Weaponizing financial regulation

By Eric Grover

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The spirit of President Joe Biden's inaugural address declaration "a cry for survival comes from the planet itself" will animate this administration's policy. Americans should be afraid, very afraid.

Climate czar John Kerry, the Environmental Protection Agency and Interior Department won't be the only forces deployed against fossil fuels and the economy. Under Biden, financial regulation will be weaponized to combat the climate-change bogeyman. Capital for and use of fossil fuels will be penalized.

Sen. Pat Toomey, R-Pa., warns that "financial regulators lack the expertise to make environmental policy." More importantly, it's the prerogative of the politically accountable Congress — not regulators — to make policy and weigh risks and economic trade-offs. But with razor-thin congressional majorities, Democrats will have a tough time legislating economically destructive climate-change policies.

So financial regulators are trumpeting their anti-CO2 faith.

Treasury Secretary Janet Yellen assertion that climate change is an "existential threat" to the economy is carte blanche for massive regulatory mischief. Fed Chairman Jerome Powell allowed it's "an emerging risk to financial institutions, the financial system and the economy." San Francisco

Fed economist Glenn Rudebusch embodies the alarm, declaring that rising levels of CO2 are causing global warming, higher sea levels and more severe storms, floods, droughts and heat waves, posing risks to the financial system. One could imagine a statuette of Greta Thunberg on his nightstand rather than a dog-eared copy of “A Monetary History of the United States”by Milton Friedman and Anna Schwartz.

The Fed is conjuring a strawman to justify new regulation to demand that financial institutions assess climate- and weather-related risks. Its regulatory power grab will be used to raise capital costs for sinners producing and using fossil fuels and to lower capital costs for rent seekers in wind and solar power.

Financial markets have priced the risk of floods and hurricanes for centuries. Earth’s climate has been warming and cooling for billions of years. Increases in atmospheric CO2 have lagged global warming. Man has coped with rising sea levels since the end of the last Ice Age. And there’s little empirical evidence weather has become more severe.

Climate-change doomsayers have been sounding the tocsin since the 1970s. In 2009, Prince Charles warned that without “coherent financial incentives and disincentives” we have just 96 months to avert “irretrievable climate and ecosystem collapse.” In 2009, NASA’s James Hansen said President Barack Obama had four years to save the world. In 2014, French Foreign Minister Laurent Fabius told then-Secretary of State Kerry “we have 500 days to avoid climate chaos.”

We’re still here. However, notwithstanding no collapse or chaos, the drumbeat of climate-change alarmism is louder than ever. On Feb. 19

Kerry declared there are only a few years left to avoid a climate catastrophe. But the looming catastrophe won’t be delivered by Mother Nature but rather by anti-CO2 crusaders bludgeoning the economy.

Financial regulators are gearing up to do their part.

In January, the Fed created a Supervision Climate Committee. In December, it joined the Network of Central Banks and Supervisors for Greening the Financial System. Yellen is creating a climate czar within Treasury.

More pressing worries for Powell and Yellen ought to be America’s unsustainable monetary and fiscal policies. On Feb. 10, the Fed’s balance sheet was $7.2 trillion, up a whopping 722 percent from August 2008. The money supply is exploding, up 26 percent in the past year. That heralds inflation. In the third quarter of 2020, the total federal debt-to-GDP ratio was 127 percent, up from 31 percent from 1980. Americans can’t duck the mounting tab.

Operation Choke Point provides a blueprint for weaponizing financial regulation to bypass Congress. Hatched by Eric Holder’s Department of Justice in 2013, it was lawlessly used to bully banks and payment processors not to serve politically out-of-favor industries such as subprime credit providers, tobacco shops, gun dealers, escort services and the coal industry.

Donald Trump’s attorney general, Jeff Sessions, ended Operation Choke Point in 2017. And in its waning days, the Trump administration implemented a fair-access rule, which was slated to take effect April 1. It would have required banks with more than $100 billion in assets to serve businesses based on the numbers not political favorability or fashion. It’s been put on hold, and will likely be rescinded under Biden.

Reliable cheap energy is a sine qua non of prosperity. Energy is part of everything Americans produce and consume. Fossils fuels provide 80 percent of America’s energy. If financial regulators curtail banks providing capital and services for fossil fuel production and use, and preference for wind and solar power, it will make America poorer and increase financial system risk. Far better that markets allocate energy resources and pick winners and losers.

To curry favor with green activists, major banks including Goldman Sachs, JP Morgan Chase, Citi, Morgan Stanley and Wells Fargo, curbed funding of Arctic drilling and the coal industry. Virtue-signaling Davos bank chieftains can be counted on to collaborate with regulators denying capital and services to the fossil fuel industry.

The people’s body Congress — not regulatory mandarins — should decide if economically destructive policies to fight the climate change hobgoblin are warranted.

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