CLEAN CAPITALIST LEADERSHIP COUNCIL

Turning Capitalism Into Clean Capitalism

The American Barrier-Free Clean Capital Market Act

Proposing an innovative federal pilot program to empower the issuance of Clean Asset Bonds (CABs), a new kind of tax-exempt corporate bond optimized to create a very large, barrier-free clean capital market, attracting US and foreign capital to accelerate American made and led clean, pollution-free energy & infrastructure deployment locally, nationally and globally. For expert review & comment.

Core Concept Summary

A new policy option is now on the table. U.S. Senators and Representatives can now lead on shaping a new paradigm – a barrier-free clean capital market – that will deliver both increased prosperity and an ever cleaner environment… locally, nationally and globally.

Within the last year, a new, highly efficient class of policy tools has emerged, optimized to accelerate profitable pollution-reducing investments by removing all barriers to capital or participation. Ten Clean Tax Cuts (CTC) working groups have designed a variety of CTC mechanisms, the most powerful (and simple) of which cut capital tax rates on debt and equity investments in well-defined clean technologies and products, and steer clear of other major barriers to public participation in clean enterprise, like those complexities baked-in to muni bonds and tax equity subsidies. That boosts GDP.

One CTC mechanism in particular, the private tax-exempt Clean Asset Bond (CAB)[1], appears especially simple, powerful, flexible, cost efficient, and well-suited to a great variety of clean solutions, nationwide – even worldwide.

CABs work for tax-exemption, because they finesse a key issue troubling observers of the burgeoning Green Bond market: how can we guarantee high environmental impact?

Clean Asset Bonds are corporate, bank or other privately issued Green Bonds, where the assets deployed are known, and legislatively pre-qualified, to deliver a large reduction in waste or pollution (eg. a zero-emission power source). CAB interest would be tax-free (like muni bonds) in recognition: (a) of the public benefit such assets confer in avoiding large damages and costs, public and private, which helps pay for CABs; and, (b) that pollution-free enterprise is overtaxed, relative to polluters who raise environmental damages and public costs.

A new kind of incentive – a tax-free corporate green bond – CABs apply policy leverage to financial leverage (debt driving higher profits to equity holders) with unique effect. CABs raise ROI by driving down cost of capital and cost of clean projects and products, simultaneously incenting both debt and equity investment, while increasing both supply and demand for clean solutions. That rare quadruple-barreled impact is also very cost effective. Since US return on debt is lower than return on equity (4% vs. 13.6%), that means tax exemption on debt costs the Treasury 71% less per investment dollar. 81% less, counting higher equity tax revenues. The smart move for Congress is to ride that leverage: offer a big, cost effective green incentive on bonds, broadly appealing to all investors, but then, without tax hike, collect more revenue on higher leverage-driven equity profits.

The straw proposal (attached) suggests a six year pilot program, that limits CAB application to six high impact, low-or-no-emission asset categories: electric generation, vehicles and EV infrastructure, real estate and industrial plants, combined heat & power, and carbon capture technologies. These few categories account for

[1] CABs derive from analysis and proposals by Columbia Univ. Prof. of Practice, Travis Bradford, Chair, Watt Fuel Cell Corp.

a substantial portion of US air pollution and present a good place to start: ideal for impact analysis, with metrics well understood and reported. We can then consider other categories.

Since CABs combine both financial and policy leverage, that lever can by used as a throttle, to control the power and cost of stimulus. The pilot program would throttle back the CAB/capital ratio (tax-exempt investment/total investment) for these projects by 10 percentage points a year, from 90% in year one, to 40% in year six.[2] This throttle-back strategy would boost clean infrastructure securitization, limit "overheating," and spur a steadily increasing share of taxable financing (debt & equity) with federal tax revenue thereon. The six year throttle-back also allows scholars an ideal framework to study dynamic growth and revenue effects, to determine the optimal CAB/capital ratio and throttle control strategies to maximize growth, impact, pollution cost savings, and tax revenue going forward.

The true power of CABs comes from their ability to avoid barriers to capital and participation, creating new channels for major untapped capital flows, forming the basis of a very large national (perhaps someday international) barrier-free clean capital market.[3] That ability is best understood by study of the barriers that hobble other incentives, and how CABs dodge them.

The ITC and PTC tax credit subsides, once essential when wind and solar were unprofitable, have now become a roadblock to capital. Only the wealthiest, ultra-high income taxpayers can fully use the large tax credits created by these projects. Other investors, though disadvantaged, must still be very large, to afford the high cost of tax equity trading. Not only does this mean incentive dollars are wasted on bankers, it means mom and pop can't invest here. Big barriers keep out the vast majority of investors.

By contrast, CABs democratize financing for clean infrastructure, creating a simple, tax-free, environmentally beneficial bond that hordes of untapped investors, large and small – think 65 million retiring American baby-boomers – would want in their portfolios. No barriers mean far more capital available for investment, and millions more Americans can participate and profit.

Still, the solution is not as simple as tax-exempt bonds. Private Activity Bonds (PABs) are muni bonds financing public private partnerships, usually infrastructure, sometimes green, too often pork. The trouble is, PABs lower some barriers to capital (via tax-exemption), but then raise bigger barriers to broad participation. The muni bond market simply cannot meet the needs of vibrant free enterprise, because the muni market is not one, but 70,000 local markets, each a silo with territorial boundaries of tax-exemption. No issue appeals broadly. Each issue appeals only to a small, illiquid niche market – the buyers in one jurisdiction. Too often, politically connected broker/dealers dominate each silo, offering no transparency, no market quotes, and high hidden fees. As a result, municipal bonds carry an illiquidity premium, forcing governments to pay an extra 1.12% interest. Since the value of tax exemption ranges from 1% - 3% depending on tax and interest rates, that might be more than half the value of the incentive lost because of market barriers. Worse, the requirement that private companies find a political patron in order to issue a bond, not only creates a baked-in invitation to cronyism, it complicates issuance, holding back growth.

CABs sidestep all that. Defining public benefits up front makes corporate bond market issuance easy, and free of political patronage. Uniform 50 state tax exemption means CABs avoid illiquidity premiums, creating the largest possible market, with the lowest possible costs.

The Act includes other CTC mechanisms to encourage innovation and extend the reach of that market created by CABs, as summarized here. See also the attached straw proposal and these links for more details.

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[2] Developers can use CABs; OR other incentives; OR up to 50% of an incentive + CABs up to 50% of the CAB/capital ratio.

[3] Credit to Alexander Hamilton, for first marshaling the power of large barrier-free capital markets to support great enterprise. His constitutional and financial plans united 13 states into one barrier-free market, created the wealthiest economy in the world, and aligned global investors with the American vision. That strategy can apply to the problems of environmental finance.