How the US can stimulate private investment in cutting carbon

The federal government has levers to pull to enable transition

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The coal-fired Cross Generating Station in South Carolina. With the investment needed to achieve emissions targets in the trillions, private finance must be galvanised fast © Luke Sharrett/Bloomberg

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Conventional wisdom has it that US president Joe Biden can effect only modest progress on climate change legislation because of the Democrats’ razor-thin Senate margin. But this undervalues the levers the administration can pull, including motivating the private sector.

A slew of executive orders has shown Biden’s resolve. The review of oil and gas leasing and permitting practices on federal land, for example, is likely to result in better emissions management. Thus, the government can set standards and exert pressure on industry.
that can foster decarbonisation and clean energy innovation. Yet, with the investment needed to achieve emissions targets in the trillions, private finance must be galvanised fast.

Stimulating private finance does not involve federal spending per se, so does not need congressional approval. Rather, it uses the government’s scale and ability to direct capital. This can apply to federal purchases or investments in energy efficiency. The government can direct funds, including the Federal Employees Retirement System with nearly $700bn in assets, to invest in companies that have carbon emission reduction pathways aligned with Paris accord commitments. This requires better emissions reporting; the Securities and Exchange Commission can co-ordinate the establishment of standardised measuring and reporting of environmental and/or carbon impacts.

Legislative approval for modest spending of public capital can amplify the impact of private investment in low-carbon technologies. Programmes such as the Department of Energy’s loan guarantees and research and development accelerator should be expanded. A Green Investment Bank, which has fostered low carbon technologies in other countries, should be set up.

The federal government could provide credits for reduced CO2 emissions to attract private funds and institutionalise the social cost of carbon. One possibility, endorsed by BlackRock’s Larry Fink and others, is to sponsor carbon wind-down portfolios for fossil fuel and electricity production. These buy oil and gas or power-plant assets on condition their retirement is accelerated.

Private investors in CWPs have their investment returns supplemented by the CO2 credits. Meanwhile, the selling companies decarbonise faster, increasing their attraction for investors and freeing up capital for investment in lower carbon energy resources.

As the Biden administration has said, tying in support for communities that will be affected by decarbonisation programmes is critical. Provision must be made for equitable transitions, to assist displaced workers and their families and to invest in communities’ entrepreneurial capabilities to attract investment for economic recovery.
Such provisions have historically been government-funded. Yet, they can be tied to private investment. Private-sector involvement in infrastructure and economic diversification should have conditions on using local workers and resources. This might include apprenticeships and other training to raise local workforce capabilities to foster economic rehabilitation. The government can mandate that part of the revenue streams from CWPs goes towards transitions.

The federal government, particularly its financial arms, has numerous tools at its disposal to spur decarbonisation, in both the development of low carbon technologies and winding down existing assets. With limited investment of public funds, it can leverage significant private capital and accelerate the energy transition.

*Morgan Bazilian and Ben Caldecott contributed to this article*
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