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D.C.'s clean-energy conundrum

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President Barack Obama speaking at a wind farm, in Haverhill, Iowa, on August 14, 2012.
Credit: REUTERS/Larry Downing

(Reuters) — Few issues are now as politically polarizing as the role of government in supporting clean-energy technologies. It pits those concerned about global warming against climate science skeptics; those who see government playing a role in shaping a new industry against those who support a free-market approach; and clean-technology funders and technologists against incumbent energy interests.

These debates only heated up during the presidential campaign, as promises of new clean-technology jobs faced off against reports of failed green technology companies. For some, "clean energy" is synonymous with "government overreach."

Yet the need is great for domestic energy production that is reliable, safe and affordable. The United States needs innovative solutions that help Americans use energy more wisely.

The first critical step, particularly in today's political climate, is to recognize that previous efforts, no matter how well intentioned, need to be updated. There are smarter ways to support important innovations without pushing us over the "fiscal cliff." Clean technologies are likely to be the next great industry and economic success story. Whether that happens in the United States or not is up to us.

The question now is how to do this in a financially prudent way. There are no more blank checks, and no more patience for promises of green jobs. The Jan. 1 fiscal cliff deadline is just the first in a series of bracing negotiations over government spending and tax policies. Given this environment, there is little doubt that clean-technology funding and support will be put to the test.

Yet there is a clear role for government to play at this critical stage of the industry's development — even while recognizing

new budgetary realities. Democratic and Republican leaders should be able to get behind three basic principles that will help provide sensible, targeted support for this growing sector of the economy.

First, government should adopt performance standards — covering fuel economy, electricity reliability and building efficiency, for example — rather than focusing on subsidies and direct investments. Performance standards spur demand and encourage flexibility in the development of technological solutions.

Corporate average fuel economy (CAFE) standards demonstrate how government mandates can drive technological improvements in a free-market structure. By setting goals for fuel economy in carmakers' fleets, CAFE standards allow automakers to find their own path to meeting the mandate through their choice of technology, materials or vehicle size. They can also use economic strategies to achieve compliance — for example, by subsidizing the purchase price of a vehicle model that exceeds the mandate, thereby making room for vehicle sales that miss it.

Second, we need smarter subsidy programs and tax policies that encourage private investment to bring clean technologies to market.

Production tax credits (PTCs) and investment tax credits (ITCs) have been instrumental in the solar and wind energy industries in encouraging capital to come in off the sidelines and fund new projects. While these credits have been instrumental in the adoption of these technologies, critics see them as never-ending.

To address this, ITCs, PTCs and other subsidy programs should be phased out as the technologies they support reach certain milestones tied to price, performance or some other competitive metric. Structuring subsidies in this way should eventually lead to a level playing field as clean technologies mature to the point where they can compete on their own.

The tax code should also be fixed to remove obstacles preventing renewable energy projects from benefiting from financial structures that have worked for other industries, such as master limited partnerships in the oil and gas sector, and real estate investment trusts in property development.

Third, government agencies should help build the market by installing clean technologies in their facilities. The federal government owns or leases more than 500,000 buildings and spends more than $7 billion a year on energy. State and local governments account for an additional $11 billion a year on building-related energy bills. That is before expenses tied to government vehicle fleets are factored in.

Government organizations across the nation already play a key role in the growth of clean energy as early adopters — driving demand through their purchasing decisions and helping manufacturers achieve the cost efficiencies that come from greater scale.

These policy recommendations are just a start, however. More needs to be done to address underinvestment in federal research and development, support regional innovation clusters and create financing mechanisms to serve the clean-tech industry.

These initial steps can generate the successes needed to support new policy measures.

Financial experts often warn that past performance does not necessarily indicate future success. The same is true of government. Government involvement isn't anathema to success in this vital sector.

The sooner we recognize this, the sooner clean technologies will help us attain our energy — and environmental — goals.