



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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REMARKS OF SECRETARY JACOB J. LEW ON THE ECONOMICS OF CLIMATE CHANGE HOSTED BY THE HAMILTON PROJECT AT BROOKINGS

As prepared for delivery

WASHINGTON – Thanks, Bob, for that introduction and for your strong leadership on the importance of combating climate change, and thank you to The Hamilton Project and Brookings for hosting this event, which focuses on a matter of great significance to our economy and our nation’s future.

Today, I want to talk about the economic implications of a changing climate, but before I begin, I would like to say a few words about the U.S. economy.

The U.S. economy has emerged from the financial crisis that triggered a devastating recession, pushing our economy to the brink of a second Great Depression. Through effective policy responses and the resilience of the American people, our economy is now 6.6 percent larger than when the recession began in 2007, GDP increased at a 4.2 percent annual rate in the second quarter of this year, and our private sector has created 10 million new jobs over the past 54 months—the longest stretch of job growth in our nation’s history.

While more work remains, confidence in America’s future is strong at home and internationally—something I saw over the last few days in Australia at the G-20 Finance Ministers meeting. In addition to discussing the need to take decisive action to grow the global economy and create jobs, we discussed leveling the tax playing field to address the erosion of the corporate tax base and avoid a race to the bottom in international tax policy. Later today, I will have more to say about our ongoing efforts to address a glaring loophole in the U.S. tax code - inversions - an unfair practice in which corporations acquire foreign businesses and then switch their citizenship outside the United States to avoid paying U.S. taxes.

In addition to our leadership on a host of global economic issues, the United States has used the G-20 as a forum to drive progress on climate change policy. The need for action is clear. The world can either choose to ignore the challenge today and be forced to take more drastic action at greater cost down the road. Or we can make sensible, modest and gradual changes now, and in the process create jobs, reduce business and household expenses, and drive innovation, technology, and new industries. This choice should also be clear.

As an economic matter, the cost of inaction or delay is far greater than the cost of action. Costs associated with extreme weather events like rising sea levels, drought, heat waves, wildfires, floods, and severe storms demonstrate the scope of economic exposure. The Council of Economic Advisers estimates if warming above pre-industrial levels increases to three degrees Celsius, instead of two degrees Celsius, there could be a 1 percent decrease in global output annually. The economic cost of climate change is not limited to one sector of our economy. It threatens our agricultural productivity, our transportation infrastructure and power grids, and drives up the incidence of costly healthcare problems.

We are facing historic levels of extreme weather from a range of conditions. Some parts of the country face extreme flooding, and other areas face severe droughts. Our agricultural regions are threatened with some states facing a potential loss of up to 50 to 70 percent of average annual crop yields, and livestock productivity is threatened as well.

Nowhere is the economic cost of climate change more clear than in the area of infrastructure, which is fundamental to our economy's productivity and competitiveness. The fact is, our water and sewer systems, our power plants and power grids, and our roads and airports were not designed or built for the extreme climate conditions that we are facing now and expect to face in coming decades. Superstorm Sandy in 2012 closed every tunnel and most bridges leading into New York City, while a large part of the subway system below 34th Street—including all seven tunnels under the East River—was flooded by storm surges.

Increased health care costs associated with pollution and extreme heat are well documented. Very high temperatures, for example, threaten the health and safety of construction workers, farmers, and others who work outdoors, while putting entire industries like housing and agriculture at risk. Extreme heat will also lead to more heat related illness. Dangerous air pollution creates the risk of similar negative consequences for the health and safety of Americans across the country.

On the other hand, much less has been said about the impact of climate change on our nation's fiscal situation. When the federal government has to step in and do things like provide disaster relief, crop and flood insurance, protection from wildfires, and healthcare, taxpayers pay the cost. Already, the National Flood Insurance Program has had to borrow \$24 billion from the Treasury Department because of payouts resulting from Hurricanes Katrina, Rita, Wilma, and Sandy—all of which occurred over the past nine years. If the fiscal burden from climate change continues to rise, it will create budgetary pressures that will force hard tradeoffs, larger deficits or higher taxes. These tradeoffs would make it more challenging to invest in growth, meet the needs of an aging population, and provide for our national defense.

As former Secretary Rubin has said, “[W]hatever your public policy views, whether you care about our national debt and deficits, our tax rates, or government investing in everything from national security to job creation, you should care about the costs of coping with climate-related damage.” In short, we must do all we can to limit this burden and to manage the fiscal risk.

President Obama understands what is at stake, and after years of talk in Washington about facing up to the challenge of a changing climate, he has taken action by reducing carbon pollution, increasing energy efficiency, and investing in American energy, including natural gas, solar, and wind power.

I know that some view combatting climate change as a choice between investing in our future and growing our economy in the near term, but that is a false choice. Making the right investments will make our economy stronger today, create tens of thousands of new jobs, and position the United States to lead the world in the technologies and the industries of the future.

We have already seen this work. Our new fuel economy standards will double the distance our cars will go on a gallon of gas by the middle of the next decade, and we have doubled the amount of renewable energy we produce. This means that our cars, trucks and renewable technology will compete effectively in a world looking for energy efficiency, lower costs, and lower emissions.

The fact of the matter is, over the past few years, solar installations have increased by 500 percent, and now every four minutes, a home or business goes solar in the United States. At the same time, with the President’s Better Buildings Initiative, the energy efficiency of America’s commercial buildings is improving. Making buildings more energy efficient creates jobs, lowers business costs, and reduces pollution. So far, this initiative has led to \$300 million in energy savings for businesses and other organizations.

To be sure, changing how we power our country is good economic policy. Today, the fastest-growing source of electric generation is renewables, which already account for a fifth of generation globally. Indeed, renewables now produce as much electricity worldwide as gas and more than twice that from nuclear. In the coming years, an expanding world will demand more and more electricity and renewables are expected to be the fastest-growing source to meet that increased demand. So the more we do at home to encourage low-carbon energy generation, the better positioned our companies and workers will be to take advantage of these new business opportunities.

To build on what we have accomplished, as part of the administration’s Climate Action Plan, the President announced new rules this summer for existing power plants. These rules represent the most significant policy to arrest climate change that the United States has taken to date. And they will help us cut carbon pollution and increase clean energy production.

Though much remains to be done, these policies represent our nation's commitment to meeting the challenge of climate change head on. And tomorrow, the President will join more than 120 heads of state in New York to mobilize global action to address climate change, because this is a global problem that requires collective action.

Global action is imperative, and it is a good investment in global economic growth.

First, making these changes is cost-effective. Look at the new power plant rules that I just mentioned. This policy will reduce greenhouse gas emissions from power generation by 30 percent relative to 2005 levels. And meeting these standards will cost a fraction of the benefits associated with the increased efficiency at coal power plants and the greater use of renewables and natural gas. The health and climate benefits from producing more clean energy and reducing our use of dirty energy is expected to be worth between \$55 and \$93 billion in 2030.

Second, if we fail to make changes now, it will be much more costly to deal with the problem later, and some options may be foreclosed entirely. The right approach going forward is to use market forces that balance the cost of reducing emissions with what the latest science tells us we need to do to keep temperature increases below dangerous levels. The alternative—allowing greenhouse gas emissions to reach increasingly dangerous levels—will require expensive and more difficult action later. In a recently released report, the Council of Economic Advisers found that, for each decade of delay, the cost of hitting a given climate target goes up, on average, by approximately 40 percent.

We must adopt a risk-management approach to climate change. We must do what we can to substantially lower the risk of the most catastrophic climate impacts, and that means reducing emissions. As former Secretary of the Treasury Hank Paulson, wrote recently, "There is a time for weighing evidence and there is a time for acting. And if there's one thing I've learned... it is to act before problems become too big to manage." The fact that Secretary Rubin and Secretary Paulson have taken leadership positions in making the case to address climate change underscores the economic urgency of action.

Let me close with two points:

The first is that we cannot do this alone. We must work with the rest of the world to address this challenge. We must work with other industrialized economies so that everyone is cutting carbon pollution in a sustainable way. The G-20 last week discussed the importance of this issue and agreed to continue its work to study ways to effectively mobilize resources for climate finance. And we must work with developing countries—many of which are the fastest-growing carbon emitters—so that as they grow, they move to cleaner energy production. That is why Treasury has made the case to finance clean energy programs and substantially reduced support at the multilateral development banks for new coal projects. This step is helping to level the playing field for clean energy alternatives and supporting low-emission power generation worldwide. And we are actively working to secure the agreement of other countries and the multilateral development banks to adopt similar policies as soon as possible.

We are also strong supporters of the Green Climate Fund, a multilateral fund created to help developing countries limit or reduce their greenhouse gas emissions and adapt to the impacts of climate change.

Second, we must continue to seek the most efficient, market-oriented ways to reduce carbon pollution. Congressional action based on market-based approaches is the most efficient way to reduce emissions and transition to a cleaner economy.

With that, let me say, climate change is one of the most important challenges of our time. What we do in the next few months and years to address this challenge will determine our nation's future, and if we take the right steps, we will leave the next generation with a stronger country, a better economy, and a brighter future.

Thank you.

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