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White House Report Calls For Reevaluation of Federal Government's Climate-Related Spending Priorities

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On March 20, 2023, the White House Council of Economic Advisers released the **Economic Report of the President** ("Report"). Chapter 9 of the Report, entitled "Opportunities for Better Managing Weather Risk in the Changing Climate," addresses a range of risks and opportunities presented by climate change, including the federal government's spending priorities in light of anticipated costly extreme weather events, which are projected to pose increasing threats to economic, social, infrastructural and government systems. As the White House's Office of Management and Budget estimated in 2022, the Federal Government could see a 7.1% drop in annual tax revenue by 2100 due to the adverse effect of climate change on macroeconomic growth.

The Report identifies "four primary pathways by which the federal government is exposed to physical climate risk:"

Risk assumption. The Report claims that the federal government is better able to attract private investment and support production across broad sections of the economy by assuming certain types of risk. "One of the most significant examples is the Federal role in housing," as increasing damage to housing from storms and wildfires increases federal loss exposure. Private lenders are shifting climate-exposed loans into government-sponsored enterprises like Fannie Mae and Freddie Mac, which may take on a substantial share of the increasing climate risk in the absence of policies that manage federal government exposure. The Federal Government also assumes risk through a variety of insurance programs, including its underwriting of virtually all flood insurance policies.

Operation and financing of climate-exposed assets. The government owns, maintains and operates important infrastructure throughout the country that is especially vulnerable to climate change-related events. These include dams, irrigation systems and major flood defenses such as river and coastal levees, as well as military installations. Constructed over many decades, this infrastructure is integral to communities and regional economies nationwide.

Provision of national public goods. The government provides a broad range of national public goods, including national defense, which accounted for approximately 45% of federal discretionary spending in 2021, according to the Report. Climate change poses a threat to U.S. national security because the effects of severe weather are expected to exacerbate global tensions as competition escalates for scarcer resources.

Social safety net programs. Federal programs collectively "known as the social safety net provide benefits and assistance to maintain a minimum level of well-being" in the U.S. Studies estimate that health-related risks, such as those caused by poor air quality and extreme heat conditions, constitute the largest portion of climate change-related damage. Individuals over age 65 tend to be more susceptible to these climate change-related health risks and are much more likely to be treated through government health programs like Medicare and Medicaid.

The Report also identifies four overarching objectives that an effective federal adaptation strategy needs to address:

Production and dissemination of knowledge about climate risk. State and local governments, businesses and homeowners need information that is publicly available, credible, and from trusted sources to understand their climate change exposure. The Report recommends that the government invest in catastrophic climate risk modeling. Managing evolving climate risks will, according to the Report, require new scientific approaches that combine insights from climate models with other tools, such as statistical modeling and detailed engineering data to produce tailored climate information.

Long-term planning for climate transition. While many policies that are central to building long-term resilience to natural disasters are controlled at the state or local level, federal funds to states both directly and indirectly finance climate-exposed infrastructure and development projects. The Report advises the government to use federal funding to incentivize regional and local adaptive reforms. For example, local decisions to convert land subject to wildfires or flooding to developed uses implicates the government via its various risk-absorbing functions, such as mortgage guarantees, flood insurance and disaster management and response.

Accurate pricing of climate risks. Evaluating the cost associated with climate risk requires specialized modeling tools and a skilled analysis of the information produced. "Market failures arising from information asymmetries or misaligned incentives can distort these signals and require a policy response." The Report recommends the development of minimum standards and reporting requirements for the climate data used to inform significant investment decisions.

Protection of vulnerable populations. The Report states that "Low-income and disadvantaged communities are both more exposed to climate effects (e.g., through working in industries exposed to extreme heat, such as agriculture and construction) and lack assets that can be drawn on to smooth the costs of weather-related disasters. In the absence of policies addressing the needs of low-income and marginalized communities, preexisting vulnerabilities —such as inadequate health care, poor-quality or overcrowded housing, and food insecurity— will likely interact with climate change effects to worsen inequalities." The Report advises developing criteria for public adaptation funding that reflect the social benefits of investments.

This includes criteria that capture differing vulnerabilities and variations in the extent to which communities are able to recover from damage. The Report also proposes “reenvisioning social insurance under climate change,” as the U.S. cannot continue its current approach of “managing catastrophic perils in a piecemeal way with fiscally unstable public insurance programs.” Policymakers should consider models from other countries, where governments act as backstop reinsurers, capping catastrophic losses in the private sector, while spreading risk broadly through mandated natural disaster coverage.

Taking the Temperature: The Report is consistent with the Biden Administration’s announcement that “climate considerations [are] an essential element” of the President’s policies, and consistent with other actions the Administration has taken, including the adoption of various regulatory proposals, blueprints, and other measures, in furtherance of, according to the Administration, the “extensive body of evidence that environmental . . . factors can have material impacts on certain markets, industries, and companies.”

The Report coincides with a new report by the United Nations that more ambitious action to reduce greenhouse gas emissions and adapt to human-caused climate change is urgently needed and that multiple feasible options exist. The Intergovernmental Panel on Climate Change (IPCC), the UN body for assessing the science related to climate change, released its “Climate Change 2023” report in March, calling for “climate resilient development.”

The IPCC said in a statement that climate resilient development involves “integrating measures to adapt to climate change with actions to reduce or avoid greenhouse gas emissions in ways that provide wider benefits.” For example, access to clean energy such as low-carbon electrification and promotion of walking, cycling and public transport improves air quality, health and equitable opportunities, the IPCC said. Yet, climate resilient development will become progressively more challenging as global warming continues. Decisions made by governments, investors, central banks and financial regulators in the next few years will play a critical role in achieving global climate goals, the IPCC warned.