



Fiscal Policy Is Climate Policy: How Curbing Corporate Power Can Address the Climate Crisis

The federal government has invested more than \$3 trillion in stimulus measures to mitigate the COVID-19 emergency. But while the initial rounds of relief were instrumental in staving off the most disastrous effects of the pandemic, they failed to meaningfully constrain the power of large corporations, many of which fuel the climate crisis.

As argued in [A Green Recovery: The Case for Climate-Forward Stimulus Policies in America's COVID-19 Recession Response](#), **all fiscal policy is climate policy**. Even legislation that does not explicitly address climate change has the potential to dramatically impact emission levels, environmental health, and the structure of many key sectors of our economy—including fossil fuels.

Future recovery dollars must come with significant guardrails to limit public investment in fossil fuel-dependent industries. At the same time, regulators should take full advantage of the laws and regulations already available to limit the climate impact of “non-climate” recovery spending.

Such policy, outlined in more detail below, involves 1) ensuring accountability in any stimulus funds that go to fossil fuel industries, and 2) using existing authority to address Wall Street’s role in the climate crisis.

Ensuring Accountability In Any Stimulus Funds That Go To Fossil Fuel Industries

Fossil fuel companies [lobbied aggressively](#) to be included in various Federal Reserve lending facilities, receiving billions in [taxpayer](#) money. In turn, [they've rewarded their executives](#) with pay increases while [laying off workers](#) and [cutting benefits](#).

Fossil fuel companies should be banned outright from receiving money in the lending facilities. Not only do these investments directly contradict the Fed’s financial stability mandate by exacerbating climate change, they embolden an extractive industry and increase harmful corporate power.

In the absence of an outright ban, lawmakers should attach the following conditions to any future stimulus or recovery funds:

- **Prohibit stimulus money from being used on debt:** After the initial round of stimulus, fossil fuel companies issued \$99 billion in new corporate debt in an [“unprecedented borrowing binge.”](#) This debt props up an industry already known as a [“major issuer of junk bonds”](#) and enriches shareholders with little to no value to workers.
- **Prevent lending to firms already troubled before the crisis:** Even before the onset of the COVID-19 crisis, parts of the fossil fuel industry—particularly coal—were experiencing [significant financial distress](#). In

order to ensure money is going to companies with long-term stability, the Fed should be barred from purchasing loans that were rated as below investment grade before the crisis.

- **Attach climate disclosure requirements to money:** Federal Reserve funds should come with robust climate disclosure requirements. The Securities and Exchange Commission (SEC) can develop extensive standards for climate disclosure and require public companies that receive funds, including fossil fuel companies, to disclose emission levels and climate risks in their operations. This will ensure that investors understand long-term financial dangers associated with climate change.
- **Include stock buyback and executive compensation requirements:** Companies that receive government money should use those funds to enhance company value, rather than engage in financial engineering to enrich executives. Fossil fuel companies that bought back their own stock received [\\$15.5 million in COVID stimulus](#) funds. To ensure government money does not flow to shareholders and executives, such activities should be banned as a condition for receiving any government relief.

Fossil Fuel Bailouts Aren't Helping Workers

The fossil fuel industry exemplifies the extractive nature of outsized corporate power and the prioritization of shareholder and executive wealth over other stakeholder interests. In good times, the public interest takes a backseat to corporate profits: They reward executives first, with workers getting little of what they help create.

But when the economy collapses, the public is expected to save both workers and businesses themselves, as corporations turn to the government for support and stability. Particularly in the fossil fuel industry, the operations of which pollute air and water, exacerbate climate change, and often harm neighboring ecosystems, these companies' gains often come at the expense of community health, especially in communities of color. Here are some examples of companies that, despite receiving stimulus funds from the taxpayer, continued to lay off workers and accelerate the climate crisis for the benefit of shareholders and top executives.

Marathon Petroleum

Received: \$411 million in tax benefits

In Return: Fined hundreds of thousands of dollars for pumping carcinogenic toxins into low-income communities of color

Diamond Offshore Drilling, Inc.

Received: \$9.7 million in tax refunds

In Return: Gave executives \$9.7 million in bonuses before filing for bankruptcy and laying off workers

Whiting Petroleum

Received: Debt included in Exchange Traded Funds

In Return: Paid out \$14.6 million to executives before filing for bankrupt

Chevron

Received: \$18 million in bond purchases

In Return: Laid off thousands of workers; currently [being sued](#) by the City of Baltimore for "property damage, economic injuries and impacts to public health"

Exxon

Received: \$19 million in Fed bond purchases

In Return: Laid off 14,000 workers; also [being sued](#) by the City of Baltimore

Using Existing Authority To Address Wall Street's Role In The Climate Crisis

In addition to discontinuing support for the fossil fuel industry, fighting climate change will require the Federal Reserve and other financial regulators to use their broad authority under their organic statutes and the [Dodd-Frank Act](#) to police industry behavior that is actively exacerbating the climate crisis. Their role in mitigating climate change should continue beyond COVID-related stimulus and into all aspects of the regulatory infrastructure. By holding companies, banks, and other financial institutions accountable, regulators can make our economy and our environment more stable.

Congress, using legislative, oversight, and engagement capabilities, should compel the Federal Reserve and other relevant agencies to integrate climate change into microprudential and macroprudential risk regulation. This includes:

- **Integrating climate into risk-based capital requirements:** Financial institutions, many of which received financial support in COVID relief packages, are already required to maintain a risk-based capital ratio. Rules should be updated to increase risk weights for potential capital-intensive losses based on financial climate risks.
- **Conducting stress tests:** Currently, the Fed conducts “stress tests” on financial institutions to ensure they possess the capital to withstand adverse economic conditions. Regulators should incorporate climate-related losses and basic climate risks to examine whether our financial system is adequately prepared to withstand climate shock and transition pathways. Rep. Sean Casten (D-IL) and Sen. Brian Schatz (D-HI) [have previously introduced legislation](#) to establish such a policy.
- **Increasing margin requirements:** Dodd-Frank gives the Fed the ability to limit securities purchases made with borrowed money. To prevent defaults and minimize losses, the Fed could increase requirements on margin collateral to add leverage to contracts involving fossil fuel assets.
- **Imposing size caps on assets:** Section 165 of Dodd-Frank gives the Fed broad discretionary authority over the largest bank holding companies and designated systemically important financial institutions; this authority could be used to cap the overall size or growth of climate-harming assets in lending and investment portfolio.
- **Mandating divestiture:** Section 121 of Dodd-Frank allows the Fed to designate some financial institutions as “grave threats” to financial stability and, with the approval of the Financial Stability Oversight Council (FSOC), impose limitations on investment amounts or force divestiture. An empowered Federal Reserve could force large bank holding companies, insurers, and asset managers to divest from assets that exacerbate climate change.
- **Applying broad federal regulation:** Compel all federal regulators (Treasury, SEC, Federal Trade Commission, Commodity Futures Trading Commission, FSOC, Office of the Comptroller of the Currency) to apply prudential standards for all activities that create or increase financial risk, including climate change. This would push agencies to use all available tools to enforce standards and regulations related to financial risks of climate change.

Conclusion

As policymakers debate how to sustain a recovery from the COVID-19 recession, we cannot ignore climate crisis mitigation for the sake of economic stimulus. We are at a crossroads, with a rare opportunity to address two crises, climate and economic catastrophe, at once. We must craft economic packages that capitalize upon that opportunity.

Doing this, however, requires shifting the balance of power in the economy. Over the last five decades, corporations have steadily strayed from behavior that builds shared prosperity in favor of practices that maximize profit extraction—prioritizing short-term profit over long-term economic and environmental stability. The shock caused by the COVID-19 crisis has demonstrated the devastating consequences of such instability, and as climate change makes such shocks more frequent, our economy must put workers and families at the forefront.

Future stimulus and relief aid can achieve this. By providing meaningful checks on extractive corporate power, policymakers can lay the groundwork for a new economy that is built on equitable growth, worker power, and environmental sustainability.

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