process can be punitive in its demands without culminating in formal antitrust enforcement. This is precisely what makes the activity functionally equivalent to letters. Its effectiveness does not depend on winning, passing, or proving, but on imposing cost and maintaining uncertainty in a way that alters behavior upstream.

These House instruments also propagate pressure beyond Congress by supplying narratives and materials that can travel. Extensive document requests and repeated public questioning impose real costs that must be internalized by NGOs and advocacy investors, encouraging more cautious public positioning and collaboration even without adverse judgments. By associating specific organizations and initiatives with alleged cartels, slush funds, or fiduciary breaches in the congressional record, hearings introduce reputational and political risk that can affect funding decisions, partnership choices, and willingness to join collaborative efforts. And by amplifying legal narratives—about non-pecuniary motives, politicized investing, and antitrust exposure—these proceedings create a conceptual and documentary substrate that can be drawn upon by state officials, litigators, or private actors. In this way, House hearings and investigations operate as pre-law pressure instruments that perform the same upstream function as letters. They raise the expected cost of articulation, shift the internal balance toward defensibility, and prepare the terrain on which subsequent legal constraint can be codified.

State legislation converts political signaling into durable rules of engagement without requiring immediate enforcement. Unlike letters or hearings, laws formalize constraint by redefining the conditions under which ESG-related considerations are deemed permissible. Yet they do so in ways that rarely impose uniform prohibition. Instead, anti-ESG statutes operate through selective narrowing, jurisdictional fragmentation, and anticipatory compliance effects that extend beyond the boundaries of any single state.

Beginning in 2021, multiple states adopted statutes restricting how financial institutions, pension fiduciaries, and contractors could consider environmental, social, or governance factors. Texas and Florida emerged as early anchors, enacting laws that limited state business with firms deemed to boycott certain industries or that constrained the consideration of non-pecuniary factors in public investment decisions. These statutes did not require proof of harm or immediate enforcement to exert pressure. For nationally integrated institutions, the mere existence of divergent state standards altered risk calculations. Compliance systems had to be designed to accommodate the most restrictive applicable regime, even when that regime represented a minority position nationally.

As these statutes spread, variation rather than uniformity became the defining feature. Some states adopted broad prohibitions; others incorporated qualifications, exemptions, or performance-based escape clauses that allowed ESG-related considerations where financial benefit could be demonstrated. Arkansas, for example, enacted multiple anti-ESG measures while explicitly permitting deviation where restrictions would impose demonstrable financial harm. This pattern of adaptive design does not dilute the effect of legislation. It shifts the burden of justification inward. Institutions must now document not only what decisions are made, but why they meet evolving, jurisdiction-specific definitions of pecuniary interest.

Diffusion has been accelerated by legislative infrastructure that allows language, concepts, and framing to travel across states. Model bills, policy templates, and coordinated advocacy networks

enable rapid replication while permitting local modification. The result is not a single national rule, but a patchwork of partially aligned constraints that collectively raise the cost of articulation. Even where bills fail or are narrowed during passage, their introduction contributes to uncertainty by signaling scrutiny and redefining the outer boundaries of acceptable justification.

Importantly, the effectiveness of these laws does not depend on aggressive enforcement. In many jurisdictions, enforcement has been limited, delayed, or contested. Yet the statutes function by codifying uncertainty rather than resolving it. They narrow interpretive space, increase documentation requirements, and make forward-looking or qualitative ESG judgments harder to defend *ex ante*. Legislative attenuation—through carve-outs, exceptions, or negotiated language—reflects institutional friction rather than policy retreat. It demonstrates that pressure can reshape behavior even when legal outcomes are partial, conditional, or unresolved.

At the same time, blue-state responses—counter-letters, guidance, and public affirmations of ESG legitimacy—do not neutralize this pressure—as evidenced by the number of anti-ESG legislation passed since 2020. They operate as competing authoritative signals rather than as a resolution mechanism, and their practical effect is often to increase institutional complexity. For national institutions, these responses can raise the cost of silence by making non-engagement itself legible as a choice that may attract scrutiny from a different direction or fail to satisfy different constituencies. Yet they do not reduce the downside risk of speech in the jurisdictions where speech is most contestable. Instead, they create a condition of conflicting signals in which institutions must navigate multiple, partially incommensurate expectations: to speak with enough specificity to satisfy one set of authoritative demands while avoiding the specificity that heightens vulnerability under another. The result is not a balanced equilibrium but a more intricate constraint environment in which responses multiply while safe harbor remains absent.

Laws: Codifying Constraint without Needing Enforcement

State laws convert political signaling into institutional rules of engagement. State-level action offers speed, jurisdictional leverage, and asymmetric national impact. States can move more quickly than federal institutions, tailoring statutes to local political priorities while imposing obligations on firms that operate across state lines. The result is not uniform prohibition, but fragmented exposure that disproportionately affects nationally integrated institutions. For those institutions, fragmentation itself is constraining. Compliance systems must account for the most restrictive applicable regime, even if that regime reflects a minority position. The risk of violating one jurisdiction's rules can outweigh the benefits of satisfying expectations elsewhere, particularly when penalties are uncertain and enforcement standards undefined.

Blue-state laws, guidance, or shield provisions can create defensive space within particular jurisdictions, clarifying permissible conduct and offering institutional actors a basis for continued participation in ESG-related processes. But that defensive space is jurisdictionally

bounded and does not create a universal safe harbor for multi-jurisdictional institutions. The binding feature of the environment remains the persistence of red-state downside risk across the footprint of national operations, especially where restrictions are framed in ways that are difficult to cabin through formal compliance alone.

Anti-ESG statutes do not typically prohibit consideration of environmental, social, or governance factors outright. Instead, they redefine the conditions under which such consideration is deemed permissible. Fiduciary duty is narrowed. The interpretation of pecuniary interest is constrained. Activities that once fell within managerial discretion are reclassified as potential breaches if their financial justification cannot be articulated with sufficient immediacy or certainty. In this way, the laws codify uncertainty rather than resolve it. They introduce new thresholds without clearly specifying how those thresholds will be applied in practice. Compliance becomes a matter of interpretation, documentation, and defensibility rather than adherence to bright-line rules.

The absence of enforcement does not diminish the effect; it amplifies it by leaving institutions to imagine worst-case scenarios. Blue-state legal action can mitigate some of this uncertainty locally, but it often adds parallel layers of documentation and justification rather than canceling constraint. For institutions operating across jurisdictions, the practical response is rarely a simple choice between regimes. It is the construction of compliance architectures capable of surviving conflicting requirements. Defensive blue-state measures may reduce pressure to abandon ESG-related practices in specific settings, yet they do not eliminate the need to structure those practices, so they remain defensible in the most restrictive jurisdictions. The result is cumulative procedural burden—more routing, more review, more careful segmentation of what is said, where, and under what framing—rather than a return to a stable, uniform disclosure environment.

Pecuniary Redefinition as Legal and Rhetorical Tactic

Redefining what counts as pecuniary functions simultaneously as a legal maneuver and a rhetorical tactic. It converts analytical judgment into potential liability by narrowing the range of acceptable justifications. Decisions grounded in long-term risk mitigation, systemic exposure, or scenario analysis can be reframed as non-pecuniary if their benefits are indirect, delayed, or contingent. This maneuver does not require consistent enforcement to be effective. The possibility that internal analysis could later be characterized as preference alters behavior upstream. Institutions respond by narrowing the scope of what they are willing to document, disclose, or formally endorse, particularly in public-facing materials where context is limited and reliance harder to control.

Although anti-ESG statutes rarely impose outright bans, their effects can nonetheless be observed in measurable market outcomes. One of the clearest examples appears in the municipal bond market following the enactment of Texas's restrictions on financial institutions deemed to

boycott certain industries. Empirical analysis by academic economists found that, after the law took effect, the pool of underwriters participating in Texas municipal bond offerings narrowed, competition declined, and borrowing costs increased. The study estimated that, in the first eight months following implementation, Texas issuers paid hundreds of millions of dollars more in interest than they would have under prior market conditions.

These effects are instructive because they do not depend on enforcement actions, penalties, or findings of noncompliance. They arise from changes in participation and risk assessment. Financial institutions excluded from state business reduce activity; remaining participants adjust pricing to reflect legal, reputational, and compliance uncertainty. The result is not disruption in the sense of market breakdown, but a durable shift in terms. Costs are redistributed rather than eliminated, and those costs are borne by public issuers and taxpayers rather than by the institutions subject to restriction.

Importantly, this case does not establish a universal or deterministic outcome. Market responses vary by state, sector, and institutional structure. However, the Texas experience demonstrates that anti-ESG measures can generate observable economic effects even when statutory language is indirect and enforcement limited. The relevance for institutional behavior lies not in the magnitude of any single estimate, but in the signal such outcomes send. Once legal and political constraints are shown to alter pricing and access, they enter forward-looking risk calculations elsewhere. Anticipation travels faster than replication. Institutions do not need to experience identical outcomes to adjust behavior; the existence of credible precedent is sufficient to justify restraint.

Lawsuits matter less for outcomes than for how they prolong uncertainty. Litigation emerges from multiple directions—state actors seeking to enforce or test statutory interpretations, firms contesting restrictions, trade associations asserting member interests, and private plaintiffs exploring novel claims. This diversity of plaintiffs multiplies potential theories of liability, making it difficult for institutions to assess exposure with precision. The heterogeneity of litigation pathways ensures that even favorable outcomes in one context do not resolve risk elsewhere. Each case introduces new questions, procedural dynamics, and interpretive uncertainties that must be accounted for independently.

Litigation imposes cost, delay, and exposure regardless of outcome. Discovery processes compel disclosure of internal materials. Proceedings consume managerial attention and resources. The prospect of adverse precedent—however remote—enters institutional risk calculations, particularly where legal standards remain unsettled. Victory is not required for litigation to exert pressure. Even dismissed or unsuccessful cases validate the plausibility of challenge. They demonstrate that theories of liability can be articulated and entertained, extending uncertainty far beyond the immediate dispute.

Lawsuits function as feedback mechanisms within the pressure system. They reinforce chilling effects already in motion, providing concrete reference points that justify earlier restraint.

Decisions to narrow disclosure or limit ESG articulation appear prudent rather than overly cautious. Pressure becomes self-validating, as each escalation retroactively legitimizes prior adaptation.

Litigation represents the highest-cost and least frequently deployed instrument in the anti-ESG pressure sequence, but it carries disproportionate signaling power. Unlike letters or statutes, lawsuits introduce formal discovery, prolonged uncertainty, and reputational exposure that cannot be managed through quiet compliance alone. Their effectiveness lies less in their likelihood of success than in their capacity to convert abstract legal theories into concrete procedural risk.

Beginning in 2022, state attorneys general and other public officials initiated or threatened litigation against asset managers and financial institutions, alleging violations ranging from antitrust coordination to breaches of fiduciary duty. These cases often focused on participation in climate-related alliances, voting practices, or public commitments that could be reframed as collusive behavior or as prioritizing non-pecuniary objectives. Even where claims were novel or contested, their existence reinforced earlier signals delivered through letters and hearings by demonstrating that escalation was not merely rhetorical.

The impact of litigation risk is amplified by timing and asymmetry. Lawsuits unfold over years, not months, and impose costs regardless of outcome. Discovery obligations, internal communications review, and ongoing disclosure requirements extend uncertainty well beyond the courtroom. For nationally active institutions, the prospect of defending such cases in multiple jurisdictions further compounds exposure. As a result, litigation risk feeds backward into earlier decision-making stages. Policies, disclosures, and affiliations are reassessed not only for compliance with existing law, but for how they might be interpreted under future legal theories advanced by politically motivated plaintiffs.

Importantly, litigation need not proliferate to be effective. A small number of high-visibility cases is sufficient to validate threat narratives and recalibrate internal risk assessments. Once the plausibility of legal escalation is established, restraint can be justified internally without reference to enforcement outcomes. In this sense, lawsuits function as a confirmation mechanism within the broader pressure system. They signal that earlier warnings were not idle, and that unresolved ambiguity may ultimately be resolved through adversarial process rather than clarification.

The Chilling Effect: Behavioral Change without Resolution

The most consequential impact of anti-ESG pressure is not found in statutory text or judicial outcomes, but in the way institutions adjust their behavior in anticipation of contestation. Faced with legal ambiguity, reputational exposure, and asymmetric downside risk, organizations do not wait for clarity. They adapt preemptively, internalizing uncertainty as a governing condition. This adaptation is rational. In an environment where the costs of over-disclosure are potentially unbounded and the costs of restraint are diffuse and often invisible, institutions learn quickly

that caution dominates. The result is not silence, but attenuation. Information continues to flow, yet in thinner, more conditional, and more defensively structured forms.

Institutions operate under asymmetric risk. Reducing disclosure or softening language typically carries limited immediate downside, especially where expectations are fragmented across jurisdictions and stakeholder groups. By contrast, maintaining expansive, specific, or forward-looking articulation exposes organizations to challenges whose scope and duration are difficult to predict. Precision increases informational value, but it also increases vulnerability. Forward-looking statements, scenario analyses, and qualitative judgments—hallmarks of early ESG disclosure—are inherently contestable. As legal and political scrutiny intensifies, these forms of communication become liabilities rather than assets. Auditability bias reinforces this dynamic; what can be defended procedurally is favored over what might be informative substantively. Under these conditions, restraint emerges not as avoidance, but as prudent governance. Institutions learn to speak less, not because information has become irrelevant, but because articulation itself has become risky.

Disclosure rarely disappears outright. Instead, it changes character. Language becomes more conditional and procedural. Commitments are framed as processes rather than outcomes. Time horizons are shortened. Metrics are contextualized, caveated, or presented without narrative interpretation. Aspirational language gives way to technical description, and strategic intent is replaced by compliance-oriented phrasing. In some cases, disclosure is maintained but decoupled from decision-making. Firms report data while withholding explanatory context, leaving interpretation to the reader. In others, communication migrates from public-facing documents to private channels—bilateral investor discussions, non-public briefings, or limited-access materials—where reliance can be managed and exposure constrained. The cumulative effect is not opacity but thinning. Information remains available, yet it is less directional, less interpretive, and less likely to signal future intent.

A defining feature of this adjustment is divergence between internal process and external articulation. Internally, many institutions continue to analyze ESG-related risks with increasing sophistication. Scenario analysis persists. Transition planning evolves. Governance processes expand. In some cases, internal scrutiny deepens precisely because external communication has become more hazardous.

Externally, however, articulation narrows. Legal and compliance functions gain greater authority over disclosure decisions. Communications are filtered through risk assessments focused on defensibility rather than strategic coherence. The question shifts from “What is most informative?” to “What can withstand challenge?” This divergence reflects a broader organizational rebalancing. Functions oriented toward interpretation and judgment cede influence to those oriented toward liability management. Knowledge is produced internally but selectively expressed externally. What is known is not always said—not because it lacks relevance, but because saying it carries risk.

The chilling effect does not fall evenly across the ecosystem. As already explained, large financial institutions often possess the internal capacity to absorb uncertainty. For smaller firms, NGOs, and public-interest organizations, the same pressures can be destabilizing. Over time, this asymmetry shapes the visible landscape of ESG engagement. Those best equipped to manage risk remain present, albeit more guarded. Others reduce their public footprint, narrowing the range of voices and approaches that appear in formal discourse.

Importantly, these adjustments occur without doctrinal resolution. Institutions do not wait for courts to decide, regulators to clarify, or legislatures to settle disputes. Behavior stabilizes under uncertainty itself. This stabilization does not resolve underlying disagreements about ESG. It reshapes the conditions under which those disagreements are expressed. The system adapts by learning how to function on tightened ground—anticipating challenge, managing exposure, and calibrating speech long before outcomes are known. In this way, the chilling effect is not a temporary reaction, but an emergent equilibrium. It reflects how institutions behave when pressure is persistent, consequences are asymmetric, and clarity remains elusive.

A New Equilibrium of Constraint

ESG is neither voluntary nor prohibited—it is managed under threat. The result is a hybrid disclosure regime. ESG considerations are embedded within institutional processes, but their public expression is filtered through legal defensibility. Informational value yields to liability management. Behavioral change occurs without doctrinal resolution, driven by anticipatory adaptation rather than adjudicated outcomes.

This equilibrium does not resolve underlying debates. It stabilizes behavior under uncertainty. Institutions learn to operate on tightened ground, anticipating pressure, managing exposure, and adjusting practices long before clarity arrives. In doing so, they enter a constrained equilibrium that does not end contestation but reshapes the terrain on which it unfolds—setting the stage for the system-level dynamics examined in the next chapter.

Part II: The Analytical Foundation

If Part I establishes *what* the anti-ESG ecosystem is and how pressure enters it, Part II explains *how that pressure actually moves*. This section provides the analytical architecture that makes the remainder of the book intelligible. It does not predict outcomes, rank actors, or defend particular policy positions. Its purpose is more demanding: to discipline causal reasoning in a domain where disagreement is persistent, evidence is partial, and attribution is routinely misplaced.

The core challenge this part addresses is not lack of information, but lack of structure. ESG conflict is commonly explained through single-domain stories—political backlash, market correction, legal overreach, or cultural polarization. Each captures a fragment of reality. None explains why pressure introduced in one arena often manifests elsewhere, long after the original trigger and in forms that appear disconnected from their source. Without a framework that accounts for interaction, translation, and delay, even careful observers end up arguing past one another while describing the same system.

Chapter 3 introduces the seven-edge system that organizes the rest of the book. It reframes ESG conflict as a multi-edge institutional system in which pressure moves directionally across domains rather than residing within any single one. The chapter defines each edge conceptually and explains why linear explanations fail—not because actors are irrational or dishonest, but because transmission is imperfect, lagged, and filtered by institutional constraints. The aim is not abstraction for its own sake, but descriptive clarity—to make visible the architecture through which influence propagates.

Chapter 4 then puts that architecture in motion. Rather than revisiting the edges as static categories, it traces how pressure is transmitted, accumulated, and manifested as it moves from narrative to law, from law to capital, from capital to governance, and onward through the real economy, macro conditions, and politics before re-entering the narrative domain. The chapter shows why downstream observers routinely misattribute cause, why upstream actors underestimate their own influence, and why visible outcomes often obscure the mechanisms that produced them.

Chapter 5 closes the foundation by making explicit what the analysis holds constant. These constants—about system architecture, institutional behavior, legal uncertainty, capital constraints, firm adaptation, macro conditions, and the nature of disagreement—are not empirical claims offered for agreement. They are methodological commitments that stabilize interpretation. By stating them explicitly, the book avoids retrospective redesign of the analytical frame and invites disagreement to surface where it belongs—at the level of assumptions rather than conclusions.

Together, these chapters do not resolve the ESG debate. They explain why it persists. They provide a shared analytical map that allows later chapters to explore scenarios without re-litigating first principles at every turn. What follows—baseline dynamics, climate shock scenarios, and political pathways—depends on this foundation. The reader who disagrees with later outcomes is therefore encouraged to return here, identify which constants they reject, and trace how different assumptions would generate different system behavior.

Part II is not a pause in the argument. It is the machinery that makes the argument possible.

Chapter 3: The Seven Edge System

This chapter introduces the system that organizes the rest of this book. It does not argue a position, advance a thesis about outcomes, or evaluate the merits of any particular approach to environmental, social, or governance questions. Its purpose is more foundational—to define the kind of system in which contemporary ESG conflict unfolds and to explain why that conflict resists simple explanation.

Readers often approach ESG disputes with expectations shaped by other policy debates. They look for a dominant cause, a decisive actor, or a single arena in which the real action occurs. Some assume the story begins and ends with politics. Others locate the driver in markets, corporate governance, cultural change, or macroeconomic conditions. Each of these perspectives captures something real. None is sufficient on its own.

The difficulty is not that these perspectives are wrong, but that each implicitly assumes one domain can be treated as primary and others as derivative. That assumption produces explanations that are neat but incomplete. ESG conflict does not unfold within a single institutional arena. It emerges from interactions among multiple arenas, each governed by its own logic, constraints, and temporal rhythms.

The central claim of this chapter is not that ESG is uniquely complex, but that it is embedded in a multi-edge system, a structure composed of distinct institutional domains connected by directional relationships. Pressure originates in one domain, propagates across others, and returns in altered form. Along the way it is delayed, filtered, amplified, dampened, or redirected.

This chapter defines that system. It explains why linear narratives fail, introduces the idea of interacting edges, describes each edge at a conceptual level, and outlines the system's key properties. Nothing here depends on specific examples or presupposes agreement or disagreement with ESG itself. The goal is descriptive clarity—to make visible the architecture through which influence moves.

Why Linear Explanations Fail

Public debate tends to favor linear explanations. Linear stories are cognitively efficient. They move from cause to effect along a single path. They identify a trigger, a mechanism, and an outcome. They are easy to communicate and easy to contest. In complex institutional environments, however, linear explanations systematically mislead. A linear explanation assumes that causes are separable, that effects follow causes without significant delay, and that the relationship between cause and effect is stable across contexts. It assumes that influence flows in one direction and that the relevant domain can be isolated from others without losing explanatory power.

None of these assumptions hold in the ESG domain. ESG conflict spans narrative production, legal codification, capital allocation, firm governance, real economic activity, macroeconomic

conditions, and political competition. Each of these domains operates under different rules, incentives, and time horizons. Yet they are coupled. Decisions made in one domain reshape constraints and opportunities in others.

Linear explanations fail because they collapse this structure. They treat one domain as causal and the rest as passive. They focus on visible moments of change while ignoring slow-moving transmissions. They attribute outcomes to proximate events rather than to accumulated pressures that have traveled across institutional boundaries.

This failure is reinforced by institutional incentives. Participants within each domain naturally emphasize their own relevance. Political actors highlight political causes. Market participants emphasize market logic. Legal analysts focus on doctrine. Each perspective is locally coherent and globally incomplete. The result is a proliferation of partial explanations that conflict with one another, even when describing the same underlying dynamics. What is missing is not information, but a framework that accounts for interaction.

From Domains to Edges

Most analyses begin by identifying domains—politics, law, markets, firms, the economy, or culture. Domains are useful descriptive categories, but they encourage static thinking. They ask what is happening within a domain rather than how change moves between domains.

An edge shifts attention from position to transmission. An edge describes a directional relationship between two domains. It asks what flows from one to the other, how that flow is mediated, and why it is imperfect. Edges foreground process rather than location. They focus on translation, interpretation, and friction. In a multi-edge system, no domain is fully sovereign. Each domain both shapes and is shaped by others, but not symmetrically and not simultaneously. Influence moves through institutional filters. It encounters uncertainty and resistance. It arrives transformed. Thinking in edges also clarifies why actors often talk past one another. Each domain observes the system from a different vantage point. What appears decisive from one side of an edge may look marginal from the other. What feels like a clear signal to its sender may register as noise to its receiver.

The seven-edge system described here is not exhaustive in an abstract sense. One could imagine alternative decompositions or finer distinctions. Its value lies in explanatory discipline. It identifies the major transmission pathways through which ESG-related pressure moves over time. The edges are ordered for clarity, but they do not form a simple loop. Pressure introduced at one edge may dissipate before reaching another. Pressure may enter the system at multiple points simultaneously. Feedback exists, but it is delayed and indirect.

Before describing the system's properties, it is necessary to define each edge carefully.

Edge One: Narrative → Law (E1)

The first edge links narrative production to legal codification. What flows across this edge is not policy itself, but legibility. Narratives—stories about risk, responsibility, harm, or obligation—shape how problems are named and framed. They establish categories, suggest causal relationships, and define what counts as relevant evidence or acceptable justification.

For a narrative to exert pressure on law, it must stabilize sufficiently to be translated into legal language. Legal systems require abstraction, generality, and enforceability. They operate through rules, standards, and procedures rather than stories. This translation process is selective. Legal institutions do not absorb narratives wholesale. They extract elements that can be operationalized within existing doctrinal structures. Ambiguity is reduced. Moral claims are reframed as duties or prohibitions. Contextual detail is sacrificed for general applicability.

Pressure travels imperfectly across this edge for structural reasons. Narrative dynamics are fast and pluralistic; legal change is slow and constrained. Legal institutions privilege continuity and coherence. Narrative resonance does not guarantee legal viability. As a result, law reflects only a narrow slice of narrative pressure, often simplified or distorted relative to its origins. This gap is not accidental. It is a defining feature of the edge.

One observable instance of this transmission can be seen in the recent reframing of ESG from a discretionary risk-management practice into a purported legal violation. Narratives originating in advocacy organizations and political media recharacterized ESG integration as “ideological discrimination,” “boycotts of lawful industries,” or breaches of fiduciary duty. FN These claims did not enter law as moral arguments. Instead, they were selectively translated into legally legible categories—such as “pecuniary factors,” “financial materiality,” and “anticompetitive coordination”—that could be embedded in statutory language or formal investigatory authority.

That translation was enabled by intermediary organizations such as American Legislative Exchange Council and State Financial Officers Foundation, which reduced the cost of codification by converting narrative claims into model legislative text and standardized definitions. State officials in jurisdictions such as Texas and Florida were then able to adopt these abstractions with limited modification. In this process, much of the narrative’s original context was stripped away. What entered law was not a full account of ESG practice, but a narrowed operational proxy capable of being enforced through rules, prohibitions, or investigatory tools. This illustrates the defining feature of the narrative-to-law edge. Only those elements of a narrative that can be rendered abstract, general, and enforceable survive the crossing, and they do so in altered form.

Edge Two: Law → Capital Allocation (E2)

The second edge connects legal structures to capital allocation. What flows across this edge is constraint and permission. Law shapes the environment in which capital moves by defining what is allowed, what must be disclosed, what carries liability, and what constitutes acceptable

conduct. It alters the background conditions against which investment decisions are made. Pressure travels imperfectly across this edge for structural reasons. Legal signals must be interpreted through enforcement expectations, professional norms, and heterogeneous institutional mandates, and the result is uneven, delayed, and often anticipatory adjustment rather than uniform compliance.

Capital allocation systems attend closely to legal signals, but they do not respond mechanically. Legal texts are interpreted through guidance, enforcement patterns, and professional norms. Investors and intermediaries infer how rules will be applied and how risk will be priced. Pressure travels imperfectly because capital is heterogeneous. Some pools of capital are tightly constrained; others are agile. Time horizons differ. Risk tolerance varies. Anticipated enforcement may matter as much as formal rules, while formally significant changes may have limited impact if perceived as unlikely to be enforced. This edge transmits signals, not instructions.

One observable instance of this transmission can be seen in the use of state financial statutes and procurement rules to alter capital access rather than to regulate investment behavior directly. Several states, including Texas, West Virginia, and Oklahoma, enacted laws prohibiting public entities from contracting with or investing through financial institutions deemed to be “boycotting” designated industries. These statutes did not instruct banks or asset managers how to allocate capital in general. Instead, they redefined eligibility for participation in specific state markets—such as municipal bond underwriting or state pension management—thereby converting legal definitions into economic constraints.

The effect of this legal intervention was transmitted through institutional risk assessment rather than command. Financial institutions evaluated the potential loss of state business, exposure to investigatory action, and reputational signaling embedded in published restriction lists. In response, some firms adjusted their participation in particular state markets, altered disclosures, or modified contractual representations to preserve access. What traveled across this edge was not a mandate to change investment philosophy, but a reconfiguration of incentives and permissions that reshaped capital allocation at the margin. This illustrates the defining feature of the law-to-capital edge. Legal rules influence capital flows indirectly by altering the conditions under which market participation remains viable.

Edge Three: Capital Allocation → Firm Governance (E3)

The third edge links capital allocation to firm governance. What flows across this edge is influence over control and priorities. Capital allocation determines who holds claims on firms, under what conditions, and with what rights. These claims shape governance through voting power, board dynamics, managerial incentives, and accountability structures.

Governance is not a simple reflection of ownership. Firms are institutional entities with histories, routines, and internal hierarchies. Governance frameworks translate external financial

pressure into internal decision-making processes. Pressure travels imperfectly because governance is layered and contested. Different capital providers exert different forms of influence. Formal mechanisms coexist with informal norms. Similar capital allocation patterns can produce divergent governance outcomes. This edge transmits influence, not commands.

One observable instance of this transmission can be seen in the way shifts in capital allocator behavior altered internal governance signals at publicly listed firms without direct regulatory mandate. Large asset managers and lenders—including firms such as BlackRock, Vanguard, and State Street—adjusted stewardship guidelines, proxy voting practices, and engagement priorities in response to evolving legal, political, and fiduciary interpretations. These changes did not instruct companies how to operate. Instead, they modified the expectations attached to capital access, voting support, and long-term investor alignment.

Corporate boards encountered these shifts through governance channels rather than market prices alone. Changes in proxy support, engagement posture, and lending or insurance conditions were translated internally into board-level risk assessments concerning disclosure strategy, executive incentives, and reputational exposure. In response, some firms altered how ESG considerations were reflected in governance processes—such as adjusting executive compensation metrics, reframing sustainability oversight, or reducing the public salience of ESG commitments—while leaving underlying operations largely intact. What traveled across this edge was not an operational directive, but a reweighting of governance priorities mediated through capital relationships. This illustrates the defining feature of the capital-to-governance edge. Financial signals influence firm behavior indirectly, by reshaping how boards interpret fiduciary risk, stakeholder conflict, and managerial accountability.

Edge Four: Firm Governance → Real Economy (E4)

The fourth edge connects firm governance to real economic activity. What flows across this edge is organizational decision-making. Governance priorities influence investment choices, production processes, labor relations, and supply chain configurations. Over time, these decisions shape economic outcomes.

The real economy is not a passive recipient of governance intent. Firms operate within technological, competitive, and regulatory constraints. Execution introduces friction. Strategic decisions encounter coordination challenges, resistance to change, and external shocks. Pressure travels imperfectly because governance intent does not guarantee operational change. Translation from governance to economic reality is partial, delayed, and uneven. This edge transmits decisions, not outcomes.

One observable instance of this transmission can be seen in the way changes in board-level priorities altered operational decision-making without any change in underlying law or market demand. Following shifts in governance posture—often framed as heightened sensitivity to legal, political, or fiduciary risk—some firms reassessed how sustainability objectives were

embedded in capital budgeting, procurement standards, and asset-lifecycle planning. These reassessments did not announce new operational mandates. Instead, they adjusted internal criteria for evaluating projects, suppliers, and performance.

The effects of these governance signals appeared at the operational level through budget allocations and policy filters rather than directives. Divisional managers and procurement teams encountered revised thresholds for capital expenditures, altered key performance indicators, or relaxed requirements for supplier standards previously justified on sustainability grounds. In sectors such as energy, transportation, and manufacturing, this translated into delayed retrofits, extended asset lifespans, or reprioritization of near-term financial returns over longer-horizon transition investments. What traveled across this edge was not an ideological instruction, but a recalibration of decision rules that shaped how physical assets were deployed. This illustrates the defining feature of the governance-to-real-economy edge. Changes in governance intent influence economic activity indirectly, by modifying the internal constraints under which operational choices are made.

Edge Five: Real Economy → Macro Conditions (E5)

The fifth edge links real economic activity to macroeconomic conditions. What flows across this edge is aggregation. Firm-level and sector-level decisions accumulate into broader patterns affecting employment, investment, productivity, prices, and income distribution. These aggregates define macroeconomic conditions. Macro conditions are emergent. They arise from countless interactions and feedback loops. Pressure travels imperfectly because aggregation is nonlinear. Measurement lag obscures real-time understanding. Policy responses further mediate outcomes. The edge translates patterns into indicators, not intentions into outcomes.

One observable instance of this transmission can be seen in how localized operational constraints scale into macro indicators through aggregation and fiscal feedback. When insurers reduce coverage or sharply reprice risk in high-exposure regions—such as recent strains observed in Florida and California property insurance markets—firm- and household-level decisions adjust quickly. Projects are delayed, rebuilding timelines change, financing becomes harder to secure, and certain categories of development slow or relocate. None of these decisions is macroeconomic on its own. But in aggregate they alter asset values, investment patterns, and labor mobility in ways that become visible in broader measures of growth, prices, and credit conditions.

The transmission occurs through market and fiscal conduits rather than direct intent. Property valuation shifts affect municipal tax bases, reduced investment and higher operating costs propagate through local supply chains, and credit markets translate changing local fundamentals into borrowing costs for public entities. Over time, these accumulated changes can register as regional divergence, pressure on municipal finance, or inflationary pass-through from higher operating costs. What travels across this edge is not a policy signal but an arithmetic

transformation. Many real-economy adjustments, when aggregated and filtered through financial and fiscal channels, become macroeconomic conditions. This illustrates the defining feature of the real-economy-to-macro edge. The macroeconomy is not a separate arena, but an emergent layer produced by the accumulation and interaction of micro-level operational decisions.

Edge Six: Macro Conditions → Politics (E6)

The sixth edge connects macroeconomic conditions to political dynamics. What flows across this edge is salience. Macro conditions influence voter priorities, elite agendas, and institutional stress. They shape which issues command attention and how coalitions form. Pressure travels imperfectly because macro conditions are experienced unevenly. Aggregate indicators mask distributional effects. Political actors frame conditions strategically. Institutional inertia slows response. In this edge, economic pressure reshapes political landscapes over time, but not proportionally or predictably.

One observable instance of this transmission can be seen in the way inflationary pressure and insurance strain altered political salience and voter priorities independent of detailed policy understanding. Periods of elevated inflation—such as the recent post-pandemic cycle—and highly visible affordability shocks, including rising property insurance stress in states such as Florida and California, changed what citizens and elected officials treated as urgent. Even when the underlying macro causes were diffuse, the lived experience of cost increases or asset insecurity compressed time horizons and shifted attention toward short-term economic protection.

The transmission across this edge occurred through salience and attribution rather than technical diagnosis. Political entrepreneurs and partisan media frames translated broad macro stress into actionable political narratives about blame, competence, and legitimacy—often attaching complex outcomes to a small number of visible policy targets. In this environment, governance proposals associated with longer-horizon risk management became easier to portray as optional costs, while commitments to immediate affordability became politically dominant. What traveled across this edge was not a precise causal account of macroeconomic conditions, but a shift in political incentives and coalition behavior driven by how macro stress is experienced and interpreted. This illustrates the defining feature of the macro-to-politics edge. Macro conditions reshape politics indirectly, by reordering priorities, intensifying blame competition, and determining which messages become electorally viable.

Edge Seven: Politics → Narrative Entrepreneurs (E7)

The seventh edge links political dynamics back to narrative production. What flows across this edge is attention and authorization. Political contestation elevates certain themes, legitimizes certain frames, and provides resources to narrative entrepreneurs who shape public discourse. Narrative production is competitive and decentralized. Political endorsement can amplify narratives, but it does not guarantee dominance. Resonance depends on broader cultural and

social conditions. This edge reintroduces pressure into the narrative domain in altered form. The system evolves rather than returning to a baseline.

Pressure travels imperfectly across this edge because political validation reshapes narrative incentives without determining narrative content. Electoral outcomes and engagement signals operate through competitive selection rather than authoritative resolution, amplifying some frames while simplifying, distorting, or crowding out others rather than producing convergence.

One observable instance of this transmission can be seen in how shifts in voter sentiment and electoral validation altered the supply of narratives offered by ideological producers. As economic stress and political polarization intensified, patterns in polling, primary election outcomes, and audience engagement signaled which frames resonated most strongly with activated constituencies. These signals did not instruct narrative actors what to believe. They indicated which explanations, emphases, and vocabularies were rewarded with attention, funding, and political access.

Narrative entrepreneurs and affiliated institutions—such as policy organizations including Heritage Foundation and America First Policy Institute, alongside aligned media ecosystems—responded by reallocating effort toward frames that had demonstrated electoral or engagement success. Over time, this selective pressure favored simplified, high-salience explanations that linked complex institutional outcomes to a small number of identifiable causes. What traveled across this edge was not factual correction or policy instruction, but demand-side feedback about which narratives were politically viable. This illustrates the defining feature of the politics-to-narrative edge: Political outcomes and mass engagement do not merely reflect prevailing narratives; they actively shape which narratives are produced, refined, and amplified in the next cycle.

Properties of the Seven-Edge System

With the edges defined, the system's key properties become clear.

Non-linearity. Effects are not proportional to causes. Pressure may accumulate quietly and appear suddenly or dissipate without lasting impact.

Lag. Time delays obscure causality. Effects are often attributed to recent events rather than earlier transmissions.

Asymmetry. Influence flows unevenly. Changes are easier to introduce than to reverse.

Partial observability. No actor sees the whole system. Local signals are mistaken for comprehensive explanations.

Path dependence. History matters. Past transmissions shape current constraints and limit future possibilities.

These properties explain why outcomes are difficult to predict and why simplistic explanations persist.

Descriptive, Not Ideological

The seven-edge system is a descriptive framework. (See Table 2.) It does not assume that ESG is beneficial or harmful. It does not privilege any actor or domain. It does not imply inevitability or prescribe intervention. Its value lies in orientation. It provides a map of the terrain on which conflict unfolds. It clarifies why debates recur, why misunderstandings persist, and why interventions often have unintended effects.

Understanding the system does not resolve disagreement. It clarifies the structure within which disagreement occurs. Before any analysis of specific dynamics can proceed, it is necessary to understand what kind of system is being observed. This chapter has aimed to provide that understanding—a patient definition of a multi-edge system in which pressure moves, transforms, and returns.

Table 2. The Seven Edges Framework

Edge	Source → Destination	What Flows Across the Edge	Primary Instruments	Typical Frictions / Distortions	Lag Profile	Real-World Anchor (Illustrative)	What the Reader Should Notice
E1	Narrative → Law	Legibility (problem framing)	Framing language, model bills, AG letters, hearings	Moral claims narrowed to enforceable categories	Medium–Long	State AG campaigns reframing ESG as ‘fiduciary breach’ or ‘energy discrimination’	Law reflects translated narratives, not full public debate
E2	Law → Capital Allocation	Constraint and permission	Statutes, disclosure rules, blacklists, procurement rules	Anticipated enforcement outweighs formal text	Short–Medium	Texas SB 13 / SB 19 effects on municipal bond markets	Capital responds to legal risk signals, not ideology
E3	Capital Allocation → Firm Governance	Influence over priorities	Voting guidelines, engagement, lending terms, insurance pricing	Governance mediation blunts direct pressure	Medium	Asset managers reducing climate proposal support while maintaining private engagement	Capital shapes governance indirectly
E4	Firm Governance → Real Economy	Organizational decisions	CapEx budgets, procurement rules, asset retirement plans	Execution gaps between strategy and operations	Long	Firms ‘greenhushing’ publicly while maintaining EU-mandated operations	Decisions move faster than outcomes
E5	Real Economy → Macro Conditions	Aggregation of activity	Production, employment, pricing, asset values	Nonlinear aggregation and measurement lag	Long	Insurance withdrawal feeding housing and municipal finance stress	Macro effects emerge from accumulation, not intent

E6	Macro Conditions → Politics	Salience and grievance	Inflation, employment, tax base shifts	Attribution bias and selective blame	Short– Medium	Inflation elevating anti-ESG rhetoric in 2022–24	Economic pain reshapes politics unevenly Public sentiment selects narratives more than elites invent them
E7	Politics → Narrative	Attention and authorization	Electoral outcomes, media amplification, donor flows	High-arousal frames crowd out nuance	Short	Think tanks pivoting from market rhetoric to ‘woke capitalism’	

Chapter 4: Edge by Edge: How the System Actually Works

A system can be described without being understood. When people talk about pressure, they often imagine something overt and intentional—a demand issued, a rule imposed, a vote taken, a punishment threatened. In institutional systems, pressure is usually less direct. It is more often procedural than coercive. It consists of changes to incentives, constraints, defaults, and interpretations that reshape how actors perceive risk, responsibility, and feasibility. Pressure operates by narrowing what feels safe, routine, or defensible, and widening what feels exposed, exceptional, or costly. This chapter is about how pressure moves, not about who is right or what should happen.

This kind of pressure does not require unanimity, enthusiasm, or even agreement. It works by altering the background conditions under which decisions are made. An actor can oppose a pressure source and still respond to it, simply because the institutional environment has changed. Pressure does not operate by persuasion; it operates by changing the conditions under which decisions must be justified.

This chapter explains how pressure moves across the seven-edge system—how it is handed off from one domain to another, how it is reshaped in the process, and why its effects are so often indirect, delayed, or misattributed. The goal is not to evaluate outcomes or anticipate future developments. It is to make visible the mechanics of propagation.

Three distinctions organize what follows:

Transmission refers to movement. Pressure is transmitted when a change at one edge alters the inputs, constraints, or interpretive frames of the next edge. Transmission can occur quietly, without immediate visible effect.

Accumulation refers to layering. Pressure accumulates when constraints, risks, and procedural requirements stack over time. It is often experienced as friction rather than force.

Manifestation refers to visibility. Pressure manifests when it appears as an observable decision, policy change, behavioral shift, or institutional reaction. Manifestation is what most observers notice—and therefore treat as causal.

The central interpretive problem is that manifestation typically occurs far downstream from initial transmission, and often long after accumulation has begun. Actors infer causes from what they can see and experience directly. In a multi-edge system, that tendency reliably produces disagreement about what is really driving change.

What follows is an edge-by-edge traversal of the system in motion:

- Narrative → Law
- Law → Capital Allocation

- Capital Allocation → Firm Governance
- Firm Governance → Real Economy
- Real Economy → Macro Conditions
- Macro Conditions → Politics
- Politics → Narrative Entrepreneurs

At each transition, we examine how pressure is transmitted, how it is processed by receiving institutions, where friction or delay arises, and why downstream observers misread causality. Edge position does not imply responsibility or intent; it reflects sequence, not culpability.

Narrative → Law: From Meaning to Mandate

Narrative is not merely background discourse. In institutional systems. It supplies categories, establishes interpretive boundaries, and coordinates expectations about what is legitimate, irresponsible, urgent, or outdated. Narrative tells institutions what kinds of problems exist and what kinds of responses are intelligible.

Pressure enters the system at this edge not because narrative persuades everyone, but because it alters the meaning environment in which legal institutions operate.

How Pressure Is Transmitted

Transmission from narrative to law occurs through translation. Narrative speaks in broad, value-laden terms. Law requires precision, scope, and enforceability. Pressure moves when intermediary work converts interpretive frames into administrable forms.

Typical translation mechanisms include:

- **Stabilization of categories:** Distinctions become fixed enough to be named, defined, and referenced.
- **Problem articulation:** Diffuse concerns are reframed as identifiable harms or risks within legal remit.
- **Jurisdictional alignment:** Authority or oversight is asserted, extended, or clarified.
- **Procedural urgency:** Timelines, reporting cycles, or review mechanisms institutionalize attention.

These translations rarely occur in a single step. They pass through drafting communities, administrative bodies, advisory processes, and professional interpreters. Each step reduces ambiguity while narrowing scope.

Legal actors do not need to endorse a narrative's moral claims for transmission to occur. It can be enough to recognize that the narrative has altered the environment in which inaction or resistance carries reputational, political, or institutional risk.

Points of Friction and Delay

Friction here is largely semantic and procedural:

- **Ambiguity reduction:** Narrative thrives on flexibility; law requires bounded definitions.
- **Doctrinal limits:** Existing legal frameworks constrain what can be written.
- **Implementation feasibility:** Administration and enforcement capacity shape what survives.
- **Competing frames:** Multiple narratives can produce partial or inconsistent legal outputs.

As a result, legal forms often look thinner, narrower, or more technical than the narratives that motivated them. This is translation under constraint.

Why Downstream Observers Misattribute Cause

Downstream actors often treat law as the beginning of causality because law is visible, formal, and timestamped. A rule appears, behavior changes. The rule is therefore treated as the driver.

From a system perspective, law is often a recording device—the point at which prior narrative shifts are formalized. Meanwhile, observers closer to narrative may dismiss legal outputs as symbolic and underestimate how even modest codifications can reorganize behavior by creating compliance obligations, liability surfaces, and procedural routines.

Law → Capital Allocation: From Obligation to Risk

Capital allocation is governed not only by expected return, but by expected return under constraint. Pressure moves across this edge when law changes how capital institutions evaluate exposure.

How Pressure Is Transmitted

Transmission from law into capital allocation occurs through institutional interpretation and risk formalization. Receiving institutions embed legal changes into internal systems:

- **Compliance integration:** Requirements become policies, procedures, and control frameworks.
- **Liability modeling:** Changes alter expected downside risk, even when untested.
- **Eligibility constraints:** Rules redefine permissible activities for certain pools of capital.
- **Supervisory expectations:** Anticipated scrutiny shapes conservative interpretation.
- **Documentation burdens:** New requirements change transaction cost and timing.

Law is translated into risk scores, approval processes, and internal thresholds. This translation often errs toward caution because the cost of underestimating legal risk is asymmetric.

Points of Friction and Delay

Friction is interpretive and organizational:

- **Uncertainty resolution:** Institutions decide how conservative to be while interpretations stabilize.
- **Governance layers:** Changes require committee approval, system integration, and internal communication.
- **Competitive divergence:** Different institutions interpret the same pressure differently.
- **Standard-setting lag:** What counts as compliance takes time to settle.

Internal adjustment often precedes visible external change. Transmission precedes manifestation.

Why Downstream Observers Misattribute Cause

Firms experiencing tighter terms often attribute them to market sentiment or investor preferences. The legal translation work that reshaped risk models is largely invisible. Conversely, observers nearer the legal end of the edge may interpret capital responses as discretionary because they see outcomes without seeing internal risk calculus.

Capital Allocation → Firm Governance: From Risk Pricing to Internal Rulemaking

Firm governance is the internal system by which organizations make, justify, and constrain decisions. When capital allocation changes, governance adapts—not as direct command, but as response to altered feasibility.

How Pressure Is Transmitted

Pressure moves from capital into governance through embedded levers and expectations:

- **Conditionality:** Terms embed monitoring, reporting, or restriction requirements.
- **Cost signals:** Funding costs reshape internal budgeting and project justification.
- **Time-horizon compression:** Governance prioritizes defensibility over optionality.
- **Incentive alignment:** Performance metrics adapt to investor tolerance.
- **Information production:** Disclosure and assurance needs elevate risk and compliance functions.

What enters as external constraint becomes internal rule—policies, committees, approval gates, and escalation pathways.

Points of Friction and Delay

Friction arises from organizational complexity:

- **Institutional inertia:** New constraints require negotiation among internal stakeholders.
- **Interpretive variance:** Functions perceive the same pressure differently.
- **Cost opacity:** Some pressures manifest as diffuse risk rather than explicit expense.
- **Buffering:** Committees and delegated authority absorb pressure temporarily.

Governance adapts through procedural accretion rather than dramatic shifts.

Why Downstream Observers Misattribute Cause

Because governance is where decisions are made, it appears to be the source. Observers attribute causality to leadership choice or culture. Less visible is how options have already been narrowed by upstream constraints.

Firm Governance → Real Economy: From Policy to Practice

The real economy is where governance decisions are enacted and where pressure becomes experiential in workflows and constraints.

How Pressure Is Transmitted

Transmission occurs through operationalization:

- **Approval architectures:** Additional steps slow or redirect activity.
- **Standards and protocols:** Policies become checklists, training, and system requirements.
- **Contractual terms:** Procurement rules alter participation conditions.
- **Risk escalation:** Certain risks are elevated, changing frontline discretion.

Pressure spreads through routines rather than edicts.

Points of Friction and Delay

Operational friction includes:

- **Implementation lag:** Training, systems, and contracts take time to update.
- **Local discretion:** Units interpret requirements differently.
- **Goal conflict:** Efficiency can clash with compliance, producing uneven adoption.
- **Network effects:** Supply chains transmit changes unevenly.

Manifestation is often gradual and dispersed.

Why Downstream Observers Misattribute Cause

Operational actors experience change as bureaucracy or managerial preference. They rarely see upstream rationale, let alone legal or capital drivers. Upstream actors may misread slow operational change as resistance rather than absorption.

Real Economy → Macro Conditions: From Distributed Adjustment to Aggregate Pattern

Macro conditions register aggregate consequences of many localized decisions. This edge converts heterogeneous adaptation into statistical signal.

How Pressure Is Transmitted

Transmission occurs through aggregation:

- **Investment patterns:** Shifts in timing and scale alter demand and capacity.
- **Cost pass-through:** Operational costs affect prices and margins.
- **Market composition:** Participation constraints reshape competitive dynamics.
- **Risk redistribution:** Operational choices reallocate risk across the system.

Macro indicators reflect change without preserving micro-origins.

Points of Friction and Delay

Friction includes:

- **Measurement lag:** Data arrives slowly and is revised.
- **Noise:** Multiple forces interact, masking specific chains.
- **Adaptation:** Substitution and innovation delay aggregate effects.
- **Averaging:** Localized pressure may not move aggregates.

Macro manifestation often follows extensive micro transmission.

Why Downstream Observers Misattribute Cause

Macro observers reason in macro terms. They attribute shifts to broad conditions because those are the available tools. The institutional pathways that produced aggregates are obscured by compression. Real-economy actors then treat macro conditions as exogenous drivers, completing a loop of misattribution.

Macro Conditions → Politics: From Aggregate Stress to Political Response

Politics responds to macro conditions because they alter what is politically feasible and salient.

How Pressure Is Transmitted

Transmission occurs through incentive shifts:

- **Agenda prioritization:** Stress elevates certain issues.
- **Coalition dynamics:** Distributional effects reshape alliances.
- **Legitimacy pressure:** Volatility challenges institutional credibility.
- **Capacity constraints:** Fiscal and administrative limits shape responses.
- **Risk framing:** Uncertainty intensifies demands for control.

Political institutions respond to visibility more than upstream complexity.

Points of Friction and Delay

Friction arises from:

- **Timing:** Political cycles constrain response.
- **Causal contestation:** Competing narratives delay alignment.
- **Fragmentation:** Authority is dispersed.

- **Policy translation:** Responses often target visible nodes rather than causal ones.

Political action reflects macro salience more than structural diagnosis.

Why Downstream Observers Misattribute Cause

Politics requires simplified causality. Complex chains are compressed into mobilizable stories. Targets are chosen for visibility and resonance, not upstream position. Upstream actors perceive politics as arbitrary; political actors perceive upstream resistance as denial.

Politics → Narrative Entrepreneurs: From Conflict to Story Production

Political conflict generates demand for narrative production. Narrative entrepreneurs specialize in meeting that demand.

How Pressure Is Transmitted

Transmission occurs through:

- **Attention concentration:** Conflict creates audiences.
- **Legitimacy cues:** Political engagement signals importance.
- **Resource flows:** Institutions support information production.
- **Identity formation:** Coalitions require stories.
- **Simplification incentives:** Narratives must travel.

Narrative entrepreneurs convert political dynamics into repeatable frames.

Points of Friction and Delay

Friction includes:

- **Narrative competition:** Many frames compete.
- **Gatekeeping:** Amplification is uneven.
- **Credibility thresholds:** Narratives must connect to experience.
- **Coalitional compromise:** Frames must unify diverse interests.

The narratives that emerge are optimized for transmission, not neutral description.

Why Downstream Observers Misattribute Cause

Narratives present politics as response to obvious causes. Upstream institutional reactions are then read as validation, closing the loop.

Why Everyone Argues Past Each Other

Each edge generates its own evidence, its own sense of causality, and its own account of agency.

- Narrative actors see shifts in meaning and attention.
- Legal actors see formal obligations.

- Capital actors see risk and constraint.
- Governance actors see decision frameworks.
- Operational actors see process friction.
- Macro observers see aggregates.
- Political actors see legitimacy and mobilization.

Each perspective is locally coherent. Each is incomplete. The central mistake is to treat the point where pressure becomes visible as the point where it entered the system. Lag intensifies this. By the time manifestation occurs, transmission may be old history. Translation intensifies it further. Each edge compresses and reshapes what it receives, discarding causal detail.

Small Interventions, Large Downstream Effects, and the Reverse

The system does not preserve proportionality. Effects depend less on magnitude than on structural position.

Small interventions can have large downstream consequences when they alter:

- **Defaults:** Changing what happens automatically shifts behavior without agreement.
- **Veto points:** New approval or review stages multiply constraint.
- **Classifications:** Re-labeling changes how institutions treat an activity.
- **Liability surfaces:** Expanding exposure raises the cost of error.
- **Standardization:** Turning judgment into procedure embeds pressure durably.

Conversely, large visible actions may dissipate if they do not connect to institutional routines. Visibility is not durability. Without procedural embedding, pressure may manifest briefly and then fade. Observers often focus on scale rather than structure, mistaking loudness for force.

Transmission, Accumulation, Manifestation: Seeing the Invisible Middle

Understanding the system requires holding all three stages in view.

- Transmission is often hidden inside institutions.
- Accumulation feels like friction, not force.
- Manifestation is visible but misleading.

Actors focus on manifestation because it is legible. They debate visible decisions while missing the long middle where pressure moved, layered, and narrowed options. The resulting disagreement is structural, not psychological. People argue past each other because they are reasoning correctly from incomplete views.

This is how the system actually works—pressure moving edge by edge, reshaped by translation, delayed by friction, and revealed only after it has already done much of its work.

Chapter 5: What We Are Holding Constant

This chapter defines the methodological constants that structure the remainder of this book. These constants are not empirical claims offered for validation, nor normative positions offered for agreement. They are analytical commitments. Their function is to stabilize interpretation, discipline causal reasoning, and ensure that disagreement is located at the level of assumptions rather than displaced onto outcomes. The analysis that follows in subsequent chapters is conditional on these constants. Holding a condition constant is not a claim about its accuracy, but a decision about what is not being explained here.

Readers who disagree with later conclusions are therefore invited to return to this chapter and identify which assumptions they reject. Disagreement that does not pass through this step risks becoming incoherent, arguing over effects while leaving causes implicit or contesting outcomes while accepting the premises that generate them.

The constants are organized into seven domains: system architecture, institutional behavior, legal uncertainty, capital constraints, firm adaptation, macro conditions, and the nature of disagreement itself. Each domain is held constant for analytical purposes. None is defended as descriptively complete or universally true. The purpose is not to foreclose debate, but to give it a clear starting point.

System Architecture Is Treated as Fixed

The analytical system used in this book is assumed as given. Its boundaries, components, and internal structure are held constant throughout the analysis. The system is not presented as a full representation of the political economy surrounding ESG, nor as the only valid way to describe it. It is presented as a defined analytical construct within which causal relationships can be examined consistently.

The system consists of seven interacting edges. Each edge represents a structured transmission pathway through which incentives, constraints, and signals propagate. The edges are analytically distinct but empirically interdependent. No edge is treated as derivative of another, and none is granted default causal priority. Holding the system architecture constant serves three important methodological purposes.

- First, it constrains explanation. Without a fixed architecture, analysis can expand indefinitely, incorporating additional actors, motives, or domains whenever outcomes appear puzzling. Such expansion may feel explanatory, but it weakens causal discipline by allowing the analytical frame to shift in response to results.
- Second, it enables comparability. A stable architecture allows different conditions, scenarios, or parameter values to be examined within the same structural frame. Differences in outcomes can then be attributed to differences in inputs or interactions rather than to changes in the analytical model itself.

- Third, it prevents retrospective redesign. Analytical systems are often modified after outcomes are observed, implicitly tailoring structure to fit results. By holding the architecture fixed, this analysis resists that tendency.

Disagreement with the system architecture is possible and legitimate. However, such disagreement must be explicit. Arguments that critique conclusions derived from this system while implicitly relying on a different architecture are analytically misaligned. The analysis that follows is conditional on the system as defined, not on alternative frameworks that may be preferred.

Institutional Behavior Is Assumed to Be Constraint-Rational

Institutions in this analysis are assumed to behave rationally within constraints (i.e., bounded rationality). Rationality here is not defined as global optimization or perfect foresight. It refers to behavior that is internally coherent given institutional mandates, incentive structures, information limitations, and procedural constraints.

Institutions include firms, asset managers, asset owners, regulators, legislators, courts, and intermediaries. They are treated as organizations rather than as aggregations of individual beliefs or ideologies. Their actions are interpreted through formal responsibilities, risk exposure, and reputational considerations rather than through personal conviction. Four implications follow from this assumption.

- First, institutional behavior is not explained primarily by ideology. Institutions may use ideological language, but such language is treated as communicative or justificatory unless it demonstrably alters incentives or constraints.
- Second, bad faith is not a default explanatory mechanism. The analysis does not rely on hidden motives, deception, or coordinated intent to explain observed patterns. When outcomes appear inconsistent with stated objectives, the explanation is sought in constraint misalignment rather than duplicity.
- Third, institutions respond to incentives even when doing so produces outcomes that are unintended or undesirable from their own perspective. Rational behavior at the institutional level can generate systemic effects that no participant explicitly seeks.
- Fourth, institutional change is incremental. Adaptation typically occurs through policy adjustments, compliance strategies, and procedural revisions rather than abrupt strategic reversals. Sudden shifts are interpreted as responses to external shocks rather than spontaneous changes in preference.

Holding institutional rationality constant narrows the explanatory space. It excludes accounts that rely primarily on moral failure, cultural capture, or conspiratorial coordination. This exclusion is methodological rather than normative. Such phenomena may exist, but they are not required to explain the dynamics examined here. Readers who attribute outcomes mainly to

ideology or bad faith are operating with a different explanatory baseline. The analysis that follows does not attempt to adjudicate that baseline.

Legal Uncertainty Is Treated as Structural and Persistent

Legal uncertainty is assumed to be a durable feature of the environment rather than a temporary deviation awaiting resolution. This uncertainty arises from overlapping jurisdictions, evolving statutory interpretation, regulatory discretion, and the inherent lag between innovation and adjudication. In the context examined here, legal uncertainty manifests as ambiguity around fiduciary obligations, disclosure standards, permissible consideration of non-financial factors, and enforcement risk. These uncertainties are not assumed to converge quickly toward clarity. Four constants follow from this assumption.

- First, institutions operate under conditions of incomplete legal certainty. Decisions are made based on probabilistic assessments of risk rather than definitive legal guidance.
- Second, legal risk is asymmetric. The downside of adverse judgment or enforcement often exceeds the upside of permissive interpretation. This asymmetry biases behavior toward caution even when permissibility is plausible.
- Third, legal uncertainty interacts with reputational exposure. Institutions frequently treat reputational risk as a proxy for legal risk, especially when formal standards are unsettled.
- Fourth, institutions operating across jurisdictions tend to standardize behavior toward the most restrictive or uncertain regime rather than aggressively arbitraging differences.

Holding legal uncertainty constant avoids explanations that presume clear legal resolution as a prerequisite for behavior. It also avoids attributing conservative or heterogeneous responses to confusion or incompetence. Such responses are instead treated as rational under persistent uncertainty. Analyses that assume imminent legal clarity or decisive settlement will diverge from the framework used here. That divergence should be recognized at the level of assumptions.

Capital Is Assumed to Be Constrained

Capital is treated as constrained rather than frictionless. This constraint applies not only in aggregate but also at the level of deployable capital given institutional mandates, liquidity requirements, risk limits, and regulatory obligations. Capital constraints operate along four dimensions.

- First, capital is not perfectly substitutable. Capital allocated under specific mandates cannot be freely redeployed without violating contractual, fiduciary, or regulatory constraints.
- Second, time horizons matter. Short-term liquidity needs and performance evaluation cycles constrain long-term positioning even when long-term returns appear attractive.
- Third, risk budgets are finite. Institutions allocate risk capacity across competing exposures. An increase in perceived risk in one domain reduces capacity elsewhere.

- Fourth, transaction costs—financial, operational, and reputational—affect decision thresholds and slow reallocation.

Holding capital constraints constant prevents explanations that rely on unlimited capital mobility or frictionless adjustment. It also avoids attributing observed outcomes to preference or ideology when constraint suffices. Importantly, capital constraint does not imply macroeconomic scarcity. Even in periods of abundant liquidity, deployable capital remains bounded by institutional structure. Readers who assume near-perfect mobility or infinite substitutability are working from a different premise than the one adopted here.

Firm Adaptation Is Strategic but Bounded

Firms are assumed to adapt strategically to their environments. They monitor regulatory signals, investor expectations, consumer behavior, and competitive dynamics, and they adjust disclosures, operations, and investment accordingly. At the same time, firms are not assumed to be omniscient or perfectly anticipatory. Four constants define firm adaptation.

- First, adaptation is constrained by legacy assets, organizational structure, and sunk costs. Firms cannot pivot without incurring friction.
- Second, adaptation is probabilistic. Firms respond to perceived distributions of outcomes rather than to certain futures.
- Third, signaling matters. Firms adapt not only to realized constraints but also to anticipated scrutiny, which can produce preemptive or hedging behavior.
- Fourth, adaptation occurs under uncertainty about peer behavior. Competitive dynamics influence both the pace and direction of adjustment.

Holding firm adaptation constant avoids two symmetrical errors: treating firms as passive recipients of external pressure and treating them as hyper-rational actors capable of engineering outcomes with precision. The analysis assumes responsiveness without omnipotence. System-level outcomes are therefore understood as emergent results of aggregated adaptation rather than as products of coordinated design.

Macro Conditions Are Treated as Exogenous

Macroeconomic conditions—growth, inflation, interest rates, geopolitical shocks—are treated as exogenous to the analytical system. They affect the system but are not explained by it. This assumption has three implications.

- First, macro volatility is treated as background variation unless it directly alters institutional constraints or incentives within the system.
- Second, cyclical effects are not attributed to system dynamics unless they propagate through defined edges.
- Third, macro conditions are held constant across analytical exercises to isolate system behavior.

Holding macro conditions constant reduces confounding and improves interpretability. It allows the analysis to focus on interactions within the system rather than on external shocks. This choice limits the scope of the analysis by design. Readers interested primarily in macro-level causation will find the framework intentionally narrow.

Disagreement Is Treated as Upstream and Structural

Disagreement is treated as an object of analysis rather than as an obstacle to be overcome. The analysis assumes that persistent disagreement arises primarily from differences in assumptions rather than from differences in values or information alone. Three constants define this treatment.

- First, disagreement is assumed to be sincere. Participants are presumed to interpret the system differently rather than to argue in bad faith.
- Second, disagreement is structural. It persists because analytical baselines differ, not because misunderstanding can be fully eliminated.
- Third, disagreement is not resolved by observing outcomes. The same outcome can be interpreted differently depending on prior assumptions.

Holding disagreement constant shifts the analytical task. Rather than adjudicating which position is correct, the analysis seeks to clarify how different conclusions follow from different starting points. This approach does not neutralize disagreement. It locates it.

Analytical Consequences of Holding These Constants Fixed

Holding these constants fixed serves three methodological functions.

- First, it improves interpretability. Conclusions can be traced back to defined assumptions rather than inferred motives.
- Second, it sharpens disagreement. Readers are directed to contest premises rather than results.
- Third, it reduces false causal attribution. Explanations are constrained to operate within defined bounds rather than expanding ad hoc.

These benefits come at a cost. Certain explanations are excluded, and complexity is compressed. That cost is accepted in exchange for analytical clarity.

How to Read What Follows

Subsequent analysis proceeds within the bounds defined here. Interpret later conclusions by first checking whether they follow from the constants established in this chapter. If a conclusion appears implausible, identify which constant would need to change for that conclusion not to follow. If an implication feels objectionable, determine whether the objection targets the analysis or the assumptions that structure it.

This chapter does not ask for agreement. It establishes the ground on which disagreement will occur. What follows depends on what is held constant here.

Part III: Baseline Conditions and Climate Stress

Part III establishes the baseline against which all subsequent scenarios are evaluated. It does not yet introduce political change or alternative governance pathways. Instead, it describes how the anti-ESG ecosystem is currently configured and how that configuration responds when climate stress enters the system without forcing immediate reinterpretation.

Chapter 6 is not a forecast. It is a present-state description. It characterizes the existing configuration of institutional behavior under persistent uncertainty, using the analytical architecture and constants established in Part II. The chapter shows how institutions across domains converge on similar patterns of action—not through coordination or ideological agreement, but through repeated, constraint-rational adaptation. Institutional hardening describes a system that remains active, orderly, and legible while progressively narrowing discretionary space. It explains why stability can emerge without resolution, why behavior can converge without consensus, and why procedural defensibility becomes the dominant mode of institutional response.

Chapter 7 then introduces climate stress into that already-hardened system. Unlike later political scenarios, it does not posit a change in governance, electoral outcomes, or institutional authority. It constructs a conditional scenario grounded in observed and projected climate impacts, asking how a system characterized by institutional hardening responds when physical climate change is real, material, and increasingly visible but not yet synchronized across decision-making layers.

The key analytical move in Chapter 7 is not to question whether climate change is occurring, but to examine why visibility alone does not guarantee system-level adjustment. Climate shocks enter the system through operational disruption and financial loss, but they are translated, fragmented, and aggregated in ways that delay shared interpretation. Institutions respond actively and rationally within their mandates, yet those responses remain localized and incremental. The result is under-response without denial, adaptation without reinterpretation, and activity without convergence.

Together, Chapters 6 and 7 establish the system's baseline condition under stress. They show how a hardened institutional configuration absorbs pressure, manages disruption, and preserves functionality while deferring deeper recalibration. This baseline is essential. It defines what kinds of change are possible quickly, what kinds require constraint failure, and why later political scenarios do not begin from a neutral or flexible starting point.

Part IV builds directly on this foundation. The political scenarios that follow do not reset the system. They explore how stress is reallocated when electoral outcomes alter authority and incentives within a system that has already learned how to protect itself from uncertainty—at the cost of flexibility, interpretive ambition, and discretionary reach.

Chapter 6: Institutional Hardening

Institutional hardening describes a **present-state system configuration**, not a future forecast or a normative judgment. It characterizes how institutions are currently behaving under persistent uncertainty within the system architecture defined in earlier chapters. The scenario does not assume coordination, ideological convergence, or strategic intent. It describes an emergent pattern produced by repeated, rational adaptation to unresolved constraint.

This scenario is not a prediction about what institutions *will* do. It is an analytical description of what institutions *are already doing*, conditional on the constants established in Chapter 5. The analysis that follows assumes no sudden legal resolution, no collapse of political contestation, and no decisive clarification of fiduciary or reputational standards. Under those conditions, institutions converge toward a shared behavioral posture without ever agreeing on its causes or consequences.

Institutional hardening is therefore not a condition of withdrawal or paralysis. Institutions remain active across all seven edges of the system. Capital continues to move. Governance continues to function. Operations continue. Political activity persists. What changes is the **mode** of institutional action. Discretion is progressively constrained. Decision-making is reorganized around defensibility rather than interpretive ambition. Stability is achieved through procedural narrowing rather than consensus.

This chapter does not argue that institutional hardening is optimal, inevitable, or permanent. It establishes it as a **baseline configuration**—the system state against which subsequent scenarios are evaluated. If the reader rejects this configuration, the logic of later chapters will not follow. That disagreement is legitimate, but it must be explicit.

How Institutional Hardening Emerges from the Seven-Edge System

Institutional hardening does not originate at any single point in the system. It emerges from the cumulative effect of pressure transmitted across all seven structured transmission pathways, each operating according to its own logic and constraints. No pathway dominates the others, and none carries inherent causal priority. Hardening arises because each pathway independently rewards defensibility, pre-commitment, and proceduralization under conditions of persistent uncertainty.

Along the **Narrative** → **Law** pathway, plural and unresolved narratives are translated into narrow forms of legal legibility. Competing accounts of responsibility, risk, and legitimacy do not prevent action, but they raise the reputational and legal cost of interpretive choice. Legal systems extract only those elements of narrative that can be abstracted, stabilized, and enforced, privileging formulations that minimize ambiguity rather than resolve disagreement.

Across the **Law** → **Capital Allocation** pathway, legal uncertainty is converted into permission risk. Capital does not withdraw wholesale, but its deployability narrows. Anticipated

enforcement, jurisdictional variation, and ambiguous fiduciary standards absorb risk capacity, encouraging allocation decisions that can be defended ex ante rather than optimized ex post. Capital continues to move, but within increasingly constrained and standardized parameters.

Through the **Capital Allocation → Firm Governance** pathway, external constraint is internalized as procedural architecture. Boards, committees, approval thresholds, and documentation requirements expand as mechanisms for containing exposure. Governance becomes the primary site where uncertainty is managed, not by resolving competing claims, but by embedding caution into decision rules.

As pressure moves from **Firm Governance → the Real Economy**, discretionary judgment is displaced rather than eliminated. Judgment migrates upstream into the design of policies, thresholds, and escalation pathways, where it can be exercised prospectively and justified defensively. Once embedded in process architecture, execution is deliberately rendered judgment-poor. Operational activity continues, but through narrower channels and slower pathways shaped by compliance and review.

Across the **Real Economy → Macro Conditions** pathway, these micro-level frictions aggregate into indicators of stability rather than resolution. Output persists, markets function, and activity appears orderly, even as adaptability and responsiveness decline. Macro signals reflect continuity, masking the accumulation of rigidity beneath the surface.

Through the **Macro Conditions → Politics** pathway, apparent stability dampens urgency without eliminating contestation. Aggregate indicators do not converge on clear diagnoses, and distributional effects remain uneven. Political actors interpret persistent ambiguity and volatility as reasons to reduce discretionary exposure rather than to arbitrate underlying disagreement.

Finally, along the **Politics → Narrative Entrepreneurs** pathway, unresolved contestation replenishes narrative plurality. Political outcomes and attention signals authorize certain frames while foreclosing others, reshaping which narratives are produced and amplified in the next cycle. Rather than restoring coherence, political conflict feeds back into narrative competition in altered form.

Institutional hardening emerges because each transmission pathway independently selects for defensibility under uncertainty and because those selections accumulate faster than opportunities for learning, coordination, or reversal. Discretion is not removed from the system; it is relocated into upstream design choices that narrow downstream flexibility. The result is a system that continues to function, but does so on tightened ground—stable in appearance, constrained in adaptation.

Constraint Accumulation as the Dominant Mechanism

The defining mechanism of institutional hardening is constraint accumulation, not ideological alignment or strategic retreat. Institutions do not converge because they share beliefs. They converge because similar adaptations are repeatedly selected under similar conditions.

Each individual adjustment is modest : a revised guideline, an expanded disclosure requirement, an additional review step, a narrower eligibility definition, a more conservative interpretive memo. In isolation, none of these changes appears transformative. Each is easily justified as prudent, temporary, or technical.

Over time, however, these adjustments layer. Discretion becomes costly not because it is prohibited, but because it is difficult to defend across multiple evaluative frames. The burden of justification increases even when decisions are internally coherent. Institutions respond by shifting judgment upstream—away from individual decisions and into the design of processes.

Procedural defensiveness functions as a self-reinforcing internal selection mechanism.

Compliance frameworks privilege repeatability over interpretation. Oversight functions reward adherence to process rather than contextual judgment. Training emphasizes rule application rather than evaluative reasoning. Performance evaluation favors consistency and defensibility over situational optimization. Together, these mechanisms select for further procedural reinforcement, making deviation increasingly salient and costly. The system does not merely adopt defensiveness; it continually reproduces it.

Constraint accumulation operates through local feedback loops. Scrutiny generates caution. Caution generates procedural reinforcement. Reinforced procedures reduce exposure. This loop does not require coordination or communication. It is selected for because it reduces institutional vulnerability under persistent uncertainty. The result is a system that remains active and legible, but increasingly formalized. Decision-making is displaced from context-specific evaluation to rule-bound application. Institutions appear stable not because disagreement has been resolved, but because it has been procedurally contained.

This is the internal logic of institutional hardening: A configuration stabilizes behavior without resolving conflict, preserves functionality without restoring interpretive openness, and maintains institutional presence without arbitrating underlying disagreement—achieving coherence through procedural containment rather than interpretive resolution.

How Institutional Hardening Manifests Across the Seven Edges

Institutional hardening does not propagate through new mechanisms. It expresses itself through the system's existing edges, altering how pressure is transmitted, processed, and absorbed at each transition. What changes is not the direction of influence, but the mode by which institutions respond. Across the system, discretion is progressively displaced by formalization,

interpretive flexibility by procedural defensibility, and contextual judgment by standardized criteria.

E1 —Narrative → Law: From Interpretive Pluralism to Definitional Narrowing

Under institutional hardening, the narrative-to-law edge becomes increasingly selective. Legal institutions continue to receive narrative pressure, but they respond by extracting only those elements that can be rendered precise, bounded, and enforceable. Broad interpretive claims are narrowed into definitional disputes. Ambiguity is treated as liability rather than as space for judgment.

As narratives intensify and diverge, legal actors prioritize legibility over completeness. Categories are stabilized not because they resolve disagreement, but because they reduce exposure. Legal responses increasingly take the form of definitional constraints, scope limitations, and procedural triggers rather than expansive mandates or principles. What hardens is not the content of law, but its tolerance for interpretive openness.

Illustrative example

As ESG narratives became politically contested across US states, legal institutions did not attempt to reconcile competing accounts of risk, responsibility, or legitimacy. Disagreement persisted rather than converging toward a shared interpretation, increasing the reputational and legal cost of adopting expansive or principle-based legal positions.

Instead, narrative pressure was selectively translated into narrow definitional questions that could be rendered administrable within existing legal frameworks—such as whether particular considerations qualified as pecuniary, whether certain practices constituted prohibited boycotts, or whether disclosure thresholds had been crossed. These abstractions appeared repeatedly in state statutes, attorney general opinions, and fiduciary guidance. What crossed the edge was not the narrative itself, but a reduced operational proxy that allowed legal action to proceed while limiting interpretive exposure.

E2 —Law → Capital Allocation: From Permissibility to Conservative Eligibility

At the law-to-capital edge, institutional hardening manifests as anticipatory conservatism. Capital institutions do not wait for definitive legal resolution. Instead, they translate legal ambiguity into risk parameters that bias decision-making toward defensibility. Permissible actions are treated as risky if justification would be costly, contested, or jurisdictionally complex.

Eligibility screens, contractual representations, and internal compliance thresholds increasingly substitute for case-by-case judgment. Capital continues to flow, but within narrower corridors defined by standardized interpretations of legal exposure. What hardens is not capital supply, but the conditions under which capital can be deployed without escalating institutional risk.

Illustrative example

Following the passage of Texas anti-ESG statutes affecting municipal contracting, several major banks reduced or exited participation in public finance underwriting in the state. This response did not reflect a rejection of ESG considerations as an investment philosophy, but an assessment that participation under newly contested eligibility rules carried heightened legal and reputational risk.

For institutions that sought to preserve or re-establish access to state business, adjustment occurred through internal constraint rather than outward policy change. Eligibility screens were tightened, contractual representations were revised, and documentation requirements were expanded to ensure that participation could be defended ex ante under uncertain enforcement conditions. Legal ambiguity was thus translated into capital constraints: Capital continued to flow, but only where exposure could be rendered procedurally defensible. What crossed the edge was not a directive to alter investment objectives, but a redefinition of the conditions under which capital deployment remained permissible without escalating institutional risk.

E3 —Capital Allocation → Firm Governance: From Strategic Optionality to Procedural Control

As capital constraints formalize, firm governance adapts by internalizing defensibility as a priority. Governance frameworks shift emphasis from strategic discretion to risk containment. Decision authority is redistributed toward committees, controls, and review processes designed to demonstrate procedural rigor rather than contextual responsiveness.

Boards and senior management continue to make decisions, but those decisions are increasingly shaped upstream by capital-linked expectations concerning disclosure, oversight, and risk management. Governance hardens by converting external constraints into internal rules—policies, escalation paths, and approval thresholds—that narrow the space for discretionary interpretation at the point of action.

Illustrative example

As capital allocators adjusted stewardship expectations, disclosure standards, and risk signaling under heightened legal and political scrutiny, firms responded by reorganizing internal governance rather than by altering stated strategic objectives. Sustainability-related decisions were increasingly routed through expanded board committees, additional review layers, and formal escalation pathways designed to demonstrate procedural rigor.

These governance adjustments did not prescribe substantive outcomes. Instead, they restructured how decisions were evaluated, justified, and approved. By embedding defensibility into committee mandates, documentation requirements, and approval thresholds, firms converted external capital-related uncertainty into internal process constraints. What crossed the edge was not a demand to pursue or abandon particular strategies, but pressure to govern decisions in ways that could be defended to capital providers under contested conditions.

E4 —Firm Governance → Real Economy: From Policy Intent to Operational Filters

At the governance-to-real-economy edge, institutional hardening appears as friction rather than directive. Governance priorities are operationalized through internal filters—budgeting criteria, procurement standards, performance metrics—that shape which projects advance and which stall. Operational actors experience these changes as revised thresholds, extended timelines, or additional justification requirements rather than as explicit strategic shifts.

This hardening does not eliminate activity. It redirects it. Investments with clear, short-term defensibility proceed more easily than those requiring contextual explanation or longer-horizon justification. Over time, operational decision-making becomes more standardized and less exploratory, even in the absence of changes in market demand or formal regulation.

Illustrative example

In the US insurance sector, enhanced board-level climate risk governance translated into revised underwriting standards, pricing adjustments, and exposure limits. Insurers did not issue blanket prohibitions on coverage or announce strategic withdrawal from climate-exposed markets. Instead, governance priorities were operationalized through revised underwriting criteria, expanded documentation requirements, and more stringent review processes.

These operational shifts did not arise from changes in customer demand or formal regulatory mandates. They reflected the application of internal filters that increasingly favored risks that could be justified procedurally under heightened governance scrutiny. Coverage continued, but activity was redirected toward regions, asset classes, and risk profiles that were easier to defend ex ante, illustrating how governance intent shaped real-economy outcomes indirectly through operational constraint rather than directive.

E5 —Real Economy → Macro Conditions: From Distributed Caution to Aggregate Rigidity

As hardened operational practices accumulate, their effects register at the macro level through aggregation. Individual decisions—delayed investments, extended asset lifespans, conservative risk pricing—are not macroeconomic in isolation. In combination, they contribute to patterns of slower adjustment, regional divergence, and increased sensitivity to shocks.

Macro indicators reflect these effects without preserving their institutional origins. What appears as reduced flexibility or heightened volatility at the macro level is often the downstream manifestation of widespread micro-level defensiveness. Institutional hardening thus contributes to macro conditions that are stable yet brittle, resilient in routine operation but less adaptive to disruption.

Illustrative example

Climate-driven insurance nonrenewals and premium increases concentrated in high-risk regions such as Florida and California reduced coverage availability and affordability at the household and firm level. These decisions were operational responses to underwriting defensibility and

capital adequacy constraints rather than coordinated attempts to alter regional economic outcomes.

In aggregate, however, these localized adjustments propagated into broader housing market stress, credit contraction, and regional economic fragility. The resulting macro condition did not originate from macroeconomic policy choices, but from the accumulation of micro-level defensive responses selected under hardened institutional conditions.

Climate-driven insurance nonrenewals and premium increases concentrated in high-risk regions such as Florida and California reduced coverage availability and affordability at the household and firm level. These actions were taken as localized operational responses to underwriting defensibility, loss volatility, and capital adequacy constraints, not as coordinated efforts to influence regional economic outcomes.

In aggregate, however, these dispersed adjustments propagated into broader housing market stress, tighter credit conditions, and regional economic fragility. What emerged at the macro level was not the result of a single policy choice or strategic decision, but the arithmetic accumulation of many micro-level defensive responses selected under conditions of institutional hardening, illustrating how real-economy caution translates into macro rigidity through aggregation rather than intent.

E6 —Macro Conditions → Politics: From Structural Stress to Salience Compression

When hardened macro conditions become visible, political response is shaped by salience rather than diagnosis. Aggregate stress—rising costs, constrained insurance availability, regional disparities—compresses political time horizons and elevates demands for immediate protection. Longer-horizon risk management becomes easier to frame as optional or expendable.

Institutional hardening amplifies this effect by limiting the range of politically legible responses. Because many underlying constraints are procedural and indirect, political actors focus on visible pressure points rather than upstream institutional design. What hardens here is not political ideology, but the incentive structure governing what kinds of responses are rewarded.

Illustrative example

Periods of elevated inflation and cost-of-living pressure altered political salience by compressing voter time horizons and prioritizing immediately felt economic stress. Rising prices, insurance availability constraints, and visible affordability shocks became dominant reference points for political attention, even when their underlying causes were diffuse and structurally complex. These conditions elevated demands for short-term relief and identifiable intervention targets, while longer-horizon risk management initiatives struggled to maintain visibility.

The transmission across this edge operated through salience rather than diagnosis. Political actors and media frames translated aggregate macro stress into simplified narratives of blame, urgency, and protection that were electorally legible. Structural explanations requiring

coordination across legal, capital, or governance domains remained difficult to sustain, not because they lacked validity, but because hardened institutional constraints limited the range of responses that could be rendered immediately visible and attributable. As a result, political incentives shifted faster than institutional capacity to adapt, reinforcing salience-driven action over systemic reinterpretation.

E7 —Politics → Narrative Entrepreneurs: From Interpretive Exploration to Demand-Side Optimization

At the final edge, political outcomes feed back into narrative production under hardened conditions. Narrative entrepreneurs respond less to analytical completeness than to demonstrated resonance. Electoral signals, engagement metrics, and funding flows indicate which frames are politically viable. Over time, these signals favor simplified, high-certainty narratives that align with hardened institutional incentives.

Narrative production remains active and competitive, but it becomes increasingly optimized for transmission rather than exploration. Complex institutional dynamics are compressed into accessible causal stories. What hardens is the narrative supply itself: Fewer frames are tested, and those that succeed are refined rather than reconsidered.

Illustrative example

Following state-level anti-ESG actions and the publication of financial-institution restriction lists, narrative production shifted toward frames that had demonstrated political and electoral traction. ESG practices were increasingly characterized as forms of economic boycott, financial coercion, or ideological exclusion—not because new empirical evidence about governance or investment behavior had emerged, but because these frames had been validated through legislative success, media amplification, and constituent engagement.

The transmission across this edge operated through demand-side signals rather than analytical refinement. Polling results, primary outcomes, fundraising patterns, and audience engagement metrics indicated which narratives resonated within hardened political conditions. Narrative entrepreneurs responded by reallocating effort toward frames that reliably mobilized attention and access. Over time, this selection pressure compressed narrative diversity, favoring simplified causal stories optimized for transmission and repetition. Political outcomes thus reshaped narrative supply not by correcting or resolving disagreement, but by selecting for explanations that traveled efficiently within the existing institutional configuration.

Hardening as Mode, Not Endpoint

Across all seven edges, institutional hardening manifests as a shift in how institutions respond, not whether they act. Pressure continues to move. Decisions continue to be made. The system remains functional. What changes is the locus of discretion, the tolerance for ambiguity, and the institutional appetite for interpretive risk.

This hardened configuration does not resolve disagreement. It contains it.

Why Institutional Hardening Is a Present-State Description, Not a Forecast

Institutional hardening is not introduced here as a hypothetical future trajectory or as a contingent outcome dependent on political shocks. It is a description of a system configuration that has already emerged under existing conditions. The behaviors described in this scenario are observable now because the constraints that generate them are already in place.

Legal uncertainty surrounding fiduciary duties, disclosure obligations, and permissible consideration of non-financial factors has not resolved. Political contestation over ESG has not converged toward a stable settlement. Reputational sensitivity has intensified rather than dissipated as institutions face scrutiny from multiple audiences with incompatible evaluative standards. Capital constraints remain binding, shaped by risk budgets, regulatory obligations, and asymmetric downside exposure.

As this configuration stabilizes, it suppresses interpretive learning. Reduced discretionary variance limits opportunities for institutions to test alternative interpretations, observe differential outcomes, and clarify norms through practice. New information continues to enter the system, but it encounters hardened procedural filters that favor consistency over revision. Over time, this narrows the pathways through which learning can occur, systematically trading adaptability for defensibility. The system becomes less capable of updating its interpretations even as external conditions evolve.

Given these conditions, the institutional adaptations described in this chapter do not require additional escalation to occur. They arise from the routine operation of institutions seeking defensibility under uncertainty. Procedural reinforcement, conservative interpretation, and formalization of discretion are not emergency measures. They are sustainable responses selected repeatedly because they reduce exposure within the existing system architecture.

Institutional hardening therefore describes how the system is functioning, not where it might go. Later scenarios explore how this configuration responds to additional stress. This chapter establishes the baseline from which those responses occur.

What This Configuration Explains Well—and What It Does Not

Institutional hardening explains a specific class of observed phenomena particularly well. It explains why institutions that publicly signal commitment to ESG principles nevertheless behave cautiously, inconsistently, or defensively in practice. It explains why organizations adopt extensive procedures without producing visible directional change. It explains why activity continues while ambition narrows, and why discretionary innovation gives way to standardized compliance. It also explains why institutional behavior appears coherent across sectors despite the absence of coordination. Similar procedural adaptations emerge because similar constraints are operating, not because actors share ideology or strategy.

What institutional hardening does not explain is intentional obstruction, ideological capture, or coordinated withdrawal from contested domains. The scenario does not assume that institutions are attempting to defeat ESG, protect incumbents, or resist transition. Nor does it assume that institutions are optimizing for long-term outcomes or social welfare. It explains behavior through constraint rationality, not motive alignment.

The scenario also does not resolve normative disagreement. It does not tell us whether hardened institutions are behaving well or poorly, responsibly or irresponsibly. It describes how institutions behave when disagreement persists and resolution is unavailable. This distinction matters. Readers seeking explanations grounded in ideology, conspiracy, or moral failure will find this framework incomplete by design. Readers seeking to understand why behavior stabilizes in the absence of agreement will find it clarifying.

Why Institutional Hardening Is Stable but Fragile

Institutional hardening is stable because it is self-reinforcing. Formal procedures reduce discretionary exposure. Reduced exposure lowers the cost of continued operation under uncertainty. Over time, investments in compliance systems, documentation, training, and oversight create path dependence. Reversal becomes costly even if upstream conditions soften.

Stability is reinforced by mutual visibility. As hardened practices converge, deviation becomes more salient and therefore riskier. Institutions that attempt discretionary expansion face heightened scrutiny precisely because they stand out against a backdrop of formalism. At the same time, this configuration is fragile. Its stability depends on the persistence of uncertainty rather than its resolution. Hardened systems are resilient to disagreement but poorly adapted to sharp shocks that demand rapid interpretive judgment.

Fragility appears when formal procedures encounter conditions they were not designed to address: sudden climate shocks, liquidity crises, legal discontinuities, or abrupt political realignments. In such moments, procedural defensiveness can delay response, misallocate responsibility, or amplify risk rather than contain it. This combination—durable under steady pressure, brittle under shock—is a defining feature of the configuration. It explains why the system appears inert yet tense, orderly yet vulnerable.

How Institutional Hardening Sets the Boundary Conditions for the Scenarios That Follow

The remaining scenarios in this book do not replace institutional hardening. They operate within it. Chapter 7 examines how a hardened system responds to physical shocks from climate change when interpretive flexibility is already constrained. Chapters 8–10 examine three scenarios conditioned on hypothetical outcomes of the 2028 elections. Each scenario is grounded in the institutional hardening described in this chapter and in observed and projected climate conditions over the intervening period.

In each case, the central question is not whether institutions change character, but how a hardened configuration reallocates stress. Do pressures accumulate silently? Do they surface at particular edges? Do institutions absorb shock through further formalization, or does constraint saturation produce rupture?

Institutional hardening therefore functions as the baseline condition against which variation is observed. It defines what can change quickly and what cannot. It explains why some interventions produce outsized downstream effects while others dissipate. It clarifies why disagreement persists even as behavior stabilizes.

What follows is not a sequence of alternative worlds. It is a set of conditional responses by a system that has already learned how to protect itself from uncertainty—at the cost of flexibility, interpretive ambition, and discretionary reach. The scenarios are not predictions. They are analytical tools for examining how the institutional hardening of the anti-ESG ecosystem shapes the ways in which the US is likely to address climate policy under stress.

Chapter 7: Climate Shock without Visibility

This chapter constructs a scenario, not a forecast. It examines a plausible system response to climate change under specific, explicitly stated conditions. It does not predict outcomes, assign probabilities, or claim inevitability. Its purpose is analytical—to describe how visible climate change can coexist with institutional under-response when visibility fails to align across decision-making layers.

The scenario assumes the institutional configuration described in Chapter 6. Institutions are already operating under conditions of institutional hardening, characterized by procedural defensiveness, constrained discretion, and path-dependent risk management. Decision-making is shaped by bounded rationality. Actors optimize locally, under partial information, within mandates that privilege defensibility over reinterpretation. No sudden redesign of governance structures, information systems, or incentive frameworks is assumed.

The chapter does not assume coordinated resistance to climate action, rejection of climate science, or deliberate suppression of information. Physical climate change is treated as real, material, and increasingly observable. Weather events are visible. Climate trends are statistically visible. The binding constraint explored here is not belief, but the failure of visibility to synchronize across institutional layers in a way that compels system-level adjustment. This scenario therefore differs from accounts that attribute under-response to denial, ideology, or obstruction. Institutions respond actively to what they can see, measure, and justify. The question examined is why those responses remain localized and incremental even as physical climate risk accumulates.

Finally, this chapter is deliberately conditional. It represents one plausible system response given a particular pattern of climate impacts, timing, and salience. Different climate trajectories—even within the same seven-edge system architecture—could produce different visibility dynamics and materially alter the institutional and political scenarios examined in later chapters. This chapter establishes a baseline for that analysis, not a claim about what must occur.

Entry of Climate Shocks into the System

Climate shocks enter the system through direct physical impacts on assets, operations, and human activity. These impacts are increasingly frequent, increasingly costly, and increasingly visible at the point of occurrence. Extreme weather events—heat waves, floods, storms, wildfires—disrupt production, damage infrastructure, interrupt logistics, strain labor capacity, and generate insured and uninsured losses. Alongside these acute events, slower-moving climate trends (e.g., rising average temperatures, shifting precipitation patterns, and sea-level rise) alter baseline operating conditions over longer horizons.

Recent experience illustrates the scale of this shift. The US now experiences dozens of weather and climate disasters each year with losses exceeding \$1 billion per event, a pattern that has

become persistent rather than exceptional. At the same time, global climate indicators show that background conditions—average temperatures, ocean heat content, and sea levels—are moving steadily outside historical ranges, reshaping the operating environment even in the absence of headline disasters.

At the point of impact, visibility is high. Firms, households, insurers, utilities, and local governments experience climate-related disruptions directly and concretely. Facilities shut down. Supply chains reroute. Insurance claims are filed. Maintenance costs rise. Emergency expenditures increase. These events are not abstract signals; they are operational facts.

In high-exposure regions, this visibility has translated into immediate operational strain. Insurers have faced surges in claims tied to wildfire, flood, and storm losses, while utilities and municipalities have confronted repeated repair and recovery cycles within compressed timeframes. These impacts are experienced first as operational stress rather than as strategic or systemic signals.

However, these impacts enter the system unevenly and asynchronously. Climate shocks are geographically concentrated, sector-specific, and temporally irregular. Some regions experience repeated disruptions while others remain relatively insulated. Some industries face acute exposure, while others encounter marginal or delayed effects. Extreme events cluster episodically rather than occurring in synchronized waves. This uneven distribution prevents immediate system-wide recognition of a shared condition.

The result is a pattern in which localized escalation coexists with apparent aggregate stability. Even as certain states, sectors, or communities confront repeated disruption, national or sector-wide indicators may continue to appear manageable, reinforcing the perception that impacts remain contained rather than systemic.

A critical distinction shapes early system response. Weather events are visible, climate trends are statistically visible, but meaning is not yet shared. Individual events are experienced as discrete disruptions. Long-term trends are observable through data and models, but they do not yet register as common operational premises across institutions. The system encounters climate change first as variability rather than as direction.

For example, rising average temperatures, accelerating sea-level rise, and intensifying precipitation extremes are well-documented in scientific assessments, yet these trends often remain framed as background conditions rather than as drivers requiring coordinated institutional reinterpretation. Data exist, but they have not yet reorganized decision baselines across governance, finance, and operations.

At this stage, climate shocks are typically managed as operational contingencies. Units closest to disruption respond using tools designed for continuity and recovery rather than diagnosis or reinterpretation. Schedules are adjusted, inventories rebalanced, contracts renegotiated, repairs undertaken. These responses are rational, immediate, and effective within their scope. Escalation

beyond the operational layer is limited because existing frameworks treat disruption as episodic rather than structural.

As impacts move inward, they are translated into domain-specific metrics that allow institutional processing. Physical damage becomes insurance losses, capital expenditures, or maintenance costs. Disruptions appear in financial statements as volatility, write-downs, or margin pressure. Public-sector impacts surface as emergency spending or infrastructure repair budgets. Each translation is necessary for institutional action, but each also strips away contextual information about causality, recurrence, and trajectory.

In the insurance and public finance domains, this translation has been particularly visible. Climate-driven losses increasingly appear as pricing adjustments, coverage withdrawals, or budgetary stress rather than as explicit indicators of rising physical risk. The system registers financial consequences more readily than it integrates physical causation.

Initial framing matters. When climate-related disruptions are categorized as isolated events, regional anomalies, or routine operational risks, they do not trigger cross-institutional synthesis. The system absorbs shocks incrementally, resolving each instance within existing practices without requiring a shared interpretation of cause or future significance. Climate change is visible at entry, but it enters the system fragmented—experienced intensely in some places, abstractly in others, and not yet as a common condition demanding coordinated response.

Fragmentation and Translation of Climate Signals

As climate shocks move beyond the point of impact, their informational content is reshaped by the institutional pathways through which they travel. Physical disruption does not propagate as a single signal. It is translated into **domain-specific representations** that are legible within existing organizational, financial, and regulatory frameworks. This translation enables response, but it also fragments meaning.

Operational units record climate impacts as downtime, repair schedules, logistics rerouting, or productivity losses. Finance functions register the same events as volatility, claims expenses, capital expenditures, or earnings variance. Risk teams convert them into adjustments to pricing assumptions, exposure limits, or loss models. Public entities reflect impacts through emergency appropriations, infrastructure repair budgets, or service disruptions. Each representation is internally coherent. None is false. But each captures only a slice of the underlying physical reality.

Fragmentation arises because translation prioritizes **compatibility over completeness**. Information is reshaped to fit existing categories, thresholds, and reporting conventions. Context that cannot be expressed in those terms—such as recurrence risk, nonlinear escalation, or interaction with longer-term climate trends—is attenuated or lost. The system does not suppress information; it reformats it.

This process is reinforced by institutional specialization. Different domains observe climate impacts through distinct functional lenses, each optimized for local decision-making. Operations focus on continuity. Finance emphasizes quantifiable exposure. Governance attends to compliance and oversight. Insurance centers on loss attribution and pricing. These perspectives do not naturally converge. They move in parallel, connected loosely by accounting and reporting interfaces rather than by shared interpretive frameworks.

As signals travel outward, **visibility declines even as data volume increases**. Local impacts are vivid and detailed; translated metrics are abstract and standardized. Repetition across locations does not automatically generate synthesis because each instance is processed independently within its domain. What might appear, in aggregate, as an emerging pattern remains distributed across institutional silos.

Fragmentation is further amplified by timing. Data are collected episodically, reviewed on fixed cycles, and reported with delay. Operational disruptions are addressed immediately; financial implications appear later; and governance responses follow established reporting and review schedules. By the time information reaches higher-level forums, it has already been normalized, averaged, or contextualized as routine variance.

The result is a system that **knows many things without knowing the same thing**. Climate impacts are observed, recorded, and acted upon, but not integrated into a shared understanding of direction or scale. Fragmentation does not reflect ignorance or denial. It reflects the way complex systems translate physical reality into actionable inputs under bounded mandates.

This translation process sets the conditions for what follows. Once climate signals are fragmented, attribution becomes contested, aggregation dilutes directionality, and institutional response defaults to incremental adjustment rather than reinterpretation. The system remains responsive, but only within the limits imposed by how information is rendered legible.

Attribution Limits under Bounded Rationality

Fragmented visibility constrains not only synthesis but attribution. Even when climate-related disruptions are clearly observed, institutions face persistent difficulty determining *why* they occurred, how much weight to assign to physical drivers, and whether those drivers warrant a change in underlying assumptions. Attribution failure in this scenario is not denial of physical events. It is uncertainty about causal priority.

Weather events are visible. Extreme heat, flooding, wildfire, drought, and storm damage are experienced directly and documented extensively. Climate trends are also statistically visible, observable through temperature records, sea-level rise, shifting precipitation patterns, and increasing frequency or severity of certain events. What remains contested is not whether these phenomena exist, but how decisively they should be treated as causal inputs in institutional decision-making.

Physical impacts rarely present as single-cause events. A disrupted supply chain may plausibly be attributed to weather, infrastructure condition, labor availability, or management decisions. Insurance losses may reflect climate exposure, but also pricing assumptions, legacy portfolios, or regulatory constraints. Infrastructure failure may involve physical stress interacting with deferred maintenance or design standards. Climate change operates as a *background amplifier*, complicating attribution rather than replacing proximate explanations.

Under bounded rationality, institutions act on causes that are legible, actionable, and defensible within their mandates. Proximate explanations dominate because they align with existing tools and responsibilities. Distal or systemic causes—especially those unfolding over long horizons—are harder to isolate, harder to justify, and harder to operationalize. Institutions therefore hesitate to treat climate drivers as decisive unless attribution crosses a high evidentiary threshold.

This hesitation is reinforced by asymmetry of risk. Treating climate change as causally decisive can require revising assumptions, reallocating capital, or altering governance frameworks in ways that are difficult to defend if attribution remains contested. In contrast, responding to proximate causes allows institutions to act decisively without reopening foundational interpretations. Bounded rationality thus favors explanations that minimize interpretive exposure rather than those that maximize causal completeness.

Attribution is further constrained by temporal mismatch. Establishing climate causation often requires longitudinal analysis that unfolds more slowly than operational or financial decision cycles. By the time causal clarity improves, decisions have already been made, disruptions have been absorbed, and attention has shifted. Learning arrives late, after the window for reinterpretation has closed.

As a result, climate change is acknowledged but rarely centered. It appears as one factor among many, influencing outcomes without commanding interpretive priority. Institutions manage its effects without fully integrating its implications. Under-response emerges not because climate change is invisible, but because its causal role remains insufficiently decisive within the limits of bounded rationality.

This attribution gap is a critical hinge in the scenario. It explains why visible physical disruption does not automatically translate into systemic adjustment, and why institutions continue to operate within established frameworks even as climate-related stress accumulates. What follows depends not on disbelief, but on how attribution interacts with aggregation and institutional response under partial visibility.

Aggregation Lag and Macro Dilution

As climate-related disruptions propagate beyond the operational layer, they are aggregated into system-level indicators that emphasize stability, comparability, and continuity. This process introduces delay and dilution. Localized disruptions are standardized, averaged, and offset across sectors and regions, producing macro signals that lag behind physical reality.

Aggregation is not neutral. It is designed to support governance, risk management, and comparability across heterogeneous contexts. In doing so, it smooths variance and suppresses outliers. Losses in one region are offset by gains elsewhere. Sectoral stress is absorbed into broader performance measures. What emerges is a macro picture that remains legible and orderly even as underlying conditions deteriorate unevenly.

Recent climate data illustrate this smoothing effect clearly. The US has experienced a sustained increase in billion-dollar weather and climate disasters, with dozens of such events occurring annually and cumulative losses rising sharply over the past decade. Yet these losses are distributed across regions, sectors, and balance sheets in ways that prevent any single year or location from dominating national economic indicators. The result is a pattern in which physical disruption intensifies while macro aggregates continue to signal overall economic resilience, reinforcing the appearance of continuity even as exposure grows.

This lag is especially pronounced for climate-related risks because impacts are geographically concentrated and sector-specific. Repeated disruptions in high-exposure regions—coastal flooding, wildfire-prone areas, heat-stressed infrastructure corridors—do not immediately alter national averages or headline indicators. The system registers stress locally while preserving apparent stability at scale.

Aggregation lag differs from attribution failure. Attribution concerns uncertainty about causation; aggregation concerns signal transmission. Even when institutions understand climate drivers locally, the time required for those observations to influence macro indicators delays institutional recalibration. Climate risk enters the macro layer slowly, filtered through accounting cycles, regulatory thresholds, and reporting conventions that privilege historical baselines over forward-looking exposure.

This dilution is visible in climate-sensitive sectors such as insurance and housing. While insurers and reinsurers increasingly adjust pricing, coverage, and underwriting in high-risk regions, these shifts initially appear as localized market frictions rather than as macroeconomic signals. Coverage withdrawals, premium increases, and non-renewals accumulate unevenly, affecting specific communities long before they register in national housing or financial stability metrics.

Federal assessments of the US insurance and housing markets confirm this pattern. Climate-driven non-renewals, premium increases, and coverage gaps are concentrated in high-risk regions, particularly in coastal and wildfire-exposed states. At the same time, outdated flood mapping and slow revision cycles mean that much of this rising exposure remains invisible to national risk frameworks. Development, lending, and infrastructure investment continue under assumptions derived from historical conditions, allowing physical risk to compound beneath macro indicators that still signal relative stability.

Similarly, public-sector aggregation mechanisms lag physical change. Flood exposure continues to be assessed using historical data frameworks even as forward-looking climate models indicate

rising risk. Outdated flood maps and slow revision cycles allow development, lending, and infrastructure investment to proceed under assumptions that no longer reflect emerging physical conditions. The macro system preserves continuity by design, even as exposure grows beneath the surface.

The result is a persistent gap between physical reality and macro-level recognition. Climate-related losses are real, recurring, and increasingly costly, yet their system-wide implications remain muted by aggregation practices that prioritize stability and comparability over early signal detection. Macro indicators do not deny climate risk. They delay its visibility.

This delay reinforces the conditions described in Chapter 6. Institutions relying on macro signals encounter insufficient justification for reinterpretation. Governance baselines remain anchored to historical performance. Political salience remains muted until stress becomes widespread and synchronized. Aggregation preserves stability—until it no longer can.

Institutional Response under Partial Visibility

Under conditions of fragmented signals, attribution limits, and aggregation lag, institutional response is shaped less by the magnitude of physical disruption than by what can be observed, justified, and defended within existing frameworks. Institutions do not fail to respond. They respond in ways that are consistent with partial visibility and constraint-rational behavior.

Institutions act on what is legible within their mandates. Risks that are clearly attributable, widely recognized, and compatible with established metrics receive attention and resources. Risks that are diffuse, probabilistic, or difficult to isolate are managed indirectly or deferred. This produces a pattern of incremental adjustment rather than systemic reinterpretation.

Responses therefore take familiar forms. Procedures are refined. Thresholds are tightened. Documentation requirements expand. Risk classifications are updated at the margin. These actions address observed effects without reopening underlying assumptions about exposure, causation, or long-term trajectory. Activity continues, but it is channeled through increasingly standardized pathways.

Recent institutional behavior in climate-exposed sectors illustrates this pattern. Insurance markets, for example, have responded to rising catastrophe losses through pricing adjustments, coverage restrictions, non-renewals, and selective market withdrawal in high-risk regions. Regulators and supervisory bodies have increased data collection, reporting requirements, and stress-testing exercises. These responses acknowledge physical risk and manage near-term exposure, but they stop short of forcing system-wide reinterpretation of long-term insurability, land use, or capital allocation. The emphasis remains on managing observable impacts rather than redesigning underlying assumptions.

This behavior is boundedly rational. Institutions optimize locally under incomplete information, asymmetric downside risk, and accountability structures that reward defensibility over foresight.

Escalation beyond visible evidence appears unjustified. Acting too aggressively on partial signals carries reputational, legal, and political risk that exceeds perceived benefit.

Importantly, under-response does not reflect denial of climate change or rejection of physical reality. Climate impacts are acknowledged, tracked, and managed where they are directly experienced. What is absent is coordinated reinterpretation across decision-making layers. Without shared visibility, institutional responses remain compartmentalized.

Institutional hardening amplifies this pattern. As discretion has already been displaced into procedures, the system defaults to formal reinforcement rather than interpretive expansion. New information is processed through existing rules instead of prompting their reconsideration. Responses stabilize behavior without revisiting premises.

This procedural orientation is reinforced by oversight and accountability structures. Institutions are evaluated on whether established processes were followed, disclosures were made, and controls were applied—not on whether emerging risks were anticipated early or reframed strategically. As a result, climate-related actions that can be documented, audited, and defended are favored over those that require interpretive judgment under uncertainty. The system signals responsibility and diligence even as cumulative physical risk continues to outpace institutional adaptation.

This produces a distinctive response profile. Institutions appear active and responsible. They demonstrate compliance, diligence, and responsiveness to documented risks. Yet their actions do not scale with cumulative physical change. Adjustment remains reactive rather than anticipatory, localized rather than systemic.

Partial visibility also constrains coordination. Escalation requires shared evidence that crosses domains. In its absence, no actor has sufficient authority or justification to initiate system-level change. Each institution acts appropriately within its remit, while the system as a whole under-responds.

The result is not paralysis, ignorance, or obstruction. It is a stable mode of functioning under uncertainty. Institutions continue to manage risk, but they do so in ways that preserve existing structures and defer reinterpretation. Climate stress is absorbed through incremental adaptation rather than transformative response. This pattern persists until visibility changes—through shock synchronization, attribution clarity, or aggregation breakdown. Until then, institutional response remains disciplined, constrained, and insufficient relative to cumulative physical risk.

Temporal Accumulation without Narrative Convergence

Over time, physical climate impacts accumulate. Assets are stressed repeatedly, recovery windows shorten, insurance losses compound, and adaptation costs rise. Yet accumulation alone does not produce convergence in interpretation. Repetition does not guarantee synthesis.

In this scenario, each disruption is managed as a discrete event rather than as evidence of a shared trajectory. Floods, heatwaves, fires, storms, and infrastructure failures are experienced as episodic shocks, even when their frequency increases. Institutions respond to each instance using established tools, resolving immediate effects without revisiting underlying exposure or long-term risk.

As disruptions recur, their informational content declines. What initially appears exceptional becomes expected. Variance is absorbed into baselines. Adjustments made after earlier events normalize future ones. Adaptation, rather than clarifying risk, can obscure it by embedding response into routine operations.

This pattern is reinforced by well-documented cognitive and institutional dynamics in which repeated exposure to adverse conditions leads to normalization rather than escalation. As disruptions become familiar, their perceived informational value declines, even as their objective frequency and severity increase. Repetition reduces salience, encourages incremental adaptation, and weakens the likelihood that cumulative change will be interpreted as requiring structural response rather than continued adjustment.

This normalization process weakens narrative formation. Without synchronization across regions, sectors, or time horizons, no single event compels reinterpretation. Losses are uneven. Impacts are staggered. Benefits of adaptation are localized. The system experiences stress without shared meaning.

Temporal accumulation also interacts with institutional incentives. Because each event is addressed successfully at the local level, escalation appears unnecessary. Effective short-term response reinforces confidence in existing frameworks, even as cumulative exposure grows. Institutions learn how to cope, not how to reframe.

Narrative convergence requires more than repetition. It requires alignment across visibility, attribution, and aggregation. In this scenario, those conditions do not materialize. Climate change remains visible as weather and statistically observable as trend, but not legible as a unified system-level signal demanding reinterpretation. The result is a paradoxical condition. Physical risk intensifies while interpretive consensus stalls. Institutions adapt repeatedly without coordinating meaning. Time passes, impacts accumulate, but the system's understanding does not fundamentally change.

This condition is stable precisely because it is functional. The system continues to operate. Losses are managed. Recovery occurs. No single failure forces a reckoning. Yet the absence of narrative convergence leaves the system vulnerable to future shocks that exceed its adaptive capacity.

Temporal accumulation without convergence sets the stage for what follows. It explains why later political and institutional responses unfold within hardened structures rather than transforming them. It clarifies why escalation, when it occurs, is abrupt rather than gradual.

What accumulates here is not shared understanding, but latent stress. The system moves forward, but without a common story about where it is going—or why.

Why This Is a Scenario, not a Prediction

This chapter constructs a scenario, not a forecast. It does not assert that this pattern of institutional response will occur, nor that it is the most likely outcome. It describes one coherent way a system characterized by institutional hardening and bounded rationality can respond to climate change when physical impacts are visible, but system-level meaning remains misaligned.

The scenario depends on specific conditions holding simultaneously: uneven climate impacts, contested attribution, delayed aggregation, and institutions operating within hardened procedural constraints. Under those conditions, under-response is not irrational or ideological. It is constraint-rational.

Different climate trajectories could produce different outcomes. More synchronized shocks, sharper regional concentration, clearer attribution, or faster aggregation could accelerate visibility and force reinterpretation. Alternative data salience—through insurance markets, infrastructure failure, fiscal exposure, or public health impacts—could destabilize this configuration sooner or more decisively.

Even within the same seven-edge system architecture, variation in timing, magnitude, and distribution of climate impacts could materially alter institutional behavior. A different sequence of shocks could compress learning cycles, overcome procedural defensiveness, or force coordination across decision layers that remains absent in this scenario. For this reason, the scenario presented here should be read as conditional rather than deterministic. It identifies a plausible mode of system behavior under a specific configuration of constraints. It does not claim inevitability.

This matters for what follows. The political and institutional scenarios examined in Chapters 8–11 are constructed on the assumption that institutional hardening remains in place and that climate impacts continue to accumulate without producing immediate narrative convergence. Those chapters explore how stress is reallocated within a hardened system, not how the system is redesigned.

If climate visibility intensifies faster than assumed here, or if attribution becomes politically unavoidable, the boundary conditions of those scenarios would shift. The analysis would still apply, but the trajectories would differ. The purpose of this chapter is therefore not to predict outcomes, but to discipline imagination. It clarifies what kinds of responses are plausible given the constraints already in place and what kinds of change would require those constraints to break.

Part IV: The Political Scenarios

Part IV examines how the anti-ESG ecosystem processes a visible **climate shock** under four distinct political configurations. These chapters do not ask whether politics “matters.” They ask *how* political authority reallocates pressure within a system whose core constraints—legal uncertainty, fiduciary interpretation, capital discipline, firm adaptation, and federalism—have already been established and held constant.

The starting point for all four scenarios is the same. Climate impacts are no longer abstract or speculative. They appear in insurance markets, infrastructure performance, agricultural output, municipal finance, and corporate earnings guidance. Visibility is sustained. Salience is elevated. Pressure to respond is unavoidable. What varies across Chapters 8 through 11 is not the presence of shock, but the way political control channels that pressure through existing institutional pathways.

Each scenario therefore treats politics not as a command mechanism, but as a **reallocation device**. Electoral outcomes determine where authority is concentrated, which instruments are available, and which arenas become sites of action or obstruction. They do not dissolve the system’s underlying frictions. Political alignment can accelerate motion, fragment it, redirect it, or concentrate accountability—but it cannot, on its own, resolve the structural constraints that govern durability, coordination, and convergence.

Chapter 8 examines unified Republican control, a configuration in which political authority is consolidated but oriented toward limiting climate-risk integration. The scenario shows how unified opposition does not freeze the system, but instead redirects pressure into defensive institutional strategies that preserve discretion, elevate legal contestation, and constrain capital response without requiring overt denial of climate risk.

Chapter 9 explores divided government under a Republican presidency and Senate with a Democratic House. Here, political fragmentation transforms climate shock into investigation, signaling, and conflict rather than coordinated response. Pressure circulates, but authority is misaligned. Motion is generated, yet settlement is deferred as institutions adapt to incompatible incentives across branches.

Chapter 10 considers a Democratic presidency and House facing a Republican Senate. In this configuration, regulatory action proceeds, but under continuous constraint. Agencies act defensively, designing interventions for legal survival rather than comprehensive integration. The result is visible movement—rules, guidance, enforcement—without durable resolution, as Senate leverage and judicial anticipation shape the scope and reversibility of action.

Chapter 11 completes the scenario space with unified Democratic control. This configuration enables the most aggressive regulatory response available within the system. Yet even here, political alignment does not eliminate constraint. Litigation risk, federal implementation limits,

and capital hesitance bound what can be achieved. Unified control changes what is *possible*, not what is *settled*.

Read together, these chapters demonstrate a central pattern: **political outcomes determine the locus and velocity of institutional response, but not its ultimate coherence**. Across all four scenarios, climate visibility produces action. Across all four, that action remains provisional. Pressure is redistributed rather than resolved.

Part IV therefore does not offer competing forecasts of success or failure. It provides a comparative map of how the same shock is processed under different political alignments within a hardened system. The chapters show why elections matter—and why, on their own, they are insufficient to deliver durable settlement in a system where disagreement is structural and constraint is persistent.

Chapter 8: Unified Republican Control (2028)

The shock has occurred. Its physical manifestation is sustained and visible. Insurance claims accumulate. Infrastructure fails. Supply chains experience documented disruption. Agricultural yields decline in specific regions. The event registers in media cycles, earnings calls, and municipal budgets. The visibility threshold has been crossed.

The shock is not an abstract disruption or a one-off disaster. It is a climate shock—an accumulation of extreme weather events and chronic physical impacts consistent with established climate projections. Its defining feature is not novelty but persistence: repeated heat stress, intensified flooding, prolonged drought, and cascading infrastructure strain that transform climate risk from a future contingency into a present operating condition.

But visibility does not produce interpretive closure. The shock enters a political environment where disagreement about causation, responsibility, and appropriate institutional response remains structural. This is the point at which macroeconomic stress crosses **Macro Conditions** → **Politics (E6)**, converting sustained physical impact into unavoidable political salience without resolving disagreement about its meaning. The Republican Party controls the presidency, both chambers of Congress, and the procedural machinery of legislative and oversight authority. This configuration creates both opportunity and constraint.

Unified Republican control does not eliminate institutional friction. It concentrates agenda-setting power within a single party while simultaneously exposing that party to comprehensive responsibility for outcomes. Every regulatory decision, every oversight hearing, every legislative response becomes attributable to Republican governance. The party cannot deflect to divided government. It cannot claim obstruction. It must manage the shock within the boundaries of its coalition's commitments, its stated positions on regulation and markets, and the institutional behavior patterns established during the preceding anti-ESG campaign. In this setting, how the shock is explained becomes decisive, as attribution pathways crossing **Narrative** → **Law (E1)** determine which responses remain institutionally defensible.

The shock creates pressure. Unified control determines where that pressure can and cannot be directed. The system's constants remain operative. Institutional actors behave rationally within constraints, legal uncertainty persists, capital remains bound by fiduciary interpretation and liability exposure, firms adapt strategically but imperfectly, and disagreement about climate science and corporate responsibility does not evaporate under electoral consolidation. As legal framing stabilizes, constraint transmits through **Law** → **Capital Allocation (E2)**, shaping how firms and investors can respond to physical risk without incurring political or legal exposure.

What changes is the structure of political accountability. Under unified control, the governing party becomes the institutional address for every consequential decision—and every decision to defer, delay, or decline action. This transforms how pressure moves through the system.

How the Shock Enters Republican Political Incentives

The shock alters the structure of political attention without resolving disagreement about climate policy. Republican officeholders face transformed incentives. Constituencies experiencing direct physical or economic harm—farmers facing crop failures, property owners confronting uninsurable coastal exposure, municipalities managing infrastructure damage—escalate demands for institutional response. These constituencies do not necessarily demand climate mitigation. They demand relief, certainty, and defensible governance.

This pressure creates internal tension that unified control cannot externalize. A representative from an agricultural region experiencing sustained drought faces electoral pressure that differs from colleagues in unaffected areas. A senator representing coastal real estate interests manages different constituent demands than one from landlocked manufacturing districts. Under divided government, these tensions could be managed through partisan positioning. Under unified Republican control, they must be resolved within the party.

The result is not policy consensus but strategic necessity. Republican leadership must find responses that address constituent pressure without validating the climate advocacy framework they have opposed. This necessity drives demand for attribution strategies that can acknowledge harm while deflecting responsibility away from carbon emissions and toward alternative causal factors.

Coalition management intensifies this demand. The Republican coalition includes members who have publicly questioned climate science, opposed renewable energy subsidies, and championed deregulation. It also includes members from constituencies now experiencing direct harm. The party's stated commitment to market-based solutions and regulatory restraint must be reconciled with constituent demand for government intervention. Prior investments in opposing ESG integration and challenging climate disclosure rules create path dependency. These positions cannot be abandoned without signaling inconsistency or vulnerability.

Agenda effects follow. The shock becomes a forcing event. Leadership must decide whether to address it legislatively, defer to executive agencies, or rely on procedural mechanisms to contain political exposure. Each choice carries risk. Legislative action requires building consensus within a fractured coalition. Executive action through regulatory agencies requires navigating the legal and political constraints established during the anti-ESG campaign. Procedural containment—holding hearings without advancing legislation, commissioning studies without implementing findings—delays accountability but accumulates vulnerability.

The shock thus generates pressure for response while political configuration constrains which responses are viable. This gap between pressure and viable response produces the central institutional behavior pattern of this scenario: strategic attribution. At this stage, pressure moves primarily along the macro-to-politics edge. Aggregated economic stress—insurance withdrawal, agricultural loss, infrastructure failure—reshapes political incentives without resolving

disagreement about causation or remedy. The shock does not enter politics as a settled diagnosis, but as salience demanding response under constraint.

Attribution and Framing Pathways

Attribution becomes the critical mechanism for managing the gap between constituent pressure and coalition constraint. How harm is explained determines which institutions bear responsibility and which policy responses become defensible.

The shock's visibility makes denial untenable, but causation remains contested. Climate attribution science connects extreme weather events to rising global temperatures with increasing statistical confidence. Political framing does not follow scientific consensus because political actors optimize for institutional viability, not epistemic accuracy. Republican officeholders and aligned institutions emphasize alternative explanations—inadequate infrastructure investment, poor land management, regulatory barriers to adaptation, and local government failures. Each framing shifts responsibility away from emissions policy and toward targets that align with existing Republican positions on regulation and spending.

This is not cynical deflection but institutionally rational behavior under constraint. If the shock is attributed to carbon emissions, the logical policy response is emissions regulation—precisely what the Republican coalition opposes and what many members have invested political capital in preventing. If the shock is attributed to infrastructure failure, the logical response is targeted spending and regulatory reform—positions that can build coalition support without validating climate advocacy frameworks. Attribution strategies serve to make institutional response possible within political constraints.

Responsibility deflection follows similar logic. Where climate factors cannot be entirely discounted, responsibility is allocated to minimize federal Republican exposure. Historical emissions are emphasized over current policy choices. International actors—particularly China and developing economies—are positioned as primary contributors. Subnational actors—states, municipalities, private landowners—are identified as appropriate response mechanisms. Each narrowing strategy acknowledges some connection between climate and harm while containing the scope of federal Republican institutional obligation.

Corporate interests align with these attribution frameworks not through coordination but through parallel incentive structures. Firms experiencing physical damage to assets or supply chains prefer explanations that minimize future disclosure obligations and liability exposure. If harm stems from infrastructure failure or regulatory gaps, the appropriate response is targeted investment or policy adjustment, not comprehensive emissions accounting and climate risk disclosure. Attribution strategies that deflect from emissions-based causation serve both political and corporate defensive needs.

The framing pathways are not coordinated but emergent. Different Republican officeholders, think tanks, media outlets, and industry groups develop variations on core themes. Consistency

arises from shared incentives, not orchestration. The goal across variations is identical: acknowledge the shock's reality while preventing institutional empowerment of climate disclosure frameworks, regulatory mandates, or emissions policies.

These attribution strategies operate as transmission filters between politics and law. By stabilizing particular explanations of harm, they condition which narratives are legally legible and which policy instruments can be advanced without fracturing the governing coalition.

Legislative and Oversight Dynamics

Unified Republican control transforms congressional response mechanisms. Committee chairs, subcommittee leadership, and investigative authority rest entirely within Republican hands. This concentration of procedural power enables selective attention structured around the attribution frameworks described above. Hearings become instruments of attribution management.

Committees summon witnesses, compel testimony, and structure public discourse around preferred explanations for the shock's impacts. A hearing on agricultural losses focuses on irrigation policy, trade barriers, and regulatory constraints rather than climate science. A hearing on insurance market disruption emphasizes state-level regulation, litigation risk, and actuarial methodology rather than warming-driven extreme weather frequency. Witness selection, questioning patterns, and narrative framing all serve to bound the shock's interpretation within parameters that support infrastructure or regulatory responses rather than emissions policy.

Simultaneously, investigations redirect scrutiny from corporate behavior to regulatory agencies. Oversight mechanisms target agencies perceived as having exceeded authority during previous administrations. The SEC's climate disclosure rules, EPA enforcement actions, and any regulatory guidance encouraging climate risk integration become subjects of investigation. These investigations do not necessarily produce legislation. They produce records, establish narratives, and signal regulatory vulnerability—effects that propagate through the legal and regulatory system.

Procedural activity substitutes for substantive legislation. Bills are introduced, marked up in committee, and positioned for floor action without necessarily advancing to votes. The activity demonstrates responsiveness while avoiding the coalition-splitting challenges of actual policy specification. Appropriations riders constrain agency funding for climate-related initiatives. Resolutions express congressional sentiment without creating enforceable obligations. The appearance of activity manages constituent pressure without requiring the coalition consensus that comprehensive legislation would demand.

Where legislation does advance, it emphasizes adaptation over mitigation, state authority over federal mandates, and market mechanisms over regulatory requirements. Infrastructure spending for resilience, tax incentives for specific technologies, and liability reforms that reduce litigation exposure all become viable because they address constituent pressure without validating

comprehensive climate policy. Each legislative response is bounded, targeted, and framed as addressing discrete problems rather than systemic climate risk.

Legislative restraint is not dysfunction but strategic behavior under full accountability. Unified control makes congressional Republicans institutionally responsible for every outcome, which incentivizes caution. A poorly designed climate response could alienate the party's base, invite legal challenges, or create precedents that constrain future Republican governance. Inaction carries risk, but so does action. The resulting pattern is procedural engagement without comprehensive policy commitment.

Through hearings, investigations, and appropriations constraint, congressional activity reshapes the legal and regulatory environment without extensive statutory change. The effect is not new law but altered permission structures that determine which forms of capital deployment and disclosure remain institutionally viable.

Legal and Regulatory Signal Effects

Political behavior under unified Republican control generates signals that propagate through legal and regulatory institutions, altering expectations and risk calculations even absent formal policy changes. Legal uncertainty intensifies rather than resolves. The anti-ESG campaign established ambiguity around fiduciary duty, materiality standards, and regulatory authority. The shock creates pressure for clarification, but unified Republican control signals that clarification will not favor expansive climate disclosure or ESG integration. Enforcement agencies anticipate reduced support for aggressive action. Litigants adjust strategies based on expected judicial and administrative receptivity. The shock's visibility does not override political signals about enforcement priorities.

Regulatory agencies operate within constrained mandates and political environments. Under unified control, agencies recognize that aggressive positioning invites congressional oversight, budget constraints, and political exposure. Rulemaking processes slow. Enforcement priorities shift toward areas with clear statutory authority and minimal political controversy. Guidance documents emphasizing climate risk disclosure or ESG integration face heightened scrutiny. Where legal authority is ambiguous, agencies err toward caution. Where interpretation allows flexibility, agencies avoid positions that invite congressional investigation.

This does not mean regulatory paralysis. Agencies continue operating, rules continue being enforced, and new guidance continues emerging. But the margin of discretion narrows. The shock creates urgency for action, but political signals constrain which actions are institutionally viable. Agencies must balance constituent demand for response against political signals favoring restraint—a balance that typically resolves toward defensive positioning.

Compliance behavior responds to these signals. Firms evaluating disclosure obligations, fiduciary standards, and climate risk integration assess not only legal text but enforcement likelihood. Under unified control, firms expect reduced scrutiny for minimal compliance and increased

protection from climate-related litigation. This expectation shapes how firms interpret materiality, structure disclosures, and allocate resources to climate risk management.

Judicial appointments reinforce these dynamics. Federal bench vacancies are filled by judges selected for interpretive philosophies that favor regulatory restraint and textualist statutory construction. These appointments do not immediately affect pending climate litigation, but they shape expectations about future case law development. Litigants adjust strategies. Regulatory agencies anticipate appellate outcomes. The judiciary becomes another venue where political signals translate into institutional behavior.

The aggregate effect is systematic though not uniform. Political control signals institutional tolerance for reduced climate emphasis. Different agencies, different courts, and different enforcement contexts produce variation, but the directional pressure is consistent. These signals then determine how capital allocators and corporate executives navigate the contradictory pressures of physical shock visibility and political constraint.

Capital and Firm Response under This Political Configuration

Capital allocators and corporate executives face contradictory pressures. The shock increases physical risk salience—insurance costs rise, asset values decline, and supply chain disruptions accumulate. Simultaneously, unified control signals political tolerance for reduced climate disclosure and ESG restraint. Capital cannot ignore physical risk, but political configuration determines how that risk is managed and discussed.

For capital markets, the defining condition under unified Republican control is asymmetry between physical risk visibility and regulatory signal clarity. Climate-driven losses are observable and recurring, but the legal and supervisory signals governing how those risks may be priced, disclosed, or acted upon remain constrained by political tolerance rather than financial logic.

Asset managers resolve this tension through strategic reframing. Portfolio adjustments occur, but attribution shifts. Divesting from high-emission assets becomes “energy transition positioning” rather than climate activism. Engaging companies on climate risk becomes “resilience planning” rather than ESG integration. The framing adjustment is not cosmetic but strategically necessary. Under unified control, explicit climate-based investment restrictions could invite congressional scrutiny, state-level anti-ESG legislation, or fiduciary litigation. Physical risk management continues but is embedded within broader operational, financial, and strategic frameworks that avoid ESG terminology and climate advocacy associations.

This reframing does not eliminate capital reallocation. It alters its visibility and coordination. Capital continues to migrate away from exposed assets and toward resilience-oriented investments, but it does so through individualized, opaque decision processes rather than through standardized market signals. As a result, risk is managed privately rather than priced collectively.

Pension funds face intensified versions of these pressures. Public pension boards in Republican-governed states experience direct political pressure to avoid ESG frameworks. But fiduciary duty requires addressing material risks, including those stemming from physical climate impacts. Pension funds respond by emphasizing traditional financial analysis, avoiding climate-specific mandates, and framing any climate-related adjustments as prudent risk management rather than values-based investing.

Public pension behavior illustrates the constraint clearly. Funds face climate-driven asset risk that cannot be ignored without violating prudence, yet political exposure constrains how that risk can be articulated or operationalized. The result is portfolio adjustment without narrative alignment—risk management conducted silently, without the signaling mechanisms that normally support collective market learning.

Corporate executives navigate parallel tensions through operational adaptation rather than strategic commitment. The shock creates tangible challenges—damaged infrastructure, disrupted supply chains, increased insurance costs, and regulatory uncertainty. These challenges require management attention and capital allocation. But unified control signals that comprehensive climate disclosure, ambitious emissions targets, and prominent ESG commitments may attract political scrutiny rather than institutional support.

Firms adjust accordingly. Materiality assessments narrow. Climate risk is acknowledged as financially unavoidable but not elevated to strategic priority. Sustainability reports continue but emphasize operational efficiency, resilience, and compliance rather than advocacy or voluntary commitments. Governance structures related to ESG oversight are quietly deprioritized or reframed around traditional risk management functions. This is not climate risk denial—firms experiencing direct physical impacts cannot pretend those impacts do not exist—but risk management channeled through operational adaptation, insurance, geographic diversification, and infrastructure investment rather than through comprehensive emissions reduction programs or climate advocacy.

Industry associations amplify these dynamics. Under unified control, industry organizations advocate for adaptation support, infrastructure spending, and regulatory clarity while opposing mandatory climate disclosure and emissions regulation. The shock strengthens the case for government support, but that support is framed around resilience and competitiveness rather than climate mitigation. Industry voices align with political signals, reinforcing attribution frameworks that acknowledge harm while deflecting comprehensive climate policy.

The result is not coordinated strategy but convergent behavior. Individual firms, asset managers, and industry groups independently assess political signals, legal constraints, and physical risks. Each arrives at similar conclusions—acknowledge physical impacts, manage financial exposure, avoid climate advocacy framing, and position responses within operational and resilience frameworks. The shock drives activity. Political configuration determines the institutional channels through which that activity flows.

The cumulative effect is a capital market that responds to climate risk without integrating it. Losses are absorbed, assets are repositioned, and operations are adapted, but the absence of durable legal and disclosure frameworks prevents convergence on shared valuation methodologies. Capital adjusts, but it does not coordinate.

What This Scenario Produces —and What It Does Not

This scenario produces a distinct pattern of institutional behavior under unified Republican control following a visible climate shock. Political authority is consolidated, but institutional constraint remains binding. The result is motion without settlement.

This scenario produces:

Adaptation without mitigation commitment.

Legislative and regulatory activity concentrates on infrastructure resilience, disaster preparedness, and targeted relief rather than emissions reduction. Adaptation is politically viable because it addresses visible harm while remaining compatible with the coalition's opposition to climate mitigation mandates.

Attribution management rather than causal convergence.

The shock's physical reality is acknowledged, but causation remains contested. Competing explanatory frames—emphasizing infrastructure failure, regulatory barriers, or international responsibility—coexist and persist. Attribution functions as a tool for managing responsibility rather than resolving disagreement.

Defensive capital and firm behavior.

Capital allocators and corporate executives continue to manage physical risk but separate that activity from ESG branding or climate advocacy. Portfolio adjustments, operational adaptation, and risk mitigation proceed, but they are framed to minimize political exposure and legal liability.

Regulatory caution under full accountability.

Agencies operate defensively. Enforcement becomes selective, guidance conservative, and rulemaking incremental. Political control does not accelerate climate-related regulation; it constrains discretion by concentrating accountability and increasing exposure to oversight and litigation.

Persistent legal uncertainty.

Unified control does not clarify fiduciary duty, materiality standards, or regulatory authority. Ambiguity established during the anti-ESG campaign remains unresolved, with litigation continuing to shape expectations unevenly across jurisdictions.

Procedural activity without comprehensive policy resolution.

Congressional hearings, investigations, and bill introductions demonstrate responsiveness but

stop short of coordinated climate legislation. Procedural engagement substitutes for systemic policy commitment.

This scenario does not produce:

Resolution of underlying disagreement.

Visibility does not generate consensus. Disagreement over causation, responsibility, and institutional response persists because it is structural rather than informational.

Coordinated climate policy.

Unified control enables agenda setting but does not dissolve coalition constraints, ideological commitments, or path dependency created by prior opposition to ESG and climate disclosure.

Elimination of ESG frameworks.

Despite political pressure, ESG infrastructure endures. It remains embedded in institutional practice, contractual relationships, and international market expectations.

Market-based solutions at climate-relevant scale.

Although market mechanisms are rhetorically favored, legal uncertainty, political risk, and coalition management limit deployment of carbon pricing, large-scale renewable incentives, or economy-wide transition tools.

This scenario describes how the system processes a **visible climate shock under consolidated political authority**. The shock generates pressure and activity, but political configuration channels that pressure into attribution management, adaptive response, and procedural containment rather than comprehensive climate policy or institutional redesign.

This scenario describes how the system processes a visible climate shock under unified Republican control. The shock generates sustained economic and operational pressure—through insurance contraction, infrastructure strain, and localized disruption—but political authority is oriented toward limiting the scope, legitimacy, and durability of climate-risk integration rather than expanding it. Unified control enables coordinated political response, but that response is directed toward containment rather than accommodation of climate risk within financial and regulatory frameworks.

Under this configuration, legislative and executive authority are used to reinforce legal uncertainty, elevate fiduciary contestation, and expand investigatory and enforcement pressure on institutions perceived to be incorporating climate considerations beyond narrowly defined financial materiality. Regulatory action does not disappear, but it is constrained, redirected, and framed defensively. Agencies limit interpretive ambition, firms hedge exposure through procedural retreat, and capital reallocates attention toward legal and political defensibility rather than toward systematic climate-risk integration.

The result is not stasis, but a distinctive form of motion. Political action concentrates pressure upstream—through statutory redefinition, oversight, and litigation preparation—while

discouraging downstream convergence in capital allocation, governance practice, or risk methodology. Institutions remain active, adaptive, and responsive to immediate constraints, yet avoid commitments that would require durable alignment around climate risk as a governing premise.

Under unified Republican control, political engagement reallocates pressure across institutions without dissolving the constraints that govern legal interpretation, capital allocation, and firm behavior. Visibility produces response, but the response channels climate stress into containment strategies that preserve discretion and contestation rather than into settled frameworks capable of coordinating long-horizon risk management.

Chapter 9: Republican Presidency & Senate, Democratic House (2028)

Divided government is often described as a constraint on action. That description is incomplete. Divided government is better understood as a machine for converting visibility into conflict without producing resolution. When physical shocks enter a political system where power is split asymmetrically—where one party controls the executive and upper chamber while the other controls the lower chamber—responsibility fragments while accountability intensifies. Neither side can act unilaterally. Both sides can block, and both sides gain from demonstrating that the other is failing.

The shock is not merely a disaster. It is a climate shock in the operational sense used throughout this book—sustained physical disruption consistent with climate-driven risk trajectories, large enough to register in insurance markets, infrastructure performance, and balance sheets. Its visibility forces political response, but visibility does not force agreement about causation or remedy. In system terms, this reflects **Macro Conditions → Politics (E6)**: Economic stress becomes politically salient faster than institutions can translate that salience into durable law.

This is not gridlock in the traditional sense. Gridlock implies stasis. What occurs under divided government after a visible physical shock is something more dynamic—a structured process of attribution warfare where each institutional actor has clear incentives to weaponize the other's constraints. The shock creates pressure. The political configuration makes it difficult for that pressure to resolve into policy. Instead, it resolves into performance, as **Politics → Narrative Entrepreneurs (E7)** amplifies blame, framing, and partisan storytelling rather than convergence on institutional response.

When Republicans hold the presidency and Senate while Democrats control the House, the architecture of conflict becomes particularly stark. The executive controls implementation, enforcement, and regulatory direction. The Senate controls confirmations and can block legislative initiatives. The House controls investigations, appropriations subcommittees, and the power to make executive action politically costly through sustained public examination. None of these powers alone is sufficient to produce climate policy. All of them are sufficient to produce political theater that serves partisan positioning.

The physical shock—insurance market withdrawal, infrastructure failure, agricultural disruption, supply chain breakdown—arrives into this configuration not as a problem to be solved but as a weapon to be deployed. Democrats can use the shock to argue that Republican regulatory restraint caused preventable harm. Republicans can use the shock to argue that Democratic climate proposals would destroy the economy while doing little to address the immediate crisis. Both arguments contain partial truths. Neither resolves the underlying question of how capital, firms, and regulatory institutions should respond to physical risk under legal and fiduciary uncertainty.

What this scenario produces is maximum political noise with minimum policy clarification. Firms face conflicting signals from different branches of government. Capital faces legal uncertainty about disclosure, fiduciary duty, and liability—an effect transmitted most clearly through **Law** → **Capital Allocation (E2)**. Regulatory agencies face pressure from both directions—to act boldly from House Democrats, to move cautiously from the Republican executive. And the shock itself continues to generate economic consequences that no amount of political positioning can prevent.

This chapter examines how that machine operates.

Visibility without Capacity

The climate shock that precedes this scenario is not subtle. It is materially consequential, widely observed, and economically measurable. Insurance companies are exiting markets or raising premiums to levels that make certain economic activities unviable. Infrastructure is failing in patterns that correlate with climate projections. Supply chains are disrupted by events—floods, droughts, and heat waves—that exceed historical norms with increasing frequency. Regional economies are experiencing sustained stress. The stress is not confined to headlines. It appears in underwriting decisions, credit terms, municipal finance conditions, and corporate disclosures that increasingly read like risk disclaimers rather than stable expectations.

This visibility does not resolve the underlying epistemic contest. Disagreement over causation remains. Climate attribution science can assign probabilities to the role of warming in specific events, but those probabilities do not translate cleanly into legal responsibility or policy mandates. Some actors will accept the science and demand immediate regulatory action. Others will dispute it or argue that even if warming is occurring, the proposed remedies are economically destructive. Still others will acknowledge the physical reality while disputing the appropriate institutional response.

But visibility changes the political calculus. When physical impacts are large enough, sustained enough, and economically consequential enough, ignoring them becomes politically costly. Not because political actors suddenly agree on causation or solutions, but because constituents—voters, businesses, and local governments—begin demanding responses, even if those responses are contradictory.

Political demand under conditions of uncertainty does not converge on a single narrative. It produces competing narratives that are electorally useful—an edge that feeds politics back into narrative entrepreneurship and raises the payoff to attribution conflict. Under divided government, that demand does not produce coordination. It produces blame assignment.

The Republican president faces pressure to demonstrate competence in crisis response. Doing nothing is politically untenable when insurance markets are collapsing or critical infrastructure is failing. But doing something carries different risks. Executive action on climate without congressional authorization invites legal challenges and energizes the Republican base that

opposes climate regulation. It also provides House Democrats with ammunition. If the executive acts, Democrats can argue it's insufficient and demand more; if the executive doesn't act, Democrats can argue the administration is negligent.

The president's optimal strategy under these constraints is selective, limited action framed in non-climate language: disaster relief, infrastructure resilience, emergency management, grid hardening, actions that address physical impacts without triggering the anti-ESG coalition's core objections. This allows the administration to claim competence without ideological surrender. It also minimizes legal exposure. Framing actions as emergency management rather than climate policy reduces the probability that executive action is read as an attempt to impose climate regulation without congressional authorization—an interpretation that would accelerate litigation and intensify coalition fracture.

But this strategy has limits. The physical shock is large enough that addressing it through disaster relief alone is visibly inadequate. And House Democrats have no incentive to allow the executive to claim credit for crisis management while avoiding climate policy. Their incentive is to make the administration's constraints visible, painful, and politically costly.

Senate Republicans face their own calculation. They share the executive's interest in avoiding climate policy that would fracture their coalition, but they also face pressure from constituents experiencing economic harm. Senators from coastal states, agricultural states, or states with significant insurance market disruption cannot simply dismiss the shock. They need political cover.

That cover comes in the form of investigations into Democratic policy proposals. Senate committees can hold hearings on the economic costs of climate regulation, the feasibility of renewable energy mandates, or the legal risks of mandatory disclosure. These hearings do not produce legislation. They produce talking points. They allow senators to demonstrate responsiveness to the shock while arguing that Democratic solutions would make things worse.

House Democrats face the opposite incentive structure. They do not control the executive or the Senate. They cannot pass climate legislation. They cannot force regulatory action. But they control the investigative machinery that can make executive inaction politically unbearable. House committees can subpoena regulatory agencies to explain their enforcement decisions. They can demand internal documents showing whether the administration delayed or weakened climate-related regulations. They can hold hearings with scientists, economists, and affected communities to demonstrate the gap between the administration's response and the scale of the shock. They can introduce messaging bills that have no chance of passing the Senate but force Republicans to vote against climate measures framed as disaster response. This produces visibility without producing policy—and that gap becomes the fuel for what follows.

The gap is not only political. It is a market signal problem. Firms, investors, and regulators observe the same physical losses but receive no unified institutional instruction about how those losses should be translated into disclosure, supervisory expectations, or fiduciary interpretation.

Attribution as a Weapon System

Under divided government, attribution becomes the primary battlefield. Not attribution in the scientific sense—determining whether a specific event was made more likely by climate change—but attribution in the political sense: determining who is responsible for harm, who is blocking solutions, and who should bear the cost of inaction.

This is attribution warfare, and it operates through institutional mechanisms. Attribution warfare matters because it shapes legal legibility. When political institutions define harm as negligence, overreach, or economic sabotage, they are not merely messaging. They are building narratives that can be translated into oversight records, litigation arguments, and statutory hooks.

House Democrats use their investigative power to construct a narrative of Republican negligence. They subpoena internal communications from EPA, NOAA, the Department of Energy, and financial regulators. They demand to know what climate risk analyses were conducted, what recommendations were made, and what political interference occurred. They hold hearings where agency officials testify under oath about whether they were prevented from acting on climate risk.

The goal is not primarily to discover new information. The goal is to create a public record that can be used in the next election cycle. Every delayed regulation, every weakened enforcement action, every internal memo suggesting that political appointees overruled career staff becomes evidence in the Democrats' case that the Republican administration chose ideology over public safety.

Republicans counter with their own attribution narrative. Senate committees investigate the economic costs of climate policies implemented during previous Democratic administrations. They examine whether renewable energy mandates increased electricity costs. They question whether emissions regulations contributed to inflation or supply chain disruption. They hold hearings with business leaders and economists who argue that aggressive climate policy would destroy jobs and competitiveness without preventing physical shock.

The Republican narrative is that Democrats are using a crisis to advance a pre-existing ideological agenda that would make Americans poorer and less secure. The Democratic narrative is that Republicans are letting the crisis worsen to protect fossil fuel interests and corporate donors. Both narratives are internally consistent. Both are designed to maximize political damage to the other side rather than to clarify policy options.

This dynamic is self-reinforcing. The more House Democrats investigate, the more the Republican executive becomes defensive and cautious about any climate-related action. The

more cautious the executive becomes, the more material House Democrats have for their negligence narrative. The more Senate Republicans frame climate policy as economically destructive, the harder it becomes for moderate Democrats to support aggressive measures. The more Democrats respond by emphasizing the physical costs of inaction, the more Senate Republicans can point to Democratic extremism as evidence that their caution is justified.

Attribution warfare does not resolve. It escalates. And it makes substantive policy coordination functionally impossible because every institutional action is immediately interpreted through a partisan lens. This warfare creates the conditions under which regulatory agencies must operate.

Congressional Dynamics: Theater and Constraint

The House under Democratic control becomes a platform for making executive constraints visible. Committees operate not primarily as legislative bodies but as investigative and messaging operations. The House Committee on Oversight and Accountability holds hearings on climate disclosure rules. They call the SEC chair to explain why regulations have been delayed or weakened. They call insurance executives to testify about market exits and premium increases. They call mayors and governors from affected regions to describe infrastructure failures and economic disruption. They call scientists to present attribution studies showing the role of climate change in specific disasters.

These hearings produce testimony, documents, and video clips that can be used in campaign ads. They do not produce legislation that can pass the Senate. That is not their purpose. Their purpose is to create political cost for Republican inaction while demonstrating to Democratic voters that the House is fighting even when it lacks the power to win. They also function as inputs to future legal and regulatory contests. Oversight transcripts, agency document productions, and sworn testimony become materials that later actors can cite—either to justify expanded authority or to challenge it.

The House also introduces messaging bills, a mandatory climate disclosure act, a n insurance market stabilization fund tied to emissions reductions. Federal infrastructure resilience standards based on future climate projections. These bills will not pass the Senate. Many are designed not to pass. They are designed to force Senate Republicans to vote against measures that poll well and to establish the policy vision that House Democrats will campaign on.

The Senate, meanwhile, operates as a blocking mechanism wrapped in investigative theater. Senate committees hold their own hearings, but the questions are different. Instead of “Why didn’t you act?” the questions are “What would your proposal cost?” and “How do you know it would work?” and “Have you considered the competitive disadvantage to American industry?” Senate Republicans are not required to offer their own climate policy. They are required only to demonstrate that Democratic proposals are risky, expensive, or legally dubious. This is an asymmetric advantage. Democrats must propose solutions that survive technical, economic, and legal scrutiny; Republicans need only identify problems with those solutions.

When the House passes messaging bills, the Senate does not bring them to a vote. The bills die in committee. This is standard procedure in divided government. What is less standard is the public justification. Senate Republicans do not simply say, “We oppose this bill.” They hold hearings on why the bill would harm the economy, exceed constitutional authority, or fail to address the physical shock it purports to solve. The bill’s defeat is wrapped in procedural justification that reinforces the Republican attribution narrative.

This creates a perpetual motion machine of legislative theater. House Democrats introduce bills, hold hearings, and subpoena documents. Senate Republicans hold counter-hearings, refuse to advance legislation, and investigate Democratic proposals. The Republican executive issues limited, non-climate-framed actions while fighting House subpoenas in court. All of this produces political content without producing policy clarity.

The appropriations process becomes another battlefield. The House controls the power of the purse, but the Senate must agree to spending bills and the president can veto them. This creates leverage points for all sides. House Democrats can insert climate-related conditions into appropriations bills. Funding for NOAA conditional on publishing climate risk assessments. Funding for EPA conditional on enforcing disclosure rules. Funding for disaster relief conditional on requiring recipients to meet future climate resilience standards. These provisions force Senate Republicans and the president to either accept climate policy through appropriations riders or shut down the government.

Senate Republicans can strip these provisions and send the bills back to the House. Or they can attach their own riders limiting agency authority on climate issues. The result is appropriations brinkmanship where both sides use the threat of government shutdown as a negotiating weapon.

Neither side wants to be blamed for a shutdown, but both sides calculate that they can blame the other if one occurs. The House can say the Senate is blocking disaster relief. The Senate can say the House is forcing ideological riders into emergency spending. The president can say both chambers are dysfunctional. And the appropriations process, which is supposed to fund government operations, becomes another venue for attribution warfare.

Appropriations fights also transmit directly into capital expectations. When funding riders and enforcement conditions swing with partisan conflict, capital receives constraint signals without stable permission signals—undermining the translation from law into allocation and from allocation into governance priorities. The political machine is now fully engaged. The next question is “What does it do to the institutions tasked with implementation?”

Executive and Regulatory Behavior under Cross-Pressure

Regulatory agencies under a Republican executive with a Democratic House face conflicting institutional pressures. The executive wants agencies to avoid actions that energize anti-ESG constituencies or provide ammunition to House Democrats. House Democrats want agencies to

take aggressive action and will investigate if they don't. This is not a tenable position. Agencies cannot satisfy both demands simultaneously, so they optimize for minimizing political damage rather than maximizing policy effectiveness.

The SEC, for example, faces sustained pressure on climate disclosure. House Democrats demand mandatory, standardized, material disclosure based on physical and transition risk. The Republican executive opposes mandates that could be framed as climate regulation. The agency's staff includes career employees who believe disclosure serves investor protection, but political appointees are accountable to the president.

The result is delay, procedural caution, and incremental action. The SEC may advance some disclosure requirements but frames them narrowly, focused on material financial risk rather than climate policy. It emphasizes voluntary compliance and safe harbors. It moves slowly through notice-and-comment rulemaking to avoid legal challenges. It signals that enforcement will be cautious and fact specific.

This satisfies no one. House Democrats subpoena the agency to explain delays and demand internal documents showing political interference. Environmental groups sue to force faster action. Business groups sue to block even modest requirements. The agency becomes a target from all sides while trying to thread a needle that may not exist.

For capital markets, the cost of this posture is not simply delay. It is ambiguity about what counts as sufficient disclosure and what enforcement will treat as materially deficient, ambiguity that raises compliance costs while failing to deliver comparability.

Other agencies face similar dynamics. The EPA under a Republican president will not pursue aggressive climate regulations, but it cannot completely ignore the physical shock when air quality degradation, water scarcity, and ecosystem disruption are generating constituent complaints. The agency responds with limited actions framed as traditional environmental protection—updated air quality standards, water allocation guidance, and infrastructure grants—not climate policy, but actions that address some climate impacts.

House Democrats investigate whether these actions are sufficient and whether stronger measures were proposed by career staff but blocked by political appointees. This creates a permanent state of defensiveness within agencies. Career staff know that their recommendations may be used as evidence against their own leadership. Political appointees know that their decisions will be scrutinized for evidence of political interference. The result is paralysis wrapped in process.

Financial regulators face their own version of this dynamic. The physical shock is creating measurable impacts on bank portfolios, insurance company solvency, and pension fund returns. Under a Democratic administration, regulators might require stress testing or enhanced disclosure. Under a Republican administration with a Democratic House, regulators face contradictory demands.

House Democrats hold hearings asking why regulators aren't requiring climate risk stress tests. Senate Republicans hold hearings asking whether climate risk models are reliable enough to base regulatory decisions on. The Republican executive signals opposition to new mandates. But the physical shock is creating real financial risks that regulators are legally obligated to monitor.

Regulators respond by doing the minimum required by existing legal authority while avoiding new mandates. They may issue guidance rather than rules. They may encourage voluntary risk assessment rather than requiring it. They may convene industry working groups to study the issue rather than imposing immediate requirements. This allows them to claim they are addressing the issue without triggering legal challenges or political backlash.

But minimum action under maximum uncertainty creates its own problems. Firms don't know what is expected. Capital doesn't know what standards to apply. Markets don't get the clarity needed for efficient pricing. And the physical shock continues generating financial impacts regardless of regulatory positioning. Markets can price risk only when risk is expressed in comparable terms. Under maximum institutional noise, pricing becomes fragmented. Sophisticated actors build bespoke models while the broader market operates with uneven information, widening dispersion in valuations and cost of capital.

The judicial dimension adds another layer of complexity. Under a Republican president, judicial appointments continue to move in a direction skeptical of administrative agency authority. House Democrats cannot block judicial nominees—that's the Senate's role—but they can use confirmation hearings to extract information and create political cost.

Democratic senators on the Judiciary Committee ask nominees about climate science, Chevron deference, and the scope of agency authority. This does not prevent confirmation—Republicans control the Senate—but it creates a record showing which judges are likely to strike down climate regulations if they are ever implemented. This record becomes useful for later attribution warfare. When regulations are struck down, Democrats can point to the judges who were confirmed over their objections.

For firms trying to navigate this landscape, the judicial signal is clear. Any aggressive climate regulation implemented by a future Democratic administration will face immediate legal challenges and has a meaningful probability of being blocked by a judiciary shaped by Republican appointments during this period. This affects long-term capital allocation decisions in ways that are difficult to reverse. The prospect of reversal matters because it collapses time horizons. Firms and investors treat long-lived investments as legally contingent when the rule set governing climate risk can be invalidated or replaced before payoffs mature. That uncertainty flows directly into how firms and capital respond.

Capital and Firm Strategy under Maximum Noise

When political signals conflict, capital does not wait for clarity. It optimizes for survival under uncertainty. The physical shock is real. Insurance losses are measurable. Infrastructure damage is

concrete. Supply chain disruptions have balance sheet impacts. Firms cannot ignore these realities simply because politicians disagree about how to respond.

But firms also face legal and fiduciary constraints. They cannot justify major capital reallocation based solely on physical risk if that reallocation could be challenged as exceeding fiduciary duty or constituting an illegal boycott under anti-ESG laws. They need political and legal cover to act on climate risk, and divided government provides none. The result is a sophisticated form of hedging. Firms continue to assess climate risk internally. They adjust supply chains, relocate facilities, modify insurance coverage, and update capital budgets based on physical projections. But they minimize the visibility of these actions. They do not describe them as “climate strategy.” They describe them as “risk management,” “operational resilience,” or “portfolio optimization.”

This is not only messaging discipline. It is governance discipline under contested fiduciary interpretation—firms managing physical risk while minimizing the governance and legal implications of appearing to adopt a climate policy position. This is climate action without climate language. It allows firms to respond to physical reality while avoiding political and legal exposure, but it also makes coordination difficult. If every firm is managing climate risk individually without standardized disclosure or shared frameworks, capital markets cannot efficiently price that risk. Investors cannot compare firms. Regulators cannot assess systemic exposure.

The result is distributed adjustment without systemic clarity. Distributed adjustment can reduce firm-level exposure while increasing system-level fragility. If risk is managed privately and inconsistently, regulators and capital markets lose the shared map needed to identify correlated exposures.

Some firms face different constraints. Companies with significant physical assets in vulnerable locations—coastal real estate, agricultural operations, and water-intensive manufacturing—cannot hide their exposure. Their risk is already priced into equity valuations and insurance costs. These firms have an interest in standardized disclosure and collective action because distributed risk management is insufficient when physical impacts are catastrophic.

But these firms are also subject to anti-ESG legal risk if they advocate too loudly for climate policy. Red-state attorneys general are watching for evidence of coordination, boycotts, or political pressure. Firms that lobby for climate disclosure or carbon pricing risk becoming targets in anti-ESG litigation, so even firms with strong incentives for policy clarity face severe constraints on how they can advocate.

The financial sector faces its own version of this problem. Banks, asset managers, and insurance companies have portfolios exposed to climate risk. Under a Democratic administration, they might face regulatory requirements to disclose and manage that exposure. Under a Republican administration with a Democratic House, they face uncertainty about what will be required and

when. Asset managers respond by offering dual products: ESG funds for clients who want climate considerations and non-ESG funds for clients who don't. Climate risk assessment as an optional service rather than a standard practice. This allows asset managers to serve different client bases without taking a firm-wide position on climate policy.

But this dual-track approach has costs. It increases complexity, requires maintaining parallel systems, and makes it harder for the asset management industry to develop standardized climate risk methodologies. More importantly, it signals that climate risk management is optional and ideological rather than material and universal. This undermines the argument that climate risk is a financial risk requiring standard disclosure and fiduciary consideration.

Insurance companies cannot maintain this kind of flexibility. Their business model requires pricing risk accurately. When physical climate risk makes certain policies unprofitable, insurers must either raise premiums, exclude coverage, or exit markets. There is no ideological hedging available. The physical shock forces this choice. In coastal areas with rising flood risk, in wildfire zones, and in regions facing water scarcity, insurance becomes either unavailable or unaffordable. This creates political pressure on state insurance commissioners and state legislators. They face constituent demands to keep insurance available and affordable, but they cannot force private insurers to sell policies at a loss.

Some states respond by expanding public insurance programs. This socializes the risk but does not eliminate it. Public insurance funds can become insolvent if losses exceed premiums and reserves. When that happens, states face fiscal crisis. And because the physical shock is sustained rather than one-time, the fiscal pressure compounds.

Democrats in the House use insurance market failure as evidence that the Republican administration is not addressing climate risk adequately. Republicans in the Senate use insurance market failure as evidence that climate impacts are too large for government regulation to solve and that the real solution is economic growth and adaptation technology. Both arguments gain credibility from the same underlying reality—insurance markets are failing regardless of which political narrative is correct.

For capital allocators—pension funds, endowments, and sovereign wealth funds—divided government creates maximum uncertainty about future policy. Under unified Democratic control, capital allocators might expect climate regulations and could position accordingly. Under unified Republican control, capital allocators might expect regulatory rollback and could position accordingly. Under divided government, capital allocators have no clear signal. The result is wait-and-see capital allocation. Major investments in carbon-intensive assets are risky because future regulation might make them stranded. Major investments in renewable energy are risky because subsidies might be eliminated or legal challenges might succeed. The safest position is liquidity and flexibility—shorter-term investments, more diversification, and less concentration in climate-sensitive sectors. In effect, uncertainty increases the option value of liquidity. Capital allocators choose flexibility over commitment when neither branch of

government can credibly supply durable rules for how physical risk should be treated in disclosure, supervision, or liability.

This is rational for individual capital allocators but collectively suboptimal. The economy needs large, long-term investments in both adaptation infrastructure and emissions reduction technology. Divided government makes both categories of investment legally and politically risky, so capital moves elsewhere. The physical shock worsens while the political system blocks the capital mobilization needed to address it.

What This Scenario Produces —and What It Does Not

This scenario generates specific institutional behaviors under the constraint of divided government—Republican Presidency and Senate, Democratic House—following a visible climate shock and produces.

This scenario produces:

Attribution warfare replacing policy coordination.

Institutional actors convert physical visibility into conflict rather than settlement. Investigations, hearings, and public records become tools for assigning blame rather than mechanisms for aligning response.

Executive action without legislative durability.

The Republican executive undertakes limited, non-climate-framed actions—disaster relief, resilience funding, emergency management—to demonstrate competence while avoiding measures that require congressional authorization or validate climate policy frameworks.

Legislative theater without binding outcomes.

House Democrats use investigations and messaging bills to impose political cost and establish a record of Republican negligence. Senate Republicans use blocking authority and counter-hearings to discredit Democratic proposals. Neither produces durable law.

Regulatory caution under sustained cross-pressure.

Agencies face incompatible demands to act aggressively and to restrain scope. Rulemaking slows, guidance substitutes for mandates, and enforcement becomes selective to minimize legal and political exposure.

Defensive capital and firm adaptation.

Physical risk management continues, but firms and investors separate adaptation from climate or ESG framing. Adjustments occur quietly, individually, and without standardized disclosure or coordination.

Persistent legal and fiduciary ambiguity.

Divided political control reinforces uncertainty around disclosure obligations, fiduciary duty, and regulatory authority. Judicial signaling compounds hesitation and shapes long-term capital allocation decisions.

This scenario does not produce:

Resolution of underlying disagreement.

Visibility of physical harm intensifies conflict but does not generate consensus about causation, responsibility, or appropriate institutional response.

Coordinated climate policy.

Divided government structurally prevents legislative settlement on mitigation or adaptation, even when physical impacts are sustained and economically measurable.

Regulatory clarity or durability.

Agency actions remain provisional, vulnerable to litigation, and reversible across political cycles, preventing stable supervisory or disclosure regimes.

Market-wide coordination of climate risk pricing.

Without standardized disclosure or aligned regulation, capital markets cannot aggregate or price climate risk efficiently despite accumulating losses.

Reduction in political or legal conflict.

Attribution warfare escalates rather than resolves, reinforcing incentives for performance over policy and conflict over coordination.

This scenario describes institutional behavior under specific political conditions. It explains how the system's architecture processes a visible climate shock when power is fragmented across branches with opposing incentives. The shock produces motion. Divided government channels that motion into conflict, investigation, and signaling rather than coordinated institutional response. This occurs not because the shock lacks severity, but because the system's constants—legal uncertainty, fiduciary constraint, strategic firm behavior, and non-coordinating institutions—remain operative under divided control.

Under divided government, political action reallocates pressure across institutions without dissolving the constraints that govern capital, law, and firm behavior.

Chapter 10: Democratic President & House, Republican Senate (2028)

The physical shock registers across the economy with the same visibility that drove the previous scenarios—insured losses accumulate, infrastructure fails in documented patterns, and financial statements reflect exposures that actuarial models cannot confidently price. The difference in this configuration is not the shock itself but the political system’s capacity to convert visibility into durable institutional response. Democrats control the Presidency and the House of Representatives. Republicans control the Senate. This division creates a system capable of significant executive action but incapable of legislative settlement.

The Democratic President enters office in January 2029 with a mandate interpretation tied directly to the climate shock’s economic visibility. Campaign messaging emphasized competence in managing physical risk, regulatory clarity for capital markets, and coordination between financial supervision and climate adaptation. The House majority shares this interpretation and possesses appropriations origination authority, investigative capacity, and the ability to pass messaging legislation that builds a legislative record even when Senate passage is blocked. The Senate majority, by contrast, interprets the same election as a mandate to constrain regulatory expansion, protect energy sector interests, and prevent what it characterizes as ideological capture of financial regulation.

This chapter examines how the anti-ESG ecosystem processes this configuration. The core logic is straightforward. Executive agencies face maximum political pressure to act but maximum institutional constraint on the durability of that action. The Senate blocks confirmations, conditions appropriations, builds litigation records through oversight, and signals to regulated entities that enforcement actions face extended legal challenge and potential reversal. The result is not paralysis, but a specific pattern of institutional behavior characterized by defensive incrementalism, strategic fragmentation across agencies, and capital market responses to competing risks rather than settled regulatory expectations.

This configuration therefore produces a specific institutional rhythm. The executive branch accelerates early—because political incentives demand visible response to visible harm—while the Senate works to ensure that early action is narrow, proceduralized, and legally vulnerable. The outcome is a regime of **action without settlement**, in which agencies behave as if they must show movement while simultaneously preparing for reversal. The anti-ESG coalition does not disappear but rather shifts strategy from offense to institutional defense, using Senate leverage to constrain scope, delay implementation, and build the record for judicial reversal.

Two structural dynamics become especially salient in this configuration, even if they are not named explicitly in ordinary political discourse. First, **Law → Capital Allocation (E2)** dominates the system’s response. Senate constraint operates primarily by shaping the legal environment in which capital must allocate rather than by dictating outcomes directly. Second,

Capital → Firm Governance (E3) becomes conditional and fragmented. Capital sends mixed signals because regulatory durability is uncertain, and those signals translate unevenly into corporate governance, disclosure practices, and strategic investment decisions. In this scenario, visibility is high and institutional activity is intense, yet the system struggles to generate stabilized expectations that would allow capital to converge rather than hedge.

The Incentive Shift: Urgency Meets a Blocking Senate

The Democratic President interprets visibility as political imperative. The shock's economic documentation creates opportunity cost to inaction. Infrastructure damage, insurance market contraction, and supply chain disruption generate constituency demands for federal coordination. The President's core agencies—financial regulators, bank supervisors, and pension oversight bodies—receive direction to integrate physical risk into their supervisory frameworks using existing statutory authority. This is not ideological preference but electoral interpretation. The coalition that delivered the Presidency expects institutional response proportional to the shock's economic visibility.

This executive posture is reinforced by the structural logic of accountability under unified party control of the executive and House. The President can claim leadership through administrative action and can credibly threaten agency heads with political consequences for inaction. The House can amplify that imperative through oversight, messaging legislation, and appropriations baselines. The executive therefore experiences visibility as an instruction to act—not because the system has reached consensus on causation or on mitigation, but because the cost of institutional quiet is politically unacceptable in the face of measurable harm.

The Senate Republican majority interprets the same configuration differently. The election delivered divided government, which Senate leadership characterizes as a public mandate for constraint on executive expansion. This interpretation carries institutional weight. The Senate controls confirmations for all regulatory leadership positions, appropriations amendments for agency budgets, and the oversight process that shapes the record for subsequent litigation. The majority does not oppose all climate-related regulation but insists that regulatory action demonstrate clear statutory authorization, avoid back-door climate policy through financial supervision, and preserve state primacy over energy infrastructure decisions.

This creates a temporal asymmetry in political incentives. The President operates on a four-year horizon with front-loaded action incentives. Early regulatory initiatives signal competence and build implementation momentum before potential Senate shifts in the 2030 midterms. The Senate majority operates on a six-year staggered cycle with back-loaded constraint incentives to delay confirmations, condition appropriations, and build the record for judicial challenge knowing that time dilutes executive momentum and creates opportunity for litigation to mature.

The incentive shift manifests first in personnel. The President nominates regulatory leaders with public track records supporting climate-risk integration. The Senate Banking Committee holds

extended confirmation hearings that establish legislative intent opposing what the committee characterizes as regulatory overreach. Nominees either moderate their positions to secure confirmation, face extended delays that leave agencies operating under acting leadership with limited authority, or withdraw in favor of less visible appointments to non-Senate-confirmed positions. This confirmation friction does not block all appointments but signals to agency staff that aggressive regulatory initiatives will face both Senate scrutiny and leadership instability.

The second manifestation appears in appropriations. The House passes funding bills with provisions supporting climate-risk disclosure development, expanded examiner training on physical risk assessment, and coordination funding between financial regulators and climate science agencies. The Senate Appropriations Committee amends these provisions with riders prohibiting specific disclosure mandates, limiting the use of third-party climate analytics in supervision, and requiring cost-benefit analysis for any new reporting requirements. The resulting continuing resolutions or negotiated appropriations bills constrain agency capacity while preserving baseline funding, creating a regulatory environment where action is possible but resource-intensive initiatives face explicit prohibition.

A third manifestation appears in the signaling environment faced by market participants. Firms and investors do not wait for legislation to be enacted to form expectations; they infer durability from the visible balance of institutional power. The President's push to act signals a high likelihood of near-term enforcement and supervisory pressure. The Senate's blocking posture signals a high likelihood of reversal, defunding, or judicial defeat. The result is not simply uncertainty in the colloquial sense but a distinct pattern of conditional compliance. Firms respond to immediate enforcement risk while resisting structural changes that presume stable long-term regulatory regimes.

In edge terms, this is the law-to-capital pathway operating at full intensity. The Senate's constraint posture changes the expected payoff to compliance investment. Capital and firms behave rationally by distinguishing between what must be done to reduce near-term enforcement exposure and what would be done if the regulatory environment were expected to persist across time.

The Senate as Constraint Machine

The Senate's institutional capacity to constrain executive action operates through four mechanisms that do not require coordination but reinforce through parallel deployment: (a) confirmation leverage, (b) appropriations specificity, (c) oversight record-building, and (d) coordinated litigation signaling.

Confirmation leverage extends beyond regulatory leadership to the full network of positions requiring Senate approval. Financial regulatory agencies operate with multiple board positions, general counsels, and regional leadership roles subject to Senate confirmation. The majority can delay consideration, condition approval on policy commitments, or simply decline to schedule

votes, leaving agencies operating with incomplete leadership structures. This does not halt agency functioning but limits the scope of initiatives that require board-level authorization, reduces the political capital available for controversial rulemakings, and signals to career staff that aggressive positions may not enjoy durable leadership support.

Appropriations specificity operates through the detailed instructions that accompany funding bills. Unlike broad policy legislation, appropriations riders can prohibit specific uses of funds with precision that targets particular regulatory initiatives. The Senate can prohibit agencies from finalizing rules on climate disclosure, from hiring additional staff for climate-risk supervision, or from contracting with specific third-party data providers for emissions analytics. These prohibitions carry enforcement mechanisms through agency inspector general oversight and create legal liability for agency staff who violate spending restrictions. The result is a regulatory environment where baseline supervision continues but expansion into climate-risk integration faces resource constraints and legal prohibition on specific methodologies.

Oversight record-building serves a litigation preparation function rather than media spectacle. Committee hearings call agency leadership to explain the statutory basis for climate-risk initiatives, establish legislative history opposing broad interpretations of supervisory authority, and create transcript records that courts can reference in determining congressional intent. Witness questioning focuses on extracting admissions (a) that climate-risk supervision extends beyond traditional safety-and-soundness mandates, (b) that disclosure requirements impose costs without demonstrated investor protection benefits, and (c) that coordination with environmental agencies blurs the boundaries of financial regulation. This record does not block current action but provides litigation plaintiffs with congressional interpretation evidence that challenges agency statutory claims.

Coordinated litigation signaling emerges through formal and informal communication between Senate leadership and the anti-ESG legal network. Committee chairs invite testimony from conservative legal scholars who outline the constitutional and administrative law vulnerabilities of climate-risk regulation. Staff coordinate with state attorneys general on the timing of legal challenges to ensure that cases mature as oversight records develop. This coordination does not constitute direct instruction but creates alignment between Senate constraint strategy and litigation strategy, ensuring that judicial challenges benefit from contemporaneous congressional disapproval evidence.

The cumulative effect of these mechanisms is not obstruction but friction that increases the cost of regulatory action and decreases the expected durability of that action. Agencies can still act but must invest disproportionate resources in legal defensibility, accept narrower scopes to avoid statutory ambiguity, and operate with the knowledge that leadership turnover or appropriations shifts could reverse implemented policies.

This friction has a predictable downstream effect on capital markets. Markets discount regimes that appear reversible. The Senate's behavior therefore changes not only what agencies can do

but what investors are willing to treat as “real” in a durable way. When the probability of reversal is high, compliance becomes tactical rather than strategic. Firms build minimum viable compliance architectures rather than reconfiguring governance and risk systems for long-horizon transformation. Asset managers and lenders treat climate-risk integration as a differentiated service offered to some clients rather than a baseline governance standard imposed across portfolios. Under high-reversal probability, the system produces more documentation but less convergence.

House Dynamics: Messaging, Investigations, and Pressure on Agencies

The House Democratic majority cannot legislate into law under divided government but can legislate into record, investigate agency behavior, and pressure executive agencies to maximize action within statutory constraints. These capacities operate in parallel to create a countervailing institutional force against Senate constraint.

Messaging legislation serves multiple functions beyond immediate passage prospects. The House passes climate disclosure requirements, financial risk integration mandates, and coordination frameworks between supervisory agencies knowing that Senate passage is blocked. This legislation establishes the House’s position for future unified government scenarios, creates campaign material for vulnerable Senate Republicans in states affected by the physical shock, and signals to agency leadership that House oversight will evaluate regulatory action against the standard established in passed-but-blocked legislation. Agency staff interpret this signal correctly. Aggressive action may face Senate constraint, but inaction faces House investigation.

Investigative capacity focuses on documenting regulatory capture by anti-ESG interests and agency failures to integrate documented physical risk. Committee chairs schedule hearings examining (a) energy sector influence on regulatory appointments, (b) the revolving door between conservative legal organizations and agency general counsel positions, and (c) specific cases where supervisors declined to address climate-related exposures despite internal risk assessments. These investigations produce subpoenaed documents, sworn testimony, and public reports that create political cost for regulatory caution. The impact operates through reputation rather than enforcement. Agency leaders prefer Senate appropriations battles to extended House investigations that question their professional competence and institutional independence.

Appropriations origination authority matters even when final bills emerge from Senate negotiation. The House writes initial funding bills with detailed instructions for climate-risk program development, examiner training expansion, and disclosure pilot programs. While the Senate amends these provisions, the House position establishes the negotiating baseline and forces Senate appropriators to explicitly strike specific programs rather than simply declining to fund them. This creates political visibility around Senate constraint that can be costly in states experiencing climate shock-related economic disruption.

Pressure on agencies operates through formal oversight and informal communication. Committee chairs request regular briefings on climate-risk supervision implementation, agency spending on climate analytics capabilities, and the status of disclosure rulemaking. Staff maintain direct contact with career agency personnel to understand where political appointees constrain action and where statutory ambiguity creates implementation flexibility. This pressure does not override Senate constraint but ensures that agencies cannot use Senate opposition as excuse for comprehensive inaction. The House expects maximum deployment of existing authority even when statutory expansion is blocked.

The combined effect creates what agency leadership experiences as competing oversight regimes. Senate oversight demands evidence of statutory constraint, cost-benefit justification, and avoidance of climate policy through financial regulation. House oversight demands evidence of risk integration, supervisory competence, and aggressive use of existing authority. Agency responses fragment across this division. Some initiatives proceed with narrow statutory hooks and extensive legal preambles. Others advance through guidance rather than rules. Still others emerge through selective enforcement that builds precedent without formal rulemaking.

This House pressure has a second-order capital effect. House investigations and messaging bills increase the probability that a future unified Democratic government will treat climate-risk integration as unfinished business. That possibility pulls in the opposite direction from Senate reversal risk. Capital therefore receives competing durability signals. Near-term rules are fragile, but longer-term political trajectories may return to more aggressive regulation. For long-lived investments, this produces hedging rather than alignment. Investors do not adopt one baseline; they diversify across scenarios. The resulting pattern is activity without convergence—more investment in analytics, less investment in irreversible strategy.

Executive and Regulatory Behavior under Cross-Pressure

Agencies operating under competing political pressures develop behavioral patterns characterized by defensive incrementalism, jurisdictional fragmentation, and strategic use of process to manage legal vulnerability. The result is regulatory action that acknowledges physical risk without creating durable integration frameworks.

Defensive incrementalism manifests in the scope and pacing of regulatory initiatives. Agencies decline to pursue comprehensive climate-risk disclosure rules that would face immediate Senate appropriations prohibition and extended litigation. Instead, they advance narrow requirements tied to existing disclosure obligations: enhancing management discussion of material risks, requiring board committee climate-risk oversight documentation, and expanding scenario analysis requirements in stress testing frameworks. Each initiative uses statutory hooks from existing securities law, banking supervision authority, or fiduciary responsibility frameworks. The narrowness limits impact but increases legal defensibility.

Preambles to proposed rules expand dramatically in length and statutory citation density. Agencies anticipate judicial review under frameworks that require clear congressional authorization and reasoned decision-making. Proposed rules therefore include extensive documentation of the statutory basis for climate-risk consideration, economic analysis of disclosure costs and investor protection benefits, and response to anticipated legal challenges. This documentation serves dual purposes. First, it demonstrates agency seriousness to House oversight. Second, it provides the record necessary to survive judicial review. The cost is implementation delay and rule complexity that reduces accessibility for smaller regulated entities.

The choice between guidance and rules becomes strategic rather than merely procedural. Rules create enforceable obligations but trigger formal rulemaking processes that include Senate oversight opportunities, cost-benefit requirements, and judicial review vulnerability. Guidance avoids these triggers but creates uncertainty about enforcement discretion and provides weaker basis for supervisory action. Agencies split the difference. Using guidance for principles and frameworks that signal supervisory expectations while reserving rules for specific disclosure items with clear statutory support. This creates a two-tier system where large, sophisticated firms respond to guidance expectations while smaller entities face uncertainty about enforcement thresholds.

Selective enforcement emerges as the primary tool for building climate-risk precedent without formal rulemaking. Supervisors target enforcement actions at documented cases where firms failed to disclose material climate exposures subsequently realized in financial results. These actions establish that climate risk falls within existing materiality frameworks without requiring new disclosure rules. The selection criteria emphasize legal defensibility—clear causation between undisclosed risk and investor harm, public statements demonstrating firm awareness, and losses large enough to justify enforcement costs. This produces climate-risk precedent in narrow fact patterns rather than systematic integration.

Jurisdictional fragmentation occurs because agencies lack coordination mechanisms that Senate appropriations would fund. Different financial regulators develop non-aligned climate-risk frameworks—bank supervisors focus on credit risk from collateral exposure, securities regulators emphasize disclosure materiality, and insurance supervisors concentrate on underwriting and reserve adequacy. This fragmentation reflects both statutory boundaries and strategic calculation that coordination creates litigation vulnerability by suggesting climate policy rather than safety-and-soundness supervision. Firms consequently face overlapping but inconsistent requirements across regulatory jurisdictions.

The behavioral pattern that emerges is action designed for legal survival rather than comprehensive integration. Agencies demonstrate to House oversight that they take climate risk seriously through guidance, selected enforcement, and supervisory statements. Simultaneously they demonstrate to Senate oversight and anticipated judicial review that specific actions (a) rest on narrow statutory authority, (b) address traditional financial risk categories, and (c) avoid

policy determinations beyond agency expertise. The resulting system produces documentation of climate risk without creating settled expectations about how that risk integrates into capital allocation decisions.

This is also a classic mechanism of imperfect transmission in the seven-edge architecture. Agency action is occurring at the legal layer, but it is not arriving in capital markets as a single stable instruction. What crosses from law to capital is not “climate risk must be priced in X way,” but “some climate-risk expectations will be enforced sometimes, for some actors, through some channels, and may be reversed.” That is enough to create compliance investment, but not enough to produce standardized valuation or consistent governance convergence.

Capital and Firm Strategy under “Action That Can’t Settle”

Investors and corporations confront a regulatory environment where multiple competing risks operate simultaneously—physical risk from shock impacts, enforcement risk from selective agency action, litigation risk from both disclosure and non-disclosure, and political retaliation risk from positioning that antagonizes either Senate Republicans or House Democrats. Strategic responses fragment across firm size, sector exposure, and shareholder composition.

Large publicly traded corporations with significant institutional ownership increase disclosure sophistication without committing to specific mitigation targets. They enhance climate-risk discussion in financial filings using language that satisfies securities law materiality standards while avoiding quantitative commitments that could trigger enforcement if missed. They establish board committees with climate-risk oversight but structure charters to emphasize fiduciary duty and risk management rather than environmental objectives. They participate in voluntary disclosure frameworks that demonstrate stakeholder engagement without creating enforceable obligations. This strategy manages competing risks by providing documentation for investors concerned about physical exposure while maintaining flexibility to adjust if political environment or litigation landscape shifts.

Financial institutions face particularly acute cross-pressure because their regulatory exposure spans multiple agencies with non-aligned expectations. Large banks enhance climate-risk stress testing capabilities in response to supervisory pressure but avoid formal climate-risk metrics in capital requirements pending clearer statutory authorization. They develop internal methodologies for assessing collateral climate exposure but maintain these as risk management tools rather than lending restrictions to avoid Senate-triggered investigations into credit discrimination. They expand sustainable finance product offerings to meet investor demand while ensuring that marketing materials emphasize financial return metrics rather than climate impact to manage litigation risk from both greenwashing and anti-ESG claims.

Energy sector firms and their financial partners deploy defensive positioning that emphasizes legal compliance and physical risk management while contesting regulatory expansion. They participate in disclosure processes but challenge the statutory basis for climate-specific

requirements through coordinated litigation. They document adaptation investments and efficiency improvements while opposing disclosure rules that treat emissions as distinct from other operational risks. They maintain relationships with both Senate Republicans who provide constraint leverage and House Democrats who control investigative capacity, navigating between protection from regulatory expansion and vulnerability to oversight investigations.

Small and mid-sized firms experience the uncertainty as compliance burden without strategic flexibility. They lack resources for sophisticated risk assessment, face conflicting signals about enforcement priorities, and cannot afford the legal analysis required to distinguish mandatory requirements from supervisory guidance. Many adopt minimal disclosure strategies: acknowledging climate risk in boilerplate language without quantification or forward-looking statements. This approach manages litigation risk from disclosure errors while accepting that minimal disclosure may not satisfy supervisory expectations if enforcement actions expand. The result is disclosure divergence where firm size predicts climate-risk integration depth more than actual exposure levels.

Institutional investors fragment across three strategies that reflect different interpretations of fiduciary duty under regulatory uncertainty. Some integrate climate risk as material financial factor and pressure portfolio companies for enhanced disclosure, viewing physical risk as requiring attention regardless of regulatory settlement. Others maintain climate factors in engagement frameworks but avoid voting or divestment actions that could trigger anti-ESG litigation or political retaliation, treating climate as one risk among many without special status. Still others explicitly reject climate integration as speculative and legally risky, viewing agency pressure as beyond statutory authority and likely to face judicial reversal. This strategic fragmentation reflects genuine disagreement about how fiduciary duty intersects with unsettled regulation rather than ideological positioning.

Private capital markets experience spillover from public company regulatory pressure without direct supervisory oversight. Private equity firms face investor due diligence questions about portfolio company climate exposure without clear frameworks for disclosure or valuation adjustment. Private debt markets struggle to price climate risk premiums without comparable data or regulatory guidance on assessment methodologies. This creates information asymmetry between sophisticated investors with climate analytics capabilities and smaller market participants operating without regulatory floors on disclosure.

In this scenario, the capital market response has a distinctive shape. Physical risk is too visible to ignore. Executive pressure to act is too visible to dismiss. Senate constraint is too powerful to discount. The result is a regime of **risk recognition without convergence**. Nearly everyone acknowledges climate-related physical exposure as relevant, but fewer actors are willing to embed that exposure into durable valuation and governance structures, because the institutional signals are conflicting and the liability landscape is unsettled.

This is where the “parity” point matters across scenarios. Capital is not a passive mirror of politics; it is an optimizing system that responds to the interaction of legal authority, enforcement probability, litigation risk, and time horizon. In a configuration where executive action is likely, but durability is uncertain, capital does not become more decisive. It becomes more conditional. It invests in optionality—analytics, disclosure language, and modular governance structures—rather than committing to long-horizon reallocation that presumes stable rules. Capital behaves rationally. The system outcome is suboptimal.

The capital market pattern that emerges is risk-aware but strategy-fragmented. Virtually all significant market participants acknowledge physical risk as requiring attention. But acknowledgment does not produce consistent integration because regulatory uncertainty leaves multiple defensible strategies available. Firms and investors choose positions based on shareholder composition, sector exposure, and litigation risk tolerance rather than converging on common approaches. The result is increased disclosure volume without increased disclosure comparability, more climate-risk discussion without settled valuation methodologies, and more strategic positioning without market consensus on what prudent climate-risk management requires.

What This Scenario Produces —and What It Does Not

This configuration—Democratic President and House, Republican Senate—generates specific institutional outputs that distinguish it from both unified government scenarios and alternative divided government configurations.

This scenario produces:

Regulatory action without legislative settlement.

Agencies issue guidance, pursue narrow rulemakings, and expand supervisory attention to physical risk using existing statutory hooks. The activity is real and visible, but it lacks the legislative backbone required for durability.

Defensive incrementalism as the dominant agency posture.

Rather than comprehensive frameworks, agencies prioritize legally survivable steps—narrow disclosure enhancements, extended preambles, and selective enforcement tied to clear materiality failures—because Senate constraint and judicial vulnerability make broad mandates high-risk.

A constraint-driven Senate strategy that reshapes durability expectations.

Confirmation delay, appropriations riders, oversight record-building, and litigation signaling do not stop action entirely, but they increase the cost of action and lower the expected longevity of what is implemented.

Competing oversight regimes that fragment institutional behavior.

House Democrats pressure agencies toward visible risk integration; Senate Republicans pressure

them toward statutory minimalism and cost justification. Agencies respond with fragmented tools—rules in narrow zones, guidance elsewhere, and enforcement in selective fact patterns.

Capital-market risk recognition without convergence.

Capital treats physical risk as real and increasingly salient, but discounts regulatory durability. Investors and firms respond through hedging, optionality, and disclosure sophistication rather than through standardized valuation and stable governance convergence.

Disclosure expansion without comparability.

Large firms increase narrative sophistication and governance signaling; smaller firms rely on minimal compliance. The system produces more information but not the harmonized comparability that would support consistent pricing across sectors and firm sizes.

This scenario does not produce:

Mandatory standardized climate disclosure with clear enforcement permanence.

Senate constraint, litigation risk, and appropriations limits prevent the emergence of durable, standardized disclosure regimes.

Integration of climate risk into bank capital requirements or insurance reserve calculations.

Agencies avoid the most structurally consequential moves—capital rule integration, reserve mandates, and system-wide coordination—because those moves trigger maximal Senate resistance and judicial risk.

Coordinated inter-agency frameworks that make climate-risk integration routine.

Coordination appears as the most litigation-vulnerable posture: it looks like policy. Agencies avoid it, producing fragmentation instead.

Durable regulatory infrastructure likely to survive political transitions or judicial review.

Even where action is implemented, it is structured for survival, not for permanence. Markets price that fragility.

Market consensus on climate-risk valuation methodologies or materiality thresholds.

Without stable standards and durable enforcement, valuation remains plural and contested. Capital allocators adopt divergent strategies that are each defensible under uncertainty.

Clear boundaries between legitimate financial risk supervision and prohibited climate policy.

The system remains trapped in boundary conflict. Senate strategy is built to keep that boundary contested; House pressure is built to push it. Neither produces closure.

The scenario's signature characteristic is regulatory action designed for legal defensibility rather than comprehensive integration. Agencies acknowledge climate risk and take visible steps to address it, satisfying immediate political pressure from Democratic constituencies and House oversight. But the steps taken are narrow in scope, extensively documented in statutory

justification, and structured to survive Senate constraint and judicial review rather than to create systematic risk integration. This produces movement without settlement. The regulatory system shifts toward greater climate-risk acknowledgment while leaving fundamental questions about scope, methodology, and durability unresolved.

For the anti-ESG ecosystem, this configuration represents a holding pattern rather than defeat or victory. The coalition cannot prevent all regulatory action but successfully constrains the durability and scope of that action through Senate leverage. The resulting regulatory environment creates litigation opportunities, fragments market responses, and prevents the emergence of standardized frameworks that would make climate-risk integration routine business practice. The system processes visibility by producing action, but the action produced does not resolve the underlying disagreement about whether climate risk belongs within financial regulation's domain.

Under this configuration, political engagement reallocates pressure across institutions without dissolving the constraints that govern regulatory durability, capital allocation, and firm behavior.

Chapter 11: Unified Democratic Control (2028)

The shock has occurred with the same sustained visibility that defined the prior scenarios. Insurance markets contract or exit high-exposure regions. Infrastructure systems experience failures that correlate with projected climate stress patterns. Agricultural yields decline in documented geographic clusters. Supply chains adapt to recurrent disruption that no longer registers as exceptional. The economic manifestation is neither abstract nor singular but persistent—a transition from contingent risk to operating condition that appears in earnings guidance, municipal budget constraints, and credit repricing across exposed asset classes.

Unified Democratic control of the Presidency, Senate, and House creates the political configuration most commonly assumed to enable comprehensive climate policy response. The party's stated positions support climate-risk integration into financial regulation, mandatory disclosure frameworks, and coordinated adaptation investment. Electoral interpretation emphasizes constituent demand for federal leadership on climate impacts. The institutional machinery—legislative majority, executive authority, regulatory appointments, and appropriations control—appears aligned for coordinated action.

But unified control does not eliminate institutional constraint. It concentrates political authority within a single party while simultaneously exposing that party to comprehensive responsibility for every implementation failure, every unintended economic consequence, and every adverse legal precedent. The anti-ESG coalition does not dissolve under Democratic governance. It redirects strategy from legislative blocking to litigation preparation, from appropriations constraint to judicial challenge, and from narrative production emphasizing regulatory overreach to narrative production emphasizing economic harm and constitutional violation. The shock creates pressure for response. Unified control determines where that pressure can be directed and which constraints remain binding despite political alignment.

The system's constants remain operative. Legal uncertainty persists because statutory authority for climate-specific financial regulation remains contested. Fiduciary duty interpretation divides across jurisdictions and investor constituencies. Liability exposure from aggressive action—regulatory takings claims, preemption challenges, energy sector litigation—creates defensive positioning even within supportive administrations. Firms adapt to regulatory pressure but do so strategically, managing compliance costs and political exposure rather than converging on shared climate-risk frameworks. Capital responds to regulatory signals but discounts durability when judicial reversal probability remains elevated. Most critically, the federal system's structure ensures that implementation occurs through state and local execution, where political opposition concentrates and where regulatory reach confronts practical limits.

The scenario therefore examines how unified Democratic control processes a visible climate shock through a system where political alignment enables regulatory action but does not eliminate the constraints that govern legal durability, capital allocation, firm behavior, and

implementation execution. What changes is the concentration of political accountability. What persists are the institutional frictions that prevent visibility from translating directly into settled policy outcomes. The result is motion at the federal level that encounters friction at the implementation level, producing activity without comprehensive settlement.

The chapter proceeds through the transmission pathways that structure institutional response under unified Democratic control. In system terms, three edges govern how visible shock is processed. First, the **Narrative** → **Law** edge (E1) shapes how physical damage and economic disruption are rendered legally legible, translating attribution and urgency into statutory authority and regulatory justification rather than into unconstrained mandate. Second, the **Law** → **Capital Allocation** edge (E2) determines how newly asserted authority alters permission structures for investment and supervision, reshaping incentives while transmitting uncertainty alongside direction. Third, the **Macro Conditions** → **Politics** edge (E6) concentrates salience within the governing coalition, converting aggregated economic stress into political imperative without resolving disagreement about sequencing, scope, or durability. Together, these pathways explain why unified control accelerates institutional movement while shifting the locus of constraint from legislative blocking to implementation friction and from appropriations conflict to judicial confrontation, producing activity without comprehensive settlement.

Entry Conditions and Political Interpretation

The Democratic Party enters unified control in January 2029 interpreting the preceding election as validation of climate-risk governance and federal coordination on adaptation infrastructure. Campaign messaging emphasized the economic costs of inaction, the failure of market-only approaches to address systemic physical risk, and the need for regulatory clarity to enable capital allocation toward resilience. House and Senate majorities include members from constituencies experiencing direct shock impacts—coastal districts facing insurance market collapse, agricultural regions managing sustained drought, and municipalities confronting infrastructure failure—alongside members from constituencies where climate advocacy has long preceded visible physical harm.

This diversity creates intraparty tension that unified control cannot externalize. A senator from a coastal state experiencing property insurance crisis faces different constituent pressure than a senator from an inland manufacturing state where climate impacts remain less visible. A representative from a district with significant fossil fuel employment navigates different political constraints than a representative from a district demanding immediate emissions regulation. These tensions existed during the campaign but intensify when abstract climate positions must translate into specific regulatory actions with concentrated economic impacts.

The shock's visibility creates political necessity to act but does not specify which actions are viable within coalition constraints. Progressive members demand comprehensive emissions regulation, mandatory climate disclosure with standardized metrics, and federal preemption of

state anti-ESG laws. Moderate members support adaptation infrastructure investment and enhanced financial risk supervision but oppose measures that could be characterized as energy sector punishment or could generate adverse economic impacts in swing districts. Leadership must find legislative and regulatory approaches that satisfy both constituencies without fracturing the governing coalition.

This necessity drives demand for attribution frameworks that connect visible harm to regulatory solutions within the coalition's ideological boundaries. The shock must be explained in ways that justify federal intervention, assign responsibility for past inaction, and position regulatory action as economic necessity rather than ideological preference. Unlike Republican attribution strategies that deflect from emissions causation, Democratic attribution strategies emphasize the connection between warming and economic harm while carefully managing how responsibility for mitigation and adaptation is allocated across federal, state, and private actors.

Coalition management therefore shapes which regulatory responses advance and in what sequence. Early action concentrates on areas with broad intraparty support—enhanced climate-risk disclosure requirements tied to investor protection, supervisory guidance for financial institutions on physical risk assessment, and adaptation infrastructure appropriations framed as economic development. More contentious measures—carbon pricing, mandatory emissions reduction targets, federal energy sector regulation—face sequential positioning that builds political support through demonstrated success of earlier initiatives while avoiding early confrontations that could fragment the coalition or generate adverse legal precedents.

Agenda effects follow. The shock becomes a forcing event that justifies acceleration of regulatory initiatives previously constrained by divided government. But acceleration occurs within boundaries defined by litigation risk, implementation capacity, and coalition unity. Leadership must balance constituent demand for visible federal action against institutional constraints that make comprehensive climate policy legally vulnerable and politically risky. The resulting pattern is selective ambition—aggressive action in domains where statutory authority is clearest and coalition support is strongest, defensive caution in domains where legal vulnerability is highest and intraparty disagreement is sharpest.

The shock generates pressure for coordinated response. Unified control concentrates authority to direct that response. But the direction chosen reflects not only policy preference but strategic calculation about which actions can survive the constraints that operate regardless of electoral configuration. At this stage, pressure moves primarily through the macro-to-politics edge, as **Macro Conditions → Politics** (E6) converts aggregated economic stress into political imperative without resolving disagreement about implementation strategy or eliminating constraints on regulatory durability.

Legislative Dynamics under Unified Democratic Control

Congressional Democrats face the opportunity and burden of legislative capacity. Unlike divided government scenarios where messaging legislation substitutes for enacted law, unified control requires producing statutes that can survive presidential signature, regulatory implementation, judicial review, and potential future repeal efforts. This transforms legislative strategy from position-taking to institutional design.

The House advances climate disclosure legislation requiring publicly traded companies to report greenhouse gas emissions, physical risk exposure, and transition planning using standardized methodologies. The legislation ties disclosure requirements to existing securities law frameworks, emphasizing investor protection and market efficiency rather than environmental objectives. This framing serves dual purposes—building intraparty consensus by connecting climate to financial materiality and constructing legal defensibility by grounding requirements in established regulatory authority. Floor debate emphasizes economic arguments about capital allocation efficiency and risk management rather than moral arguments about climate justice or environmental stewardship.

The Senate faces more acute legislative challenges. The chamber's narrower Democratic majority—often dependent on moderate members from politically competitive states—creates pressure to moderate House proposals while maintaining sufficient ambition to satisfy progressive constituencies and demonstrate response proportional to the shock's visibility. Senate committees hold hearings that establish legislative intent supporting climate-risk integration while building records that respond to anticipated constitutional and administrative law challenges. Witnesses include financial regulators, institutional investors, actuaries, and climate scientists who can testify to the financial materiality of climate risk and the statutory basis for federal disclosure requirements.

Committee amendments narrow House proposals in ways that increase legal defensibility while reducing political exposure. Disclosure requirements emphasize material financial risk rather than comprehensive emissions accounting. Safe harbors protect good-faith disclosure efforts from litigation. Phase-in periods allow firms time to develop reporting systems. Exemptions for smaller companies reduce compliance burden. These modifications disappoint progressive members but prove necessary for passage while improving the legislation's prospects in judicial review.

Appropriations legislation funds the regulatory infrastructure necessary for implementation. Agencies receive budget increases for examiner training on climate-risk assessment, technology systems for processing standardized disclosure, and coordination mechanisms between financial regulators and climate science agencies. Appropriations also fund adaptation infrastructure investments—grid resilience, water management systems, and coastal protection—framed as economic development and job creation rather than purely environmental initiatives. This dual framing maintains coalition unity while building implementation capacity.

Legislative oversight shifts from confrontation to coordination. Committees no longer investigate agency failure to act but instead monitor implementation progress, identify resource constraints, and build records supporting regulatory authority. Oversight hearings feature agency leadership explaining how new disclosure requirements integrate with existing frameworks, how supervisory capacity is expanding to address physical risk, and how coordination with state regulators addresses federal system constraints. This oversight serves to demonstrate competence and build public confidence while creating legislative history that supports agency action in subsequent litigation.

But legislative activity also reveals the limits of unified control. Legislation requiring federal preemption of state anti-ESG laws faces opposition from moderate Democrats concerned about federalism principles and from Republicans who warn that such preemption invites constitutional challenge. Carbon pricing proposals divide the caucus between members supporting economy-wide mechanisms and members concerned about concentrated impacts on energy-producing regions. Mandatory emissions reduction targets face resistance from members representing industrial constituencies. Leadership advances only those measures that can secure majority support without fracturing the coalition, deferring more contentious initiatives to potential future legislative sessions.

The resulting legislative record is significant but bounded. Climate-risk disclosure advances through statutory authorization tied to investor protection. Adaptation infrastructure receives increased appropriations framed as economic development. Financial regulators gain explicit authority and resources for climate-risk supervision. But comprehensive emissions regulation, federal energy sector restructuring, and preemption of state anti-ESG laws remain outside the legislative consensus achievable even under unified control. The shock creates political space for action, but coalition management and judicial vulnerability constrain which actions can survive legislative process and subsequent implementation challenges.

Throughout, legislative behavior reflects awareness that statutes create targets for litigation and that adverse precedents can constrain future Democratic governance more than current Republican opposition. This awareness disciplines ambition, produces defensive statutory construction, and emphasizes incremental expansion of existing authority over novel assertions of regulatory power. The result is legislation that enables regulatory action while building defenses against predictable legal challenges. As this legislation stabilizes, it begins to reshape expectations through **Narrative** → **Law** (E1), determining which forms of institutional response gain legal legitimacy and which remain contested.

Executive and Regulatory Acceleration under Political Support

Regulatory agencies under unified Democratic control experience maximum political support for climate-risk integration combined with maximum legal vulnerability to challenges characterizing such integration as *ultra vires* regulatory expansion. This combination produces agency behavior

characterized by aggressive action structured for legal survival—a pattern of strategic ambition rather than unconstrained policy implementation.

The SEC finalizes climate disclosure rules requiring material risk reporting, governance structure disclosure, and forward-looking risk assessment. The rules use statutory hooks from existing securities law, extensive preambles documenting investor demand and market efficiency benefits, and phase-in schedules that demonstrate reasoned decision-making. Agency leadership anticipates immediate legal challenges and structures rules to survive judicial review under frameworks that require clear statutory authorization and cost-benefit justification. The result is disclosure requirements that represent significant expansion of climate-risk attention while remaining narrower than progressive advocacy organizations demanded.

Financial supervisors—Federal Reserve, OCC, FDIC—issue coordinated guidance requiring large financial institutions to integrate climate-related physical and transition risks into enterprise risk management, stress testing, and capital planning. The guidance emphasizes supervisory expectations rather than categorical requirements, allowing firms flexibility in methodology while establishing regulatory attention to climate exposure. This approach avoids formal rulemaking processes that would trigger more extensive judicial review while creating enforceable supervisory expectations through examination findings and enforcement actions. Institutions understand that material failures to address climate risk will generate supervisory criticism and potential enforcement even absent specific rule violations.

Coordination between financial regulators and climate science agencies accelerates. Joint working groups develop standardized climate scenario frameworks for stress testing. Data-sharing agreements allow supervisors access to physical risk models and emissions datasets. Coordinated guidance documents explain how climate factors integrate with traditional safety-and-soundness supervision. This coordination serves both efficiency and legal defensibility purposes—efficiency by preventing duplicative efforts, legal defensibility by demonstrating that climate-risk supervision serves traditional regulatory objectives rather than pursuing environmental policy outside agency authority.

But regulatory acceleration encounters predictable legal challenges and implementation constraints that unified political control cannot eliminate. Energy sector trade associations file immediate lawsuits challenging SEC disclosure rules as exceeding statutory authority and violating First Amendment commercial speech protections. State attorneys general from Republican-governed states challenge financial supervisory guidance as improper climate regulation disguised as prudential supervision. Individual companies contest enforcement actions on grounds that climate risk assessment methodologies lack scientific consensus and impose unreasonable compliance burdens.

These challenges do not immediately halt regulatory implementation but create uncertainty about durability that affects compliance behavior and capital allocation decisions. Firms invest in disclosure capabilities but structure systems to allow rapid modification if rules are invalidated.

Investors increase climate-risk attention but maintain analytical frameworks that separate climate factors from core valuation methodologies in case supervisory expectations reverse. The litigation shadow reduces the effectiveness of regulatory action even when that action has political support and initial implementation success.

Judicial appointments provide long-term strategic advantage but insufficient near-term protection. The President appoints judges and agency leaders committed to climate-risk integration, but judicial consideration of specific regulatory challenges occurs on timelines extending beyond the current administration. Appeals processes ensure that major climate disclosure or supervision rules face years of litigation before achieving final legal settlement. During this period, regulatory durability remains uncertain, affecting the intensity and irreversibility of compliance responses.

Implementation also encounters federalism constraints that unified federal control cannot override. Financial regulation requires coordination with state insurance commissioners, state securities regulators, and state banking supervisors. States with Republican governance resist or delay implementation of federal climate-risk frameworks. State insurance commissioners decline to require climate-risk factors in rate approval processes. State securities regulators issue guidance contradicting federal disclosure expectations. This creates implementation fragmentation where firms and investors face different regulatory environments across jurisdictions, reducing the standardization that federal rules were designed to achieve.

The resulting regulatory environment is one of visible federal action encountering persistent legal and implementation constraints. Agencies advance climate-risk integration using available statutory authority and political support. But the integration achieved is partial, contested, and structured for legal survival rather than policy ambition. The pattern reflects rational behavior under binding constraints—maximizing action within the boundaries defined by litigation risk, coalition management, and federal system limitations. As regulatory action stabilizes, even provisionally, it transmits through **Law → Capital Allocation** (E2), altering the permission structures under which investment decisions occur while maintaining uncertainty about enforcement durability and legal finality.

Capital and Firm Response under Regulatory Pressure and Reversal Risk

Capital allocators and corporate executives under unified Democratic control face regulatory pressure to integrate climate risk combined with elevated uncertainty about regulatory durability, litigation outcomes, and political reversibility. The resulting behavior pattern is anticipatory adaptation without convergent commitment—a posture that acknowledges regulatory direction while hedging against multiple forms of reversal risk.

Large institutional investors—pension funds, mutual fund complexes, and sovereign wealth funds—increase climate-risk analytical capabilities and expand engagement with portfolio companies on disclosure quality and risk management practices. This response reflects both

regulatory pressure and recognition that physical shock impacts create material financial exposures requiring attention. Asset managers enhance stewardship policies to address climate governance, support shareholder resolutions requesting enhanced disclosure, and condition voting decisions on board climate-risk oversight quality. These actions demonstrate responsiveness to regulatory expectations while remaining defensible as traditional fiduciary risk management.

But institutional investors structure climate integration to preserve flexibility for regulatory reversal or adverse litigation outcomes. Climate-risk assessments remain supplementary to core valuation methodologies rather than fully integrated. Investment restrictions based on climate factors avoid categorical exclusions that could trigger anti-ESG litigation or could prove economically costly if regulatory support reverses. Engagement emphasizes disclosure improvement and risk assessment rather than emissions reduction targets that might exceed fiduciary authority. The resulting pattern is elevated attention to climate factors within governance frameworks designed to minimize exposure if regulatory environment shifts.

Publicly traded corporations face direct disclosure obligations and supervisory expectations requiring material risk reporting and governance structure documentation. Compliance investments accelerate—expanded sustainability reporting teams, board committee restructuring, enhanced data systems for emissions tracking, and physical risk assessment. This compliance activity is real and resource-intensive, creating organizational change and elevating climate within corporate governance attention.

Corporate response also reflects strategic positioning that hedges reversal risk and manages litigation exposure. Disclosure emphasizes uncertainty and risk factors rather than quantitative commitments that could generate enforcement actions if missed. Forward-looking statements include extensive safe harbor language protecting against securities litigation. Governance structures emphasize oversight and risk management rather than environmental advocacy that could alienate shareholders or invite political retaliation. Firms separate compliance with regulatory requirements from voluntary sustainability commitments, maintaining flexibility to modify the latter if political environment or legal landscape shifts.

Energy sector firms and their financial partners face acute regulatory pressure combined with concentrated litigation capacity. These firms challenge regulatory authority through coordinated legal strategies while implementing minimum viable compliance to avoid enforcement actions. They contest the statutory basis for climate-specific disclosure while providing general risk factor discussion. They challenge supervisory guidance as ultra vires while participating in stress testing exercises. This dual strategy—legal challenge combined with defensive compliance—reflects rational positioning under regulatory hostility. The firms cannot ignore regulatory pressure but can contest its legal foundation while building records for judicial review.

Private capital markets experience spillover effects from public company regulatory requirements without direct supervisory oversight. Private equity firms face investor due

diligence expectations for portfolio company climate risk assessment. Private debt markets encounter lender requests for climate risk disclosure and covenant structures addressing physical exposure. This private market pressure reflects both regulatory signaling—investors and lenders anticipate that climate-risk standards will eventually extend to private markets—and physical risk recognition independent of regulatory requirements. But private market responses remain more heterogeneous than public market responses because enforcement mechanisms and standardization pressures are weaker.

Financial institutions navigate regulatory expectations for climate-risk integration while managing coalition resistance from fossil fuel sector clients and Republican-governed state pension systems. Large banks enhance climate-risk stress testing and scenario analysis capabilities in response to supervisory pressure. They expand sustainable finance product offerings and increase lending to renewable energy projects. But they avoid categorical lending restrictions or financing exclusions that would trigger energy sector litigation or state pension divestment. The resulting strategy is selective enhancement—doing more on climate risk in domains where supervisory attention is greatest while avoiding measures that would generate concentrated political or legal opposition.

Insurance companies face the most direct physical risk exposure and the least flexibility in response options. Underwriting losses from climate-related events require premium increases, coverage exclusions, or market exits regardless of regulatory environment. Unified Democratic control enables enhanced coordination with state insurance commissioners on climate-risk pricing and reserve adequacy but cannot eliminate the fundamental tension between pricing risk accurately and maintaining coverage affordability. Some states require insurers to accept climate risk factors in rate setting. Other states prohibit rate increases that regulators deem excessive regardless of actuarial justification. This creates fragmented regulatory environments where insurers face different constraints across jurisdictions.

The capital market pattern that emerges under unified Democratic control is elevated climate-risk attention without settled integration frameworks. Physical risk is too visible to ignore. Regulatory pressure is too intense to dismiss. But reversal risk—from litigation, political transition, or judicial invalidation—remains sufficiently elevated that capital hesitates to treat current regulatory environment as permanent. Investors and firms respond through hedged positioning—increasing climate capabilities and compliance sophistication while maintaining strategic flexibility to adjust if regulatory foundation proves unstable. This hedging is individually rational but collectively suboptimal, as it prevents the convergent risk pricing and coordinated capital reallocation that durable regulatory frameworks might enable.

That transmission operates most clearly through **Capital Allocation → Firm Governance** (E3). Regulatory pressure and physical risk combine to elevate climate within corporate attention, but governance integration remains provisional. Boards establish oversight committees and modify executive incentives, but these governance changes are structured to be

reversible if regulatory expectations shift. What flows across this edge is heightened attention without structural commitment, producing governance activity that acknowledges regulatory pressure while preserving strategic flexibility for future political configurations.

What This Scenario Produces —and What It Does Not

Unified Democratic control following a visible climate shock produces the most aggressive regulatory response examined across the scenario set. Political alignment enables legislative authorization, appropriations support, coordinated agency action, and reduced blocking capacity from opposition party. But aggressive action within a system of binding constraints produces a distinct outcome pattern characterized by provisional integration rather than settled framework.

This scenario produces:

A legally grounded expansion of mandatory climate-risk disclosure.

Federal climate-risk disclosure requirements enacted through securities law frameworks and tied to investor protection rather than environmental objectives, creating legal foundation for standardized reporting while structuring rules to survive judicial review focused on statutory authority and cost-benefit analysis.

An increase in supervisory expectations rather than categorical regulatory mandates.

Coordinated financial supervisory guidance requiring large institutions to integrate physical and transition risks into enterprise risk management, stress testing, and capital planning, implemented through supervisory expectations rather than categorical rules to maintain regulatory flexibility and reduce judicial review vulnerability.

Widespread organizational compliance activity within regulated institutions.

Elevated compliance activity and organizational adaptation within regulated entities, producing expanded sustainability reporting, enhanced board oversight structures, and increased analytical capabilities for climate-risk assessment as firms respond to regulatory pressure and physical risk visibility.

Federal investment in adaptation framed through economic development channels.

Adaptation infrastructure appropriations framed as economic development and job creation, funding grid resilience, water management systems, and coastal protection through legislative processes that maintain coalition unity while building implementation capacity.

Cautious repositioning by capital markets in response to regulatory direction.

Anticipatory capital market repositioning that increases climate-risk attention within investment analysis and corporate governance without converging on standardized valuation methodologies or irreversible strategic commitments, reflecting regulatory pressure combined with elevated reversal risk from litigation and political transition.

Persistent fragmentation in implementation across jurisdictions.

Implementation fragmentation across federal and state jurisdictions as Republican-governed

states resist or delay adoption of federal climate-risk frameworks, creating geographic variation in regulatory intensity and reducing the standardization that federal rules were designed to achieve.

Ongoing legal contestation of regulatory authority.

Sustained litigation challenging regulatory authority, disclosure requirements, and supervisory guidance on grounds of statutory overreach, constitutional violation, and inadequate cost-benefit justification, producing extended legal uncertainty that affects compliance intensity and capital allocation durability.

This scenario does not produce:

A settled legal foundation for climate-risk regulation.

Resolution of disagreement about climate-risk regulation's statutory foundation, fiduciary status, or constitutional boundaries, as unified political control enables regulatory action but cannot eliminate legal contestation or judicial uncertainty about regulatory authority limits.

Uniform integration of climate risk across financial and corporate systems.

Standardized climate-risk integration across financial supervision, corporate governance, and capital allocation, as litigation uncertainty, implementation fragmentation, and reversal risk prevent convergence on shared frameworks despite federal regulatory pressure.

Federal override of state-level resistance.

Preemption of state anti-ESG laws or federal override of state resistance to climate-risk implementation, as coalition constraints and federalism principles limit Democratic willingness to pursue preemption strategies that would invite constitutional challenges and fragment intraparty unity.

Comprehensive federal control of emissions or energy systems.

Comprehensive emissions regulation or federal energy sector restructuring, as coalition management, litigation vulnerability, and economic impact concerns constrain legislative ambition even under unified control, producing climate-risk disclosure and supervision expansion while leaving emissions policy largely outside federal regulatory achievement.

Regulatory durability insulated from political or judicial reversal.

Durable regulatory frameworks immune to political reversal or judicial invalidation, as the structural features that make regulatory action vulnerable—contested statutory authority, judicial skepticism of agency expansion, and federal system constraints—persist regardless of unified political control.

Market-wide agreement on climate-risk valuation standards.

Market consensus on climate-risk valuation methodologies or materiality thresholds, as regulatory frameworks remain provisional and contested, preventing capital from converging on shared approaches to risk assessment and strategic allocation despite elevated attention to physical exposure.

This scenario describes how the system processes a visible climate shock under maximum federal political alignment for climate action. The shock generates pressure and unified control enables regulatory response more aggressive than any alternative political configuration could produce. But the response achieved remains bounded by constraints that operate independent of political alignment—litigation vulnerability shaped by judicial philosophy and statutory ambiguity, implementation resistance enabled by federal system structure, and capital hesitance driven by reversal risk and uncertainty about regulatory durability. The result is significant institutional motion that encounters persistent friction, producing climate-risk integration that is provisional rather than settled and activity that reflects regulatory pressure without generating convergent market response. Unified Democratic control changes what regulatory action is possible but does not eliminate the institutional constraints that prevent visibility from translating directly into durable policy settlement.

Chapter 12: Divided Government and System Behavior

Chapters 8 through 11 were constructed as stress tests. Each scenario isolated a different configuration of political control and institutional response in order to observe how pressure moves when particular constraints are tightened or released. They are not forecasts, and they are not intended to suggest that one political outcome is more likely, more legitimate, or more desirable than another. Their purpose was simply diagnostic. By holding certain features constant and varying others, the scenarios made visible how the system behaves under strain.

What emerges from those exercises is not a contest among futures, but a set of recurring structural patterns. Across otherwise distinct political configurations, similar forms of delay, distortion, and reallocation appear. Pressure does not disappear when authority fragments, nor does it move cleanly or predictably when authority briefly consolidates. Instead, the system adapts to constraint. It reroutes influence, shifts the timing of effects, and redistributes responsibility across institutional boundaries. The scenarios differ in surface detail, but they converge in what they reveal about how the system absorbs and transmits pressure over time.

This chapter steps back from the scenarios to examine those patterns directly. Its focus is not on which configuration prevails, but on what divided government does to the operation of the system as a whole. Divided government is treated here not as a political outcome to be evaluated, but as a structural condition with identifiable effects on transmission, timing, and observability. It changes how influence travels, which edges become sensitive, and where pressure accumulates or dissipates. In that sense, it functions less as a blockage than as a modifier of system behavior.

This chapter begins with a longitudinal analysis of political structures since the establishment of the two-party system of Democrats and Republicans. The data show that divided or partially divided control is no longer an exception punctuating long periods of unified authority. It has become a dominant and persistent feature of contemporary governance. Authority is frequently fragmented across parties and often reverses before policies mature or feedback becomes legible. The result is a governing environment in which durable resolution is structurally difficult, even when political mandates appear momentarily strong.

The chapter then uses the Seven Edge System to provide an analytical lens through which this condition can be understood from the perspective of policies for climate change. Rather than asking whether divided government enables or constrains particular outcomes, the framework asks how fragmentation alters transmission across institutional boundaries. Which edges become more permeable? Which become sites of attenuation or delay? Where does pressure accelerate, and where does it dissipate into ambiguity? The answers to these questions do not lie in any single scenario. They lie in the patterns that recur across them.

What follows is therefore a synthesis, not a recap. The analysis that follows does not restate the scenarios or adjudicate among them. It extracts what they collectively reveal about system

behavior under sustained fragmentation. By examining how divided government reshapes the operation of the seven edges, this chapter clarifies the structural context within which contemporary ESG conflict persists and the limits within which it can be resolved.

To ground this synthesis, it is first necessary to understand the structural condition at issue more precisely. The scenarios assume divided government as a given, but they do not explain how or why it has become so prevalent, nor what distinguishes contemporary fragmentation from earlier periods of mixed control. Before examining how divided government reshapes system behavior, the chapter therefore turns to the political science literature to establish its historical frequency, underlying causes, and conditions of persistence. What follows is not an interpretation of ESG conflict, but a baseline account of the governing environment in which that conflict now unfolds.

The History of Political Configurations

The distribution of federal governmental control configurations between 1857 and 2027 reveals a fundamental transformation in American political structure. Over 108 Congresses spanning six distinct eras, the balance between unified and divided government has shifted dramatically, with particularly striking changes emerging in recent decades. As shown in Table 3, across the full 170-year period, unified party control of the Presidency and both chambers of Congress occurred in forty eight Congresses (44% of the total), while divided configurations—whether split Congress (one party has the Presidency and either the House or the Senate) or opposition Congress (one party has the Presidency and the other both chambers)—characterized sixty Congresses (56%). Of these divided configurations, eighteen Congresses (16.7% of the total 108) were opposition Congresses. This aggregate balance, however, obscures profound temporal variation as shown in Table 4.

Table 3. Aggregate Counts—All Eight Structural Configurations (1857–2027, by Congress)

Configuration	Presidency	House	Senate	Configuration Label	Count
1	D	D	D	Unified Democratic	23
2	R	R	R	Unified Republican	25
3	D	D	R	D President, Split Congress (House D)	18
4	D	R	D	D President, Split Congress (Senate D)	4
5	R	R	D	R President, Split Congress (House R)	15
6	R	D	R	R President, Split Congress (Senate R)	5

7	D	R	R	D President, Opposition Congress	10
8	R	D	D	R President, Opposition Congress	8
TOTAL CONGRESSES					108

Table 4. Federal Control by Era (Counts of Congresses): Unified Control Disaggregated by Party

Era	Unified D	Unified R	Total Unified	Divided Control	Opposition Congress	Total Congresses
Era 1 — Industrial Consolidation (1857–1911)	6	10	16	9	2	27
Era 2 — WWI & Interwar (1911–1933)	3	2	5	5	1	11
Era 3 — New Deal & Post-War (1933–1947)	7	0	7	0	0	7
Era 4 — Cold War Stability (1947–1979)	4	2	6	8	2	16
Era 5 — Post-Stagflation (1979–1993)	0	0	0	6	1	7
Era 6 — Polarized Governance (1993–2027)	3	11	14	14	12	40
TOTAL	23	25	48	42	18	108

Era 1: Industrial Consolidation (1857-1911) demonstrates the most sustained pattern of unified control in the historical record. Unified government appeared in sixteen of twenty-seven Congresses (59%), with unified runs averaging eight and a half years in duration and the longest stretch extending fourteen years. Divided government configurations characterized 40% of the era (33% divided control, 7% opposition Congress), but these episodes were relatively brief and episodic rather than structurally entrenched. The balance slightly favored unified Republican control (ten Congresses) over unified Democratic control (six Congresses), reflecting the broader partisan dynamics of the post-Civil War period through the Progressive Era. This era established unified control as the normal baseline from which later periods would deviate.

Era 2: WWI & Interwar (1911-1933) represents a transitional period. Unified control appeared in five of eleven Congresses (45%), exactly balanced with divided control at 45%, and opposition Congress at 10%. Non-unified configurations thus characterized 54% of the era. The average duration of unified runs was six years—notably shorter than Era 1’s eight and half years but still substantially longer than what would emerge in later eras. This balance between unified and divided configurations foreshadowed the structural shifts that would become more pronounced in subsequent periods.

Era 3: New Deal & Post-War (1933-1947) stands alone in the historical record as the only era experiencing uninterrupted unified party control. All seven Congresses showed unified

Democratic control, representing a continuous fourteen-year run that equals the longest unified stretch observed in Era 1 but, critically, occurred without interruption. This period witnessed zero instances of divided or opposition Congress configurations—a 0% divided government rate unmatched in any other era. The structural factors enabling this concentration—economic crisis, war mobilization, and partisan realignment—created conditions that proved unrepeatable in subsequent periods, even as unified control itself would return in later eras.

Era 4: Cold War Stability (1947-1979) marked the decisive inflection point toward divided government as a regular feature of American politics. Unified control appeared in only six of sixteen Congresses (38%), while divided government became the modal configuration at 50% of Congresses—the first era in which divided control exceeded unified control. Opposition Congress remained relatively rare at 13%. Non-unified configurations thus characterized 63% of the era, a substantial increase from Era 1’s 40%. The average duration of unified runs fell to four years—less than half the Era 1 average—though the longest run still reached eight years, indicating that sustained unified control remained possible even as it became less common. The balance between unified Democratic control (four Congresses) and unified Republican control (two Congresses) was less lopsided than in Era 1, reflecting increased partisan competitiveness.

Era 5: Post-Stagflation (1979-1993) represents the extreme point of divided government dominance. Zero instances of unified control occurred across all seven Congresses—a complete fourteen-year absence unprecedented in American history. Divided control characterized 86% of the era’s Congresses, with opposition Congress accounting for the remaining 14%. This configuration proved remarkably stable. Rather than fluctuating between unified and divided states, the political system remained locked in divided government across three presidential administrations (Carter, Reagan, and Bush). The mechanisms sustaining this pattern—including the divergence between presidential and congressional electoral coalitions—operated with such consistency that unified control appeared structurally blocked rather than merely infrequent. This era demonstrated that divided government could persist not just as an occasional outcome but as an entrenched equilibrium.

Era 6: Polarized Governance (1993-2027) presents the most structurally fragmented landscape in the historical record. While unified control has returned, appearing in fourteen of forty Congresses (35%), its character has fundamentally transformed. The average duration of unified runs has collapsed to two and one third years—less than one-third the Era 1 average and barely half the Era 4 average—with a median of just two years and a maximum run of only four years. Most significantly, opposition Congress configurations have surged to twelve of forty Congresses (30%)—more than quadruple the Era 1 rate and more than double the Era 4 rate. When combined with divided control at 35%, non-unified configurations now characterize 65% of governance. The balance has shifted decisively toward unified Republican control (eleven Congresses) over unified Democratic control (three Congresses), though both parties have experienced the structural challenge of sustaining control beyond a single two-year cycle. This era reveals that the return of unified government after Era 5’s complete absence does not

represent a return to earlier patterns, but rather the emergence of a new structural regime characterized by high-frequency oscillation between configurations and the normalization of complete congressional opposition to the president.

This temporal pattern reveals three structural features. First, unified control has not disappeared but has become increasingly episodic and short-lived. Second, the variety of divided configurations has expanded, with opposition Congress emerging as a regular rather than exceptional arrangement. Third, the transition has been neither linear nor uniform—different eras display distinct structural signatures, suggesting that divided government emergence reflects the interaction of multiple causal mechanisms rather than a single deterministic trend.

Explanations for the Rise of Divided Government

The political science literature offers multiple, often complementary, explanations for the emergence and normalization of divided government as a structural feature of American politics. These explanations operate at different levels of analysis and emphasize distinct causal mechanisms, though scholars increasingly recognize their interactive effects.

The foundational explanation emphasizes the deliberate design choices embedded in the Constitution itself. Staggered electoral calendars—with House elections every two years, presidential elections every four years, and Senate elections on six-year cycles with one-third of seats contested biennially—create multiple opportunities for voters to produce split control even absent intentional ticket-splitting. David Mayhew's seminal book *Divided We Govern* demonstrated that divided government, far from representing system failure, reflects the normal operation of separated institutions with distinct constituencies and electoral rhythms. Morris Fiorina's work extended this analysis, arguing that the midterm election pattern—in which the president's party typically loses House seats—functions as a quasi-constitutional mechanism for checking executive power, even if voters do not consciously intend this outcome.

The staggered Senate presents a particular structural constraint. Because only one-third of Senate seats are contested in any election cycle, maintaining unified control requires sustained electoral success across multiple cycles. A party can win the presidency and House decisively but inherit a Senate controlled by the opposition if previous cycles favored their opponents. This institutional feature compounds the difficulty of achieving—and especially of sustaining—unified control.

A second cluster of explanations centers on the transformation of party competition itself. Systematic research by McCarty, Poole, and Rosenthal documented the dramatic ideological polarization of congressional parties beginning in the late 1970s, with the two parties moving toward ideologically coherent and distinct positions. This polarization has been accompanied—indeed, arguably driven—by partisan sorting among voters, whereby conservatives increasingly identify as Republican and liberals as Democratic, while the centrist middle contracts.

Paradoxically, this partisan sorting initially increased the potential for divided government during a transitional period. As Gary Jacobson has documented, the erosion of split-ticket voting—the

practice of voting for different parties for different offices—has made federal elections more nationalized and party-centered. When split-ticket voting was common (declining from over 25% in the 1970s to under 10% by the 2010s), electoral volatility could produce divided outcomes even within single election cycles. The current low-split-ticket environment means that unified government is more likely to emerge from a strong national party wave, but also that such unified control faces immediate vulnerability at the next midterm election.

Related to polarization, the nationalization of congressional elections has transformed midterm election patterns. In *Insecure Majorities*, Frances Lee argues that parties now operate in a context of perpetual competitive threat, where control of Congress regularly hangs in the balance. This nationalization means that midterm elections increasingly function as referenda on presidential performance, producing systematic swings against the president's party. When combined with the baseline difficulty of maintaining Senate control across staggered cycles, nationalization creates a strong structural headwind against sustained unified control.

Jacobson's analysis of the "presidential penalty"—the systematic losses suffered by the president's party in midterm elections—identifies both mechanical and behavioral mechanisms. Mechanically, the president's party often defends more marginal seats after winning them in the presidential election wave. Behaviorally, midterm electorates differ from presidential electorates in composition and motivation, with opposition party voters showing higher turnout rates and greater enthusiasm. Subsequent work by Sides, Teixeira, and Vavreck has confirmed that these midterm dynamics persist even in highly polarized environments.

A fourth explanation emphasizes the geographic distribution of partisan support. Jonathan Rodden's *Why Cities Lose* documents how Democratic voters' concentration in urban areas creates representational inefficiencies in both House districting and Senate representation. Because Senate representation is not population-proportional, states with small populations have equal representation to large states. The correlation between state population size and Democratic voting strength means that Democrats face a structural disadvantage in achieving Senate majorities even when they win the popular vote nationally.

Similarly, Bill Bishop's *The Big Sort* describes the self-reinforcing process of geographic sorting, whereby Americans increasingly live in politically homogeneous communities. This sorting has made House districts less competitive and more ideologically consistent, reducing the likelihood of ticket-splitting at the district level while potentially creating partisan asymmetries in the translation of votes to seats. Research on redistricting by Carson and Engstrom suggests that while gerrymandering contributes to these patterns, the fundamental geographic concentration of partisans operates independently of redistricting choices.

A fifth set of explanations focuses on transformations in the political information environment. Markus Prior and others have documented how media fragmentation—the shift from limited broadcast networks to abundant cable and digital options—enables partisan selective exposure.

Voters can now consume news that reinforces rather than challenges their partisan identities, potentially intensifying polarization and reducing cross-party voting.

Simultaneously, the rise of affective polarization—the phenomenon whereby partisans increasingly dislike and distrust the opposing party—has been documented by Iyengar, Sood, and Lelkes. This emotional dimension of partisanship differs from ideological polarization; voters may not hold more extreme policy positions, but they view the opposing party with greater animosity. Related research on negative partisanship by Abramowitz and Webster shows that voters are increasingly motivated by opposition to the other party rather than by support for their own. This affective dimension may sustain divided government by making voters more willing to check unified control, viewing single-party dominance as threatening even when they support that party in other contexts.

The literature contains ongoing debate about the relative weight and causal sequencing of these factors. Fiorina has argued that elite polarization precedes and exceeds mass polarization, suggesting that institutional and strategic factors may be more fundamental than voter preferences. Others, including Abramowitz, emphasize the reality of mass partisan sorting and genuine ideological polarization among ordinary voters. There is broad consensus, however, that multiple reinforcing mechanisms are at work, and that divided government reflects the interaction of constitutional design, party competition, electoral behavior, and information environments rather than any single dominant cause.

Importantly, scholars distinguish between divided government as an outcome (the mere fact of split control) and divided government as a persistent equilibrium (a stable configuration difficult to exit). The mechanisms that increase the frequency of divided government do not necessarily explain why it endures once established.

Persistence, Reversal, and Structural Constraints

The political science literature distinguishes sharply between explaining the increased frequency of divided government and explaining its persistence once established. While the mechanisms discussed above account for why divided government occurs more often, the question of why it endures—or under what conditions it might be reversed—requires attention to feedback effects, institutional constraints, and the conditions necessary for partisan realignment.

The most immediate structural constraint on unified control persistence stems from the two-year House election cycle combined with the regularity of midterm losses. Sarah Binder's work on legislative productivity under divided government notes that newly elected unified governments face an immediate clock. They typically have less than two years before facing a midterm election that historically produces losses for the president's party. This creates a narrow window for legislative accomplishment and limits the time available for unified policy regimes to demonstrate success before facing electoral judgment.

The regularity of this pattern—the president’s party has lost House seats in thirty-seven of forty midterm elections since the Civil War—means that unified control established in a presidential election year faces a high probability of termination at the midterm. Even controlling for economic conditions, presidential approval, and other factors, a systematic midterm penalty persists.

The Senate’s six-year terms and staggered election schedule create a distinct persistence dynamic. A party gaining Senate control inherits electoral maps shaped by outcomes from the previous two cycles—six and twelve years prior. If those earlier cycles favored the opposing party, the new Senate majority must not only win the current election but also defend seats won in those favorable earlier cycles, even if the political environment has shifted.

Frances Lee and Sean Theriault’s work on Senate dynamics emphasizes how this arithmetic creates path dependence. A party that wins unified control after a period in opposition may find that the Senate seats up for election in the next cycle are disproportionately their own seats in vulnerable states, making it difficult to sustain the majority even if their national political position remains strong.

Several scholars argue that polarization itself creates dynamics that sustain divided government. When parties are highly polarized, each party’s coalition becomes more internally homogeneous but also more distinctive from the opposing party. This can increase the perceived risk of unified control—even among voters who prefer one party—because the programmatic distance between parties makes single-party control appear more consequential.

Additionally, polarization reduces the supply of moderate candidates who might appeal across party lines in swing districts or states. As Theriault’s *The Gingrich Senators* documents, the entry of more ideologically extreme cohorts into Congress can shift the overall ideological distribution of the parties, making bipartisan coalition-building more difficult and increasing the likelihood that voters perceive stark choices rather than nuanced differences.

Keith Krehbiel’s work on pivotal politics suggests that legislative gridlock under divided government creates informational problems for voters. When policy change is difficult, voters may struggle to assign credit or blame clearly, potentially making accountability mechanisms less effective. This ambiguity can advantage opposition parties in midterm elections, as voters dissatisfied with status quo policies may blame the president’s party regardless of whether congressional opposition has blocked that party’s agenda.

Simultaneously, the prevalence of negative campaigning in polarized environments may make voters more risk-averse about unified control. If voters are exposed primarily to negative information about the opposing party, they may prefer divided government as a form of insurance, even if they nominally prefer one party’s policy positions.

The literature identifies specific conditions under which entrenched divided government might give way to sustained unified control. The most frequently cited mechanism is partisan

realignment—a fundamental reshuffling of party coalitions that produces a new dominant majority. Burnham’s concept of critical elections and subsequent realignment scholarship suggests that major economic crises or social transformations can trigger partisan sorting that produces extended periods of single-party dominance, as occurred during Era 3 (1933-1947).

However, contemporary scholars question whether classic realignment theory applies in the current era. In *Electoral Realignments*, David Mayhew argues that the traditional realignment model overstates the frequency and coherence of such episodes, while in *Party Position Change*, David Karol emphasizes that party coalitions evolve gradually through elite repositioning rather than through sudden voter shifts.

More recent work suggests that contemporary polarization may have altered the potential for realignment. When parties are already highly sorted ideologically, the opportunities for coalition reshuffling may be limited. Abramowitz and Teixeira’s *The Emerging Democratic Majority* argued that demographic change might produce a new sustained Democratic majority, while others have suggested that Republican advantages in the Electoral College and Senate might produce Republican persistence despite Democratic popular vote majorities. Both arguments, however, have proven premature, suggesting that the structural factors sustaining divided government operate with considerable robustness.

The contemporary literature emphasizes that divided government persistence is conditional rather than inevitable. Circumstances that might facilitate unified control’s return and persistence include (a) a major crisis that produces a clear electoral mandate, (b) demographic or economic changes that shift the political geography of party competition, (c) institutional reforms that reduce representational asymmetries, or (d) elite strategic choices that moderate party positioning and broaden electoral coalitions.

Critically, the literature does not support claims of inevitability in either direction. Just as Era 3’s fourteen-year unified run gave way to Era 4’s mixed pattern, and Era 5’s complete absence of unified control gave way to Era 6’s more varied configurations, the current structural features could themselves prove transient. What the literature does suggest is that absent major disruptions or institutional changes, the mechanisms currently sustaining high frequencies of divided government—polarization, nationalization, midterm dynamics, and representational asymmetries—tend to reinforce one another through feedback effects.

Taken on its own terms, this literature explains why divided government has become more frequent, more varied in form, and more difficult to exit. It also makes clear that fragmentation is neither accidental nor self-correcting, but sustained by reinforcing institutional, electoral, and informational dynamics. What it does not address is how this condition alters the behavior of complex institutional systems operating within it. To move from explanation to implication, the analysis now returns to the seven-edge framework, using it to examine how persistent divided government reshapes the transmission of pressure across domains rather than determining outcomes within any single one.

Divided Government and the Seven-Edge System

Viewed through the seven-edge system, divided government functions less as a legislative impediment than as an operating condition that reshapes how pressure propagates across institutional boundaries. When unified authority is episodic and short-lived, the system does not stall. It reorganizes. Transmission becomes uneven, sensitivity concentrates at specific edges, and responsibility diffuses across domains that are poorly synchronized in time.

The most immediate effect of persistent fragmentation is heightened activity at the system's boundaries—particularly at **Edge 1 (Narrative → Law)** and at the political feedback loop spanning **Edge 6 (Macro Conditions → Politics)** and **Edge 7 (Politics → Narrative)**. The above analysis makes clear why this occurs. Midterm penalties, staggered electoral cycles, and Senate arithmetic sharply compress the window in which unified control can operate. As a result, narratives proliferate even as durable codification becomes harder to achieve.

Under divided government, Edge 1 becomes a site of acceleration but limited realization. Narrative production intensifies, frames polarize, and legal legibility becomes a scarce resource. Yet the threshold for successful translation into law rises. Legislative veto points prevent most narratives from stabilizing into comprehensive statutory regimes, producing what might be described as a surplus of legibility—a growing inventory of investigatory authorities, model statutes, and definitional constraints that circulate without consolidating into durable federal law. The consequence is not narrative dominance, but congestion—high salience combined with low conversion.

At the opposite boundary of the system, divided government amplifies the feedback between macroeconomic stress and political behavior. **Edge 6** becomes especially consequential as macro conditions substitute for legislative resolution as the primary driver of political salience. Inflationary pressure, insurance strain, or regional economic dislocation reshape priorities even when their causes are diffuse or contested. These conditions do not transmit precise causal accounts into politics; they compress time horizons and intensify blame competition. Under fragmentation, no single actor can plausibly claim control over outcomes, yet all actors face electoral consequences for aggregate conditions they cannot fully manage.

This pressure is then recycled into narrative production through **Edge 7**, which becomes increasingly central under divided government. When legislative closure is rare, politics functions less as a means to law than as a demand engine for narrative frames. Electoral signals, partisan media incentives, and primary dynamics authorize and amplify explanations that mobilize attention rather than resolve institutional conflict. The system evolves through selective amplification rather than corrective convergence, reinforcing polarization and sustaining fragmentation.

While the boundary edges become more sensitive, the interior of the system—**Edges 2 through 5**—exhibits a different pattern. These edges remain active, but they operate primarily as zones of attenuation, lag, and quiet accumulation rather than decisive action.

Legal signals continue to influence capital allocation through **Edge 2 (Law → Capital Allocation)**, but under divided government those signals are often ambiguous, contested, or unevenly enforced. Anticipatory compliance, risk hedging, and selective market participation become dominant responses. Enforcement uncertainty increases asymmetric error costs. The downside of misjudging future liability often outweighs the cost of preemptive, and sometimes contradictory, adjustments. What travels across this edge is constraint and permission filtered through inference, not instruction.

These signals propagate into firm governance through **Edge 3 (Capital Allocation → Firm Governance)**, where boards and managers interpret fragmented cues conservatively. Governance adjustments tend to be procedural rather than transformational—reframing disclosures, reallocating attention, or reducing public salience—while preserving operational flexibility. Under divided government, governance becomes a site of risk management rather than strategic resolution.

The translation from governance intent to real economic activity through **Edge 4 (Firm Governance → Real Economy)** is further slowed by execution constraints and competitive pressures. Operational decisions reflect recalibrated thresholds and delayed investments rather than abrupt reversals. Effects accumulate gradually, often below the level of immediate visibility.

These incremental adjustments aggregate into macroeconomic conditions through **Edge 5 (Real Economy → Macro Conditions)**, but the aggregation process itself obscures causality. Nonlinearity and measurement lag ensure that macro-outcomes are rarely attributable to specific governance or legal interventions within the time horizon of political accountability. This opacity feeds back into the political dynamics described above, reinforcing blame competition and sustaining divided control.

A further consequence of fragmentation is temporal compression. As the duration of unified control collapses, rare windows of alignment produce high-velocity interventions as governing coalitions attempt to compress extended agendas into brief periods. These interventions can be nonlinear, triggering governance and capital responses that are difficult to reverse once the system returns to divided control. The lag between implementation and macroeconomic effect then distorts accountability. Political judgment occurs before outcomes are legible, while outcomes manifest after authority has shifted.

Taken together, these dynamics produce a system characterized by high resonance at its symbolic boundaries and high impedance at its institutional core. Pressure moves rapidly through narrative and political signaling but encounters friction at the edges that require sustained coordination and temporal continuity. The system remains active, but its capacity for closure is constrained. Influence circulates, but it arrives transformed, delayed, or redirected.

Understanding divided government in this way clarifies why ESG conflict appears both omnipresent and unresolved. Disputes are fought intensely over framing, legitimacy, and blame,

while interior adjustments proceed quietly and unevenly. Outcomes emerge not from decisive intervention at a single edge, but from the cumulative interaction of delayed transmissions and amplified feedback at the system's boundaries. The seven-edge framework makes visible how fragmentation reshapes not only political outcomes, but the architecture of transmission itself.

What This Means for Climate Change Policy

The analysis in this chapter does not point to a single climate outcome or a preferred policy design. It identifies instead a structural condition that now defines the operating environment in which US climate policy unfolds. Divided government, once treated as a temporary interruption to unified authority, has become a persistent feature of contemporary governance. Its significance for climate policy lies not in what it blocks outright, but in how it reshapes the pathways through which climate-related pressure moves, accumulates, and is transformed.

Seen through the seven-edge system, divided government alters the balance between visibility and control in climate governance. Pressure does not dissipate when authority fragments; it is displaced. Climate narratives become more salient, political signaling intensifies, and policy commitments are increasingly framed symbolically, while institutional interiors absorb strain without producing durable settlement. Law becomes harder to stabilize, capital and firm governance adapt defensively, and real-economy climate outcomes emerge slowly and unevenly, often beyond the horizon of political accountability. The system remains active, but its capacity for closure is constrained.

This helps explain a recurring pattern across the four scenario chapters. Climate policy appears simultaneously urgent and unresolved. Ambitious commitments are announced, contested, revised, and re-announced, while underlying emissions trajectories, infrastructure investment, and adaptation outcomes change incrementally or with substantial delay. This is not primarily a failure of political will, administrative competence, or market response taken in isolation. It is a property of a system operating under sustained fragmentation, where climate-relevant decisions are distributed across domains with different logics, time horizons, and constraints.

The seven-edge framework clarifies why climate interventions that appear decisive within one domain often produce muted or delayed effects elsewhere. Legislative action does not translate cleanly into capital reallocation; capital signals do not map directly onto firm-level operational change; and operational adjustments aggregate into macro conditions only over extended periods. Accountability is therefore persistently contested. Climate outcomes emerge from interactions across edges rather than from discrete policy choices within any single arena. When effects become visible, they are frequently attributed to proximate political events rather than to the accumulated transmissions that produced them. This misattribution is not accidental. It is reinforced by the structure of the system itself.

Understanding climate policy in system-level terms does not resolve disagreement about goals, trade-offs, or acceptable risk. It reframes the nature of the challenge. The central question shifts

from whether particular climate policies are right or wrong to how climate-related pressure is likely to propagate, stall, or reappear under prevailing institutional conditions. That reframing makes visible both the limits of individual policy interventions and the sources of their unintended consequences.

This perspective also clarifies why cycles of escalation recur in climate politics. When legal closure is rare and macroeconomic feedback is delayed, narrative and political edges absorb and re-amplify unresolved tension. Climate conflict becomes self-reinforcing not because solutions are unavailable, but because the pathways that would produce durable alignment are misaligned with the system's temporal and institutional constraints. What appears as ideological polarization often reflects structural persistence.

What this analysis ultimately shows is not why climate policy fails, but why it behaves in the particular ways observed. The recurrence of ambitious announcement alongside institutional inertia, the prominence of symbolic confrontation alongside incremental change, and the difficulty of attributing outcomes to specific decisions are not anomalies. They are predictable consequences of a system operating under sustained fragmentation, in which transmission is uneven, timing is misaligned, and no single domain exercises decisive control. The seven-edge framework renders that structure legible, clarifying both the reach and the limits of climate policy action within contemporary US governance.

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Appendix A: A Note on AI-Augmented System Observation

A.1 The Problem of Observability

The analytical framework developed in this book rests on a simple but constraining condition: The system it describes cannot be directly observed in full. This is not a temporary limitation resulting from incomplete data or insufficient measurement. It is a structural property of the system itself.

The anti-ESG ecosystem operates across multiple institutional domains—narrative, law, capital, governance, the real economy, macroeconomic conditions, and politics—each with its own actors, incentives, and temporal dynamics. Pressure moves across these domains directionally, with delay, transformation, and loss of fidelity. No single vantage point captures the system in its entirety. Participants observe local conditions and infer broader dynamics, often attributing causality to what is most visible or most recent.

This condition—partial observability—has two consequences that shape both analysis and interpretation throughout the book.

First, causal misattribution is not an occasional error; it is a predictable outcome. Because effects often manifest far from their point of origin, and because transmission is lagged and filtered, observers systematically over-weight proximal explanations. Political actors attribute outcomes to recent legislative or electoral developments. Market participants emphasize pricing signals and capital flows. Legal analysts focus on regulatory or judicial triggers. Each perspective captures a real component of the system, but none provides a complete account. Disagreement persists not only because of ideological difference, but because each domain presents a different slice of the same underlying process.

Second, narrative instability follows from this fragmentation. In the absence of a shared observational frame, competing explanations cannot be definitively adjudicated. Instead, they are evaluated through domain-specific criteria: electoral success, market performance, legal durability, or audience resonance. Narratives therefore evolve through selection rather than resolution. Simplified accounts that align with observable outcomes in a given domain tend to dominate, even when they obscure cross-domain transmission mechanisms.

The framework presented in this book is designed to mitigate—but not eliminate—these constraints. By specifying directional relationships among domains and identifying common transmission properties (non-linearity, lag, asymmetry, and path dependence), it provides a structured way to interpret observed events as manifestations of a broader system. It does not, however, solve the underlying problem of observability. The analyst remains dependent on partial signals, indirect inference, and retrospective reconstruction.

It is this limitation that motivates the methodological approach described in this appendix.

Artificial intelligence is introduced here not as an explanatory authority or predictive engine, but as an observational aid. Its function is to expand the range of perspectives that can be brought to bear on the system at a given moment, while maintaining independence among those perspectives, where human analysis is constrained by time, attention.

A more detailed account of the analytical process and the role of AI systems in this work is provided in the methodological appendix that follows.

A.2 What AI Adds: Expanded Observational Capacity

The introduction of artificial intelligence into this analytical process does not change the structure of the system being observed. The seven-edge system remains governed by the same properties—non-linearity, lag, asymmetry, partial observability, and path dependence. AI does not reduce these properties, nor does it provide a privileged vantage point from which the system becomes fully transparent.

What AI does provide is an expansion of observational capacity within those constraints.

Human analysis of complex, multi-domain systems is inherently limited by attention, time, and the need to sequence inquiry. An individual analyst, or even a small team, must decide which signals to prioritize, which domains to examine first, and which interpretations to develop in depth. These choices are necessary, but they introduce path dependence into the analytical process itself. Early framing decisions shape subsequent interpretation, and alternative perspectives are often explored only after an initial narrative has begun to stabilize.

AI makes it possible to relax some of these constraints—not by eliminating them, but by allowing multiple analytical passes to be conducted in parallel.

In the context of this book, AI systems were used to generate independent interpretations of the same underlying material under controlled conditions. These interpretations were not treated as answers, but as distinct observational perspectives. Each pass emphasized different aspects of the system: Some preserved fidelity to the original framing, others reconstructed arguments in more explicit or strengthened form, and still others analyzed system behavior across edges without reference to narrative intent.

The value of this approach lies not in the authority of any single output, but in the comparison among them. Convergence across independent analyses increases confidence that a pattern reflects structural features of the system rather than artifacts of a particular framing. Divergence, by contrast, signals areas where interpretation is sensitive to perspective, where transmission across edges may be ambiguous, or where causal attribution is especially uncertain.

This comparative process mirrors, in a structured way, the conditions under which disagreement arises in the broader system. Different institutional domains generate different interpretations

because they observe different signals under different constraints. By generating multiple interpretations intentionally, and examining where they align or conflict, AI can help make those differences explicit rather than implicit.

Importantly, this does not replace human judgment. It relocates it. The role of the analyst shifts from constructing a single, internally coherent explanation to evaluating a set of competing but systematically generated perspectives. Decisions about relevance, weighting, and synthesis remain human responsibilities. AI expands the set of candidate interpretations; it does not determine which interpretation is correct.

In this sense, AI functions as an instrument for structured comparison rather than as a source of insight in its own right. It allows the analyst to observe how different framings interact with the same system description and to identify which features of the system persist across those framings. That persistence—rather than any individual analytical output—is the primary object of interest.

By increasing the number of perspectives that can be generated and compared without forcing premature convergence, AI helps mitigate one dimension of partial observability. It does not make the system fully visible. It does, however, make it more difficult for any single, incomplete interpretation to dominate simply because alternatives were never developed.

A.3 Functional Differentiation: Distinct Analytical Roles

The expansion of observational capacity described in the previous section depends not only on generating multiple interpretations, but on ensuring that those interpretations are meaningfully distinct. If each analytical pass simply reproduces the same framing with minor variation, the apparent increase in perspective is illusory. The value of parallel analysis arises from functional differentiation—assigning different interpretive roles to different analytical processes.

In practice, this was implemented by using AI systems to perform distinct, constrained tasks on the same underlying material. These tasks were defined not by the capabilities of particular models, but by the epistemic function each analytical pass was intended to serve.

One class of analysis was designed to preserve fidelity to the original text. In this role, the objective was accurate reconstruction: to summarize arguments, clarify structure, and restate claims without adding interpretation or extending implications beyond what was explicitly stated. This function serves as a baseline, ensuring that subsequent analysis remains anchored to the source material.

A second class of analysis was designed to strengthen and reconstruct the argument. Here, the objective was not to critique or evaluate, but to make implicit structure explicit—to surface assumptions, sharpen causal linkages, and articulate connections that may be present but not fully developed in the original text. This role can introduce precision, but it also carries the risk of overextension, as the boundary between clarification and augmentation is not always clear.

A third class of analysis focused on system-level interpretation. Using the seven-edge framework, this role examined how the narrative would behave as it moves across institutional domains, identifying points of attenuation, delay, and transformation. In contrast to the previous roles, this analysis explicitly set aside questions of desirability and instead treated the narrative as an input to a system with defined transmission properties.

These roles were intentionally separated. Each analytical pass was conducted independently, without access to the outputs of the others. This separation preserves the distinct logic of each role and prevents convergence through cross-contamination. The fidelity-oriented analysis is not influenced by system-level concerns; the system-level analysis is not shaped by strengthened interpretations of the narrative; and the reconstruction process does not incorporate conclusions derived from other perspectives.

The result is not a set of competing answers, but a structured set of lenses through which the same material can be viewed. Each lens highlights different features of the system: textual coherence, argumentative clarity, and structural behavior. None is sufficient on its own, but together they provide a more robust basis for interpretation than any single pass could achieve.

This approach reflects a broader principle: In partially observable systems, diversity of perspective is not a source of noise to be eliminated, but a condition to be managed. The objective is not to force agreement among interpretations, but to understand the sources and implications of their divergence. By assigning distinct roles and maintaining their independence, the analytical process can surface differences that would otherwise remain implicit, allowing them to be examined rather than assumed away.

A.4 Independence, Sequencing, and the Role of Human Judgment

The effectiveness of functionally differentiated analysis depends on maintaining independence among analytical passes and controlling the sequence in which they are generated and compared. Without such discipline, the process quickly collapses into a form of premature convergence, where later interpretations are shaped—explicitly or implicitly—by earlier ones. In a partially observable system, this convergence can create a false sense of clarity, as agreement reflects shared framing rather than independent observation.

Independence was maintained by limiting what each analytical process could access at the time it was conducted. In practical terms, this meant that separate analyses of the same material were generated without exposure to one another's outputs. Each interpretation was therefore developed under its own internal logic, conditioned only by the input material and the specific role it was assigned. This constraint reduces the likelihood that similarities across outputs are artifacts of cross-influence rather than reflections of underlying structure.

Sequencing serves a complementary function. Analytical passes were not conducted simultaneously and merged indiscriminately; they were ordered in a way that preserved the integrity of each role before synthesis occurred. For example, fidelity-oriented summaries were generated before any system-level interpretation was introduced. Structural analyses using the seven-edge framework were conducted without reference to strengthened or reconstructed versions of the narrative. Only after these independent passes were complete were they considered together.

This ordering matters because interpretation is path dependent. Once a particular framing is established, subsequent analysis tends to reinforce it, even when alternative interpretations are available. By structuring the sequence so that foundational representations of the material are established first, and by deferring synthesis until independent perspectives have been developed, the process reduces the risk that early assumptions will dominate.

Within this structure, human judgment remains central. AI systems can generate multiple interpretations, maintain separation among them, and surface areas of convergence and divergence. They do not determine how those outputs should be interpreted, weighted, or integrated. The decision to treat convergence as evidence of structural features, or divergence as a signal of ambiguity, is an analytical judgment that cannot be automated.

Human judgment also governs the design of the analytical process itself. Decisions about which roles to define, how to constrain them, what inputs to provide, and when to compare outputs all shape the resulting set of interpretations. These choices are not neutral. They reflect the objectives of the analysis and the assumptions of the analyst. Making them explicit is therefore part of maintaining methodological transparency.

Finally, judgment is required at the point of synthesis. The process described in this appendix does not produce a single, definitive account of the system. It produces a set of structured perspectives. The role of the analyst is to interpret that set—to identify which features are robust across perspectives, where uncertainty remains, and how those findings should inform the broader argument.

In this sense, AI does not replace interpretation. It redistributes it. The analyst moves from constructing an explanation directly to designing and evaluating a process through which multiple explanations are generated. Independence and sequencing ensure that those explanations remain distinct long enough to be informative. Human judgment ensures that they are ultimately made meaningful.

A.5 Observing the Edges: What Is Being Tracked

The purpose of introducing AI into this analytical process is not to generate alternative narratives, but to improve visibility into how narratives move through the system described in this book. That movement occurs across the seven edges. Observing it requires attention not to

isolated events, but to patterns of translation, attenuation, and delay as signals pass from one domain to another.

At each edge, different types of information become available, and different forms of distortion are introduced. The role of AI in this context is to assist in identifying and comparing these patterns across domains, making visible relationships that are otherwise difficult to track in real time.

At the first edge, where narrative is translated into law, the key observable is reduction. Broad, value-laden narratives must be converted into abstract, enforceable rules. This process typically involves narrowing scope, formalizing definitions, and embedding discretion within administrative or judicial interpretation. Tracking this edge involves comparing the initial narrative framing with the language that ultimately appears in statutes, regulations, or enforcement guidance, and identifying what has been preserved, transformed, or excluded.

At the second edge, where law shapes capital allocation, the relevant signals shift from language to constraint. Legal provisions are interpreted through eligibility criteria, liability exposure, disclosure requirements, and enforcement expectations. Observing this edge requires attention to how legal signals are translated into investment behavior across different types of capital, each operating under distinct mandates and time horizons. Divergence across capital pools is a central feature, not an anomaly.

At the third edge, where capital influences firm governance, the observable domain becomes organizational. Changes appear in board priorities, internal risk assessments, disclosure practices, and executive incentives. One recurrent pattern is decoupling: Firms may continue to pursue climate-relevant operational strategies while altering how those strategies are framed publicly. Tracking this edge involves comparing internal action with external communication, and identifying where alignment or divergence occurs.

At the fourth edge, governance decisions translate into real economic activity. Here, the system becomes materially grounded. Observable indicators include project development, infrastructure deployment, operational changes, and technological adoption. This edge is characterized by lag and friction. Decisions made at the governance level are subject to permitting processes, supply constraints, and organizational capacity, all of which delay visible outcomes. Observing this edge requires distinguishing between intent and implementation.

At the fifth edge, real economic activity aggregates into macroeconomic conditions. The relevant signals are no longer tied to individual actors but to system-wide indicators: pricing, insurance availability, regional economic divergence, and the distribution of physical risk. Aggregation introduces non-linearity. Small changes at the micro level may have little immediate effect, while cumulative changes can produce abrupt shifts. Observability is further complicated by the asymmetry between visible costs and invisible benefits.

At the sixth edge, macroeconomic conditions influence political dynamics. Here, attention shifts to salience—what issues become politically actionable at a given moment. Observable indicators include shifts in media focus, electoral messaging, policy prioritization, and public opinion as expressed through behavior rather than stated preference. This edge is sensitive to shocks. Sudden changes in macro conditions can reorder political priorities in ways that are disproportionate to their underlying causes.

At the seventh edge, political outcomes feed back into narrative production. Narratives are selected, amplified, or suppressed based on their alignment with prevailing political incentives. Observable patterns include simplification, reframing, and the consolidation of messaging within organized networks. Complex or pluralistic narratives tend to lose fidelity at this stage, as competitive pressures favor clarity and emotional resonance over nuance.

Across all edges, the objective is not prediction but interpretation. AI-assisted observation makes it possible to track how signals change form as they move through the system and to compare those transformations across domains. It does not eliminate ambiguity or provide definitive causal attribution. It does, however, make it easier to identify recurring patterns—where attenuation consistently occurs, where lag is most pronounced, and where feedback loops amplify or dampen movement.

By organizing observation around edges rather than events, the analysis shifts from episodic explanation to structural understanding. Individual developments—new legislation, shifts in investment, corporate decisions, or political outcomes—can be interpreted as instances of broader transmission dynamics. This does not resolve uncertainty, but it provides a more stable framework within which uncertainty can be assessed.

A.6 Narrative as a Reflexive Orientation Framework

The observational capacity described in the preceding sections does not, on its own, resolve the limitations of narrative identified in the Epilogue. The system remains complex, partially observable, and governed by dynamics that no single actor can control. What changes is not the structure of the system, but the ability to interpret its behavior as it unfolds.

This creates the possibility of a different role for narrative—one that is reflexive rather than static.

A reflexive narrative does not treat itself as a fixed account of how the system works or as a promise that particular outcomes will follow from particular actions. Instead, it incorporates observation of the system's behavior into its own evolution. As signals move across edges—attenuating, delaying, or transforming—the narrative adapts to explain those movements rather than ignoring or resisting them.

This adaptation does not require abandoning the narrative's underlying orientation. In the case of the climate narrative described in the Epilogue, the core commitments—to pragmatic

problem-solving, to pluralism of approach, and to framing climate action as opportunity rather than sacrifice—remain intact. What changes is how those commitments are situated within the observed dynamics of the system.

For example, when legal translation narrows a broadly framed narrative into a set of specific, and sometimes limited, statutory provisions, a reflexive narrative does not interpret this as failure or dilution. It interprets it as a characteristic feature of the **Narrative** → **Law** edge, where abstraction and enforceability impose constraints on what can be codified. When capital responds unevenly to those legal signals, the narrative can surface the heterogeneity of capital pools and the role of fiduciary and regulatory constraints, rather than attributing divergence to inconsistency or lack of commitment.

Similarly, when firms adjust governance practices in ways that reduce the visibility of climate-related initiatives while maintaining or even expanding underlying activity, a reflexive narrative can explain this as a response to competing pressures across edges, rather than as a reversal of intent. When macroeconomic conditions generate political responses that appear to deprioritize climate concerns, the narrative can contextualize these shifts within the dynamics of salience and short-term constraint.

In each case, the narrative does not seek to override the system's behavior. It seeks to render that behavior intelligible.

This has two effects. First, it reduces the likelihood that deviations from expected trajectories are interpreted as evidence that the underlying narrative is invalid. By providing a framework for understanding delay, divergence, and reversal, the narrative becomes more resilient to the kinds of outcomes that are characteristic of the system. Second, it preserves engagement. When participants can interpret what they are observing, they are less likely to disengage or shift abruptly to alternative narratives that offer simpler but less accurate explanations.

It is important to distinguish reflexivity from opportunism. A reflexive narrative adapts in response to observed system dynamics, but it does so within a stable set of underlying commitments. It does not shift position in response to short-term incentives or isolated outcomes. Its evolution is guided by a consistent interpretive framework, not by the immediate pressures of the moment.

AI-assisted observation supports this form of narrative evolution by increasing the range and consistency of signals that can be incorporated into interpretation. By making cross-edge patterns more visible, it enables the narrative to respond to system behavior with greater precision and less delay. It does not determine how the narrative should change, but it provides a more robust evidentiary basis for those changes.

In this sense, narrative becomes less a static description of the system and more an ongoing process of interpretation. Its function is not to predict or guarantee outcomes, but to maintain orientation as the system reveals itself over time.

A.7 Limits, Guardrails, and the Scope of Application

The use of artificial intelligence as an observational aid does not alter the fundamental limitations of the system described in this book. It does not resolve partial observability, eliminate lag, or align incentives across institutional domains. It does not reduce political conflict or produce consensus where underlying interests diverge. The role of AI in this context is narrower and more specific: It extends the capacity to observe and compare signals across edges, but it does not change how those signals are generated or how they ultimately shape outcomes.

This distinction is important because the introduction of new analytical tools can create the appearance of expanded control. Increased visibility can be mistaken for increased influence, and the ability to generate multiple interpretations can be mistaken for the ability to determine which interpretation will prevail within the system. Neither is the case here. The system remains governed by the same dynamics that constrain all participants, regardless of their level of information.

There are also limits inherent to the use of AI itself. The outputs generated by AI systems are conditioned by their training, by the inputs they receive, and by the constraints placed on their operation. They do not constitute independent empirical observation. They are structured transformations of existing information, shaped by the design of the analytical process. As such, they can reproduce biases present in the input material or in the framing of the task. The appearance of diversity across outputs does not guarantee independence from shared assumptions.

For this reason, methodological discipline is essential. The practices described in this appendix—functional differentiation, independence of analytical passes, controlled sequencing, and explicit human judgment—serve as guardrails against overconfidence in AI-generated interpretations. They are designed to ensure that the expansion of observational capacity does not collapse into uncritical aggregation of outputs or premature convergence on a single narrative.

Human judgment remains central at every stage. It determines how the analytical process is structured, how outputs are interpreted, and how they are integrated into a broader account of the system. It is responsible for distinguishing between structural features and artifacts of analysis, for identifying where uncertainty remains, and for deciding how much weight to assign to different interpretations. AI can support this process, but it cannot replace it.

Finally, the scope of application of this approach is bounded. The methods described here are most useful in systems that share the characteristics analyzed in this book: multiple interacting domains, delayed and attenuated transmission of signals, and limited observability across edges. They are less applicable in contexts where causal relationships are direct, feedback is immediate, and system boundaries are clearly defined.

The objective of this appendix is therefore not to introduce a general solution to complex system analysis, but to document a specific approach used in the development of this book. It reflects a particular set of choices about how to manage partial observability and interpret cross-domain dynamics. Other approaches are possible, and in some contexts may be more appropriate.

What this approach demonstrates is not that complex systems can be made fully transparent, but that they can be observed with greater discipline. That discipline does not eliminate uncertainty. It provides a more stable basis for working within it.

Appendix B: Methodological Note on Workflow and Collaboration

This appendix describes how the analysis and writing in this book were produced. The process did not follow a conventional single-author workflow, nor did it rely on a single AI system. Instead, the work was carried out through a structured collaboration across multiple AI tools, directed and integrated by the author. What follows is a practical account of that process.

At the center of the workflow was a clear division of responsibility. The author determined the objectives of each stage, defined the structure of chapters and sections, selected which tools to use, and made final decisions about content, tone, and organization. The AI systems were used to generate, structure, analyze, and refine material, each contributing in a distinct and limited way.

The work proceeded in stages. A typical sequence began with the definition of a specific task—such as drafting a section, testing an argument, or organizing source material. One system would then be used to generate an initial output. That output was reviewed and evaluated, sometimes against alternative outputs produced by a different system. Based on that evaluation, the material would be refined, reassigned to another system for further development, or integrated into the working draft. Once a section reached an acceptable level of completeness, it was treated as fixed and not reopened, with subsequent work building forward from that point.

Different AI systems were used for different purposes. Claude was frequently used to produce structured drafts and to organize material into coherent sections. Gemini Pro was used to explore analytical questions, test the internal consistency of arguments, and generate alternative interpretations under defined constraints. Perplexity was used to identify and verify sources, particularly in later stages of the process when citations were added. A separate instance of ChatGPT (used in a clean configuration without prior context) was employed for constrained drafting or editing tasks where independence from earlier interactions was useful. The primary system used in this environment supported drafting, integration, and coordination across these steps.

These systems were not used interchangeably. Each was assigned a specific role, and their outputs were treated as inputs to be evaluated rather than as final answers. In some cases, multiple systems were used in sequence. One system might generate an initial analysis, another might test it for internal consistency or identify gaps, and a third might be used to ground specific claims in external sources. The results were then reviewed and selectively incorporated. This sequencing made it possible to draw on the strengths of different tools while limiting their weaknesses.

The process was deliberately sequential rather than parallel. Tasks were broken into discrete steps—generation, evaluation, refinement, and integration—and handled one at a time. This

reduced the risk of conflicting outputs and made it easier to assess the contribution of each step. It also made the process more transparent, as each stage produced a distinct intermediate result that could be reviewed before moving forward.

A defining feature of the workflow was the manual movement of material between systems. Prompts were developed in one environment and then used in another. Outputs were retrieved, compared, and brought back for further processing. Intermediate results were often saved externally and assembled into larger drafts. This manual integration allowed the author to control how different contributions were combined and to maintain visibility into each stage of the process.

The workflow evolved over time. Early stages involved experimentation with prompts, formats, and the use of different tools. Some outputs were too compressed, others overly expansive, and some introduced unintended changes in structure or tone. In response, instructions became more explicit, roles were more clearly defined, and tasks were more narrowly scoped. Over time, a more stable pattern emerged. The sequence of work became more consistent, the division of labor clearer, and the need for rework decreased.

As the process stabilized, additional practices were introduced. Sections were explicitly “locked” once complete, reducing the tendency to revisit and revise earlier material. Tasks were grouped into phases, such as drafting, cross-section review, and final audit. In later stages, work shifted from generating new material to validating and refining what had already been written. This included checking for internal consistency across chapters, ensuring that arguments were carried through, and verifying sources.

Different workspaces were also used for different tasks. Drafting, revision, and methodological reflection were sometimes conducted in separate conversational environments. This helped maintain focus and reduced the likelihood that instructions or assumptions from one phase would carry over inappropriately into another. In practice, this meant that sections of the book, as well as the appendices, were developed under slightly different conditions suited to their purpose.

By the final stages of the project, the process had become more disciplined and predictable. The roles of the different systems were clearly defined, the sequence of work was repeatable, and the criteria for moving from one stage to the next were better understood. While the specific tools used may change over time, the approach taken here—directed, multi-stage, and integrative—provides a concrete example of how complex analytical work can be produced through a combination of human judgment and AI-assisted methods.

Appendix C: Reflections on Process

Appendix B describes how this book was produced. It presents the workflow as it functioned in practice: a directed, multi-stage process involving multiple AI systems, each used for specific tasks and integrated by the author. That account is deliberately concrete. It focuses on what was done rather than on how it might be interpreted.

A few observations follow from that description.

The process was not designed in advance. While the author began with a general sense of how different tools might be used, the workflow itself developed over time. Early stages involved experimentation with prompts, formats, and sequencing. Some approaches proved inefficient or produced unsatisfactory results. Others were refined and reused. Over time, patterns emerged: clearer role assignments, more consistent sequencing, and more explicit instructions. What appears in Appendix B as a structured process was, in fact, the result of iterative adjustment rather than prior design.

Control was exercised primarily through constraint. The author did not attempt to automate decisions or to delegate judgment. Instead, constraints were introduced and tightened: limits on what each system was asked to do, restrictions on how outputs could be used, and explicit instructions about tone, structure, and scope. Tasks were broken into smaller units, and transitions between stages were managed deliberately. As these constraints accumulated, the process became more predictable and easier to manage.

The use of separate workspaces also played a role. Different parts of the project—drafting, revision, and methodological reflection—were sometimes conducted in distinct conversational environments. This was not simply a matter of organization. It helped maintain clarity about the purpose of each stage and reduced the likelihood that assumptions or instructions from one phase would carry over into another. In practice, this made it easier to sustain different kinds of work without unintended overlap.

The role of the author remained central throughout. The use of multiple systems did not reduce the need for judgment; it increased it. Decisions about sequencing, tool selection, and integration required continuous attention. Outputs from AI systems were treated as provisional and were accepted, modified, or rejected based on their fit with the developing argument. The process depended less on any individual output than on the author's ability to evaluate and combine them.

It is also worth noting that the process described in Appendix B was not fully documented as it unfolded. The account presented there was reconstructed after the fact by revisiting prior work across separate contexts. That reconstruction required re-engaging with the same kinds of structured interactions described in the appendix, including the careful comparison and integration of material generated at different stages.

This is only one example of how such work can be carried out. The specific tools and sequence used here are not intended as a general template. What does appear to matter is the presence of clear roles, deliberate sequencing, and explicit constraints. As the use of AI systems in analytical work continues to develop, these kinds of considerations are likely to become more important rather than less.



A movement became a machine. An election won't take it apart.

In barely five years, opposition to ESG grew from scattered op-eds into a self-reinforcing system: laws in twenty-one states, a surge of shareholder proposals, model legislation, litigation, and a media and think-tank apparatus that amplifies itself.

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Robert G. Eccles is a leading authority on ESG and sustainability, the founding chairman of SASB, and a visiting professor at Oxford's Saïd Business School. He writes the Heavy Lifting newsletter and is the author of a dozen books.

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