Trying a Whole-of-Government Approach to Climate Change

It is hard to imagine any economic activity that does not influence the climate. Likewise, it is challenging to identify any community that will be immune to the threats posed by global warming. This necessitates policies that mitigate risks throughout the economy. In calling for a whole-of-government approach to climate change, the Climate 21 Project, of which I was a steering committee member, has developed recommendations for how to do that.

The Treasury Department provides an excellent illustration of how the Biden administration can pursue such a whole-of-government methodology. With its role in economic policy through oversight, regulations, legislation, foreign aid, diplomacy, and more, Treasury can promote the economy's decarbonization while enabling more resilience to new conditions.

Take, for instance, the treasury secretary's numerous inputs into climate policy

The treasury secretary will play a critical role in the post-COVID economic recovery. This creates an opportunity for advancing policies and supporting legislation that simultaneously create new jobs and promote investment in climate-friendly infrastructure. Directing some of the economic recovery program toward climate change priorities can stimulate near-term activity and make longer-term growth more resilient to new conditions. With greater renewable electricity a key component of any long-term decarbonization scenario, the secretary can accelerate the build out of wind and solar power.

The secretary also serves as the nation's leading economic diplomat. As the new administration attempts to rebuild bridges with partners around the world, Treasury can champion greater support for international climate finance. Securing increased appropriations for the World Bank, the Global Environment Facility, and the Green Climate Fund can demonstrate renewed climate leadership by the United States, provide critical resources for least-developed countries, and enable Washington to promote reforms to improve the effectiveness of these institutions. For example, such multilateral funds could subsidize the early retirement of coal-fired power plants in developing countries in order to grow the market for zero-carbon alternatives.

As the chair of the Financial Stability Oversight Council, the secretary of the treasury facilitates action and coordination among all federal regulators in identifying and addressing systemic risks to the U.S. financial system. Given the prospect that climate change could impose significant, correlated threats across the U.S. economy and financial system, the secretary could highlight climate change within the council and spur regulatory action by other financial regulators. This could take the form of climate risk disclosures mandated by the Securities and Exchange Commission, climate-risk stress tests of financial institutions by the Federal Reserve, and climate finance and regulatory sandboxes that permit experimentation with innovative climate-oriented financial instruments.

The Treasury Department provides oversight over many broad functions of government. As the chair of the boards of trustees of the Social Security and Medicare trust funds, the secretary of the treasury could direct explicit consideration of climate change risks over the long-term finances of both programs. For example, climate change could influence worker productivity and labor force participation, which have implications for both the revenues and the benefits paid out through Social Security as well as the revenues for

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Medicare. Moreover, expenditures to mitigate climate-related morbidity and mortality could influence the Medicare balance sheet over time. Through the Federal Insurance Office, the Treasury Department monitors the insurance sector and can use this position to increase consideration of climate change risks in the design and issuance of insurance policies.

Federal tax policy runs through the Treasury and the Internal Revenue Service. Interpreting and implementing current tax law (such as tax credits for renewable power and electric vehicles) as well as working on new tax policy with Congress (perhaps extending tax credits for clean energy investment or a carbon tax) involve Treasury leadership in the future of decarbonization policy.

Finally, the secretary of the treasury serves as the leading economic spokesperson for the administration. This provides the bully pulpit through which the secretary can draw attention to those opportunities where good climate policy and good economic policy are aligned. In doing so, the secretary can engage and empower business leaders — CEOs of major corporations and major investors — so that they make decisions that advance the nation's efforts in combatting climate change. In doing so, the department — in tandem with actions throughout the federal government — can ensure that a whole-of-government approach to climate change mobilizes a whole-of-economy response to the challenge.