



The Daily Dish

# Beware Green Lending

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## Eakinomics: Beware Green Lending

*The Washington Post* is [reporting](#) that the Yellen Treasury is resisting pressure to adopt “measures to curb or discourage lending from Wall Street banks to companies that produce large amounts of carbon emissions.”

Good.

A prohibition on lending by Wall Street banks to firms that produce carbon emissions would be an ineffective carbon policy, but could potentially introduce large distortions into credit markets. The simple reason is that loans are financing for firms that produce carbon emissions. But the financing isn’t the problem; the problem is the problem: the production, sale, purchase, and use of goods and services that result in large greenhouse gas (GHG) emissions. An effective policy – say a carbon tax – would directly reduce the incentive to produce, sell, and use carbon-intensive goods and services. That policy would incentivize new product and production techniques that substituted away from GHGs.

A lending ban would do none of these things. To begin, where does one draw the line between a “dirty” firm and a “green” one? What if all the firm’s purchased inputs had high GHG intensity, but it added no new emissions? Green? Dirty? What about green versus dirty subsidiaries of the same parent firm? How does one keep loans away from the “dirty” subsidiary?

Worse, Wall Street banks are not the only source of capital in the economy. This is simply an invitation to switch financing to non-bank lenders. A lending ban wouldn’t change the underlying profitability of the offending activity, it would incentivize innovation in clever financing schemes that evade the ban on direct lending.

Notice, as well, that any genuine GHG policy would be debated and passed as legislation. Why should such an important issue be done by regulatory fiat? And by the *Treasury*? That is not only a strange assignment of responsibilities, it would also be a troubling precedent. With the demonization of carbon fuel sources, this type of regulation assumes an “ethical” mission. What other ethical regulations would the Treasury be asked to pursue in the future? No lending to restaurants that serve beef?