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A Successful Green New Deal Will Need Private Partners

Scott Minerd
Global Chief Investment Officer
and Chairman of Investments

A Green New Deal should not be viewed as a big government program, but as an opportunity to reinvent vast swaths of the U.S. economy while pursuing the laudable goal of carbon neutrality.

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The Green New Deal has been called a lot of names, but unambitious is not among them. In pursuing a laudable goal of nationwide carbon neutrality, the Green New Deal would do nothing less than reinvent vast swaths of the U.S. economy, potentially wiping out entire industries, companies and jobs.

It is that last element that has created the most blowback, as thousands of skilled workers—supported by their unions—are understandably concerned about how exactly they're supposed to transition from well-paid employment in the oil patch to building solar farms or windmill blades.

Economic transformations always have winners and losers, or "creative destruction" as described by Austrian economist Joseph Schumpeter. I have witnessed the decline of the western Pennsylvania steel and coal industry and the pain of workers who had to struggle to put food on the table. But I've also seen the rebirth of my hometown Pittsburgh into a regional economic engine based on healthcare, higher education and technology through a combination of government and private sector cooperation.

A Green New Deal should not be viewed through the traditional lens of a big government program, like President Franklin D. Roosevelt's New Deal. Instead, its goals can be achieved through private sector incentives with a "helping hand" from government in the form of incentives that favor clean energy while leveling the playing field with fossil fuels.

One example is the Arctic Investment Protocol, a set of objectives to guide infrastructure projects and clean energy development in the Arctic. (I lead my investment firm's participation in helping design the goals.) The aim is to avoid a free-for-all that would carve up the region without regard for the environment or Indigenous people. The Arctic Investment Protocol, put forward by the World Economic Forum, calls for public-private partnerships, with an emphasis on responsible infrastructure development and renewable energy.

We have found from our work in the Arctic that market incentives to reduce greenhouse gas emissions are effective and have been around long enough to significantly reduce carbon output where they're used. Imposing a carbon tax while eliminating federal subsidies to producers of fossil fuels would be a great first step.

The problem is that free market incentives are still dwarfed by subsidies. Direct government subsidies to the fossil fuel industry are around $20 billion per year, not a lot when you compare it with the $46.3 billion the government paid out in agriculture subsidies in 2020. But it's the $649 billion in so-called unpriced externalities that are staggering. These are the indirect costs in air pollution, traffic congestion, medical treatment, and other expenses that are borne by society, rather than the fossil fuel producers and users, which makes them an unpaid form of subsidies.

A carbon tax, combined with reducing or altogether eliminating direct subsidies to the fossil fuel industry, would be a good first step. A necessary element would be a revenue-neutral approach that combines a carbon tax with reductions or offsets elsewhere so the increases aren't as painful to low-income consumers and energy users, and have the intended effect of behavior modification, instead of pushback about the extra costs. That could be accomplished by getting rid of the federal gas tax, which is regressive and disproportionately falls on lower-wage earners. No less an authority than former President Obama has told me he would support this combination of policies.

While there's debate about whether a carbon tax would be effective, one sign of progress is that the oil companies themselves are coming around to the idea, if only as a tactic to avoid more drastic regulation.

This tax would be easy to implement, it's already in place in other countries, and it lets households and companies find the best way to reduce emissions at the lowest cost. At the same time, revenues can be returned to households or used for infrastructure spending or deficit reduction.

Government investment in new technologies such as battery technology and a program to modernize and harden the grid would allow us to get closer to a carbon-free society while addressing issues of national security. Additionally, it would have the benefit of reducing the risk of wildfires and the associated cost to the environment and loss of property.

In the interim, the Biden administration could support the private sector modernization of the grid with the $43 billion of unused low-interest loans for clean energy projects that languished in the Trump administration. That would create new high-tech jobs at leading research institutions and more work for lower-skilled workers in the manufacturing of solar, wind and battery equipment.

As it is, clean energy jobs by the end of 2019 were already outpacing fossil fuel jobs by a ratio of nearly 3 to 1 (3.36 million to 1.19 million), while clean energy employment grew at a 10.4 percent pace between 2015 and 2019, well ahead of the 6.1 percent growth in total employment. And the federal Bureau of Labor Statistics forecasts two of the top three fastest-growing occupations from 2019 to 2029 will be wind turbine service technicians and solar panel installers.

There will be losses with the transition to a carbon-neutral economy. Those losses, painful as they will be to those who are affected, will, however, be more than offset by new opportunities. Much of this pain can be reduced through job training and education to retool the workforce. The key will be having the political courage to move away from the status quo, and the follow-through to ensure no one is left behind.

Scott Minerd is the global chief investment officer of Guggenheim Partners and chairman of Guggenheim Investments. He is a member of the Federal Reserve Bank of New York's Investor Advisory Committee on Financial Markets.