Energy Facts

Repowering America:
Building a Bridge from Crisis to a New Energy Economy

REPOWER AMERICA

PART OF AN NRDC SERIES ON THE ECONOMY, ENERGY, AND THE ENVIRONMENT

The global financial crisis presents challenges for the U.S. economy unlike any seen in generations. While spending alone will not deliver us from this difficult period of slowing economic activity, smart and targeted investment in repowering America can. Learning from the many lessons offered by this crisis and similar crises in Asia a decade ago, we can build a solid plan for economic recovery and a stable bridge to the new energy economy. We can create millions of jobs, improve our energy security, and reduce the harmful effects of climate change by putting a price on carbon emissions and investing in the industries that will form the base of our clean energy future.

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The Credit Crisis: How We Got Here

The roots of our current crisis were planted in the aftermath of an earlier one: the burst of the dot com bubble. Seeking to revive the economy following that downturn, interest rates were kept artificially low. Real estate developers, banks, and homebuyers all took advantage of the available "cheap money," building and buying homes in a frenzy that drove up real estate values across the country. With everyone from Wall Street to Main Street seeing the potential to make money, few questioned whether many of these new investments were sound. Bankers developed tools for spreading the risk of bad loans around the market, but with so many bad loans in the pool, most players still ended up with more than their books could handle.

The American Rescue

Fortunately, by acting quickly rather than waiting for the economy to right itself—in contrast to the rescue plan in Japan a decade ago—the United States has already taken steps that could soften the impact of the crisis. Our task is now to ensure that future economic stimulus packages are structured in a way that encourages banks to get back to work lending for economic investments that will help grow our economy and repower America. These investments should create jobs in new industries that bring short-term benefits and long-term boosts to our global competitiveness, such as re-tooling of industry, building a new energy transmission infrastructure, and developing alternative and renewable sources of energy—all of which will improve our national security.

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"Cap and Invest" to Boost Our Economy

In addition to direct investment, a cap and invest program can speed our recovery by establishing tradable limits on total carbon emissions, investing some of the resulting proceeds into a new energy economy during the early years, and then returning revenues from the carbon market back to households. The carbon cap revenue can be invested to create new jobs in industries like wind and solar, increase energy efficiency efforts at the state level, and help domestic manufacturers re-tool and improve efficiency so they can better compete.

Further, the ability to access capital to make these investments is a critical component of any recovery strategy. A cap and invest program can help bridge this credit gap by setting a minimum reserve price on carbon allowances during the first few years to create a cash value for allowances that could then be used to "invest" in low carbon initiatives. This "cash value" could then be submitted to banks a form of collateral, against which the banks could lend money in the current credit constrained environment.

Putting a limit on carbon emissions that reflects the real cost of this pollution will help create a new energy economy and help us through this economic crisis.

Cap and Invest in the Real World: A Boost for General Motors

General Motors is an example of a company facing financial trouble that could benefit significantly from a cap and invest program. Although the financial bailout approved by Congress in December will provide GM with the loans needed to address the company's current crisis, it will not provide sufficient long-term funding to finance the investments in energy efficient vehicles that must be a part of GM's future.

With the introduction of a cap and invest program, however, GM's ability to access such capital improves greatly. GM could pledge its carbon credits as collateral to banks in exchange for acceptable funding terms. The banks could use these future carbon credits as collateral for loans to GM to invest in re-tooling factories and building the fuel efficient vehicles that would appeal to buyers and allow the company to reclaim its place a leading global automaker.

Jumpstart Stalled Investments

The funding made available through a cap and invest program would increase funding needed for critical energy sector investments that have been stalled by the credit crisis and fluctuating energy prices. Important examples include:

- Scaled up investment in energy efficiency would create the millions of green-collar jobs desperately needed across the country.
- Renewable energy companies will be better able to compete in a market that recognizes the true cost of carbon pollution from fossil-fuel based energy sources. These same companies will have a stronger case when tapping banks for financing to pursue new technologies that can be utilized at home and exported overseas.
- Long overdue upgrades to our power transmission infrastructure could finally occur, increasing the viability of solar and wind power.
- Coal plant developers and operators will be able to reduce carbon emissions by deploying carbon capture and storage (CCS) systems, which could then provide a cheap source of carbon dioxide to recover stranded domestic oil through a process called enhanced oil recovery (EOR).

Repower America Now

History shows that we cannot overcome economic challenges simply by throwing more money at the problem. When considering the limits of domestic drilling for meeting our long-term energy needs and the volatility of global energy markets, the need to expand our portfolio of alternative and renewable energy sources is obvious. Adopting a cap and invest program will mobilize America's innovative spirit, helping us to build a stable bridge to a clean energy economy and a safer and more secure energy future.