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**THE WALL STREET JOURNAL**

WSJ.com

AUGUST 19, 2009, 5:29 P.M. ET

# Conservatives Question Clean-Energy Bank Plan

By **SIOBHAN HUGHES**

WASHINGTON -- Is it **Fannie Mae** all over again?

That is the question circulating among fiscal conservatives as the U.S. Congress seeks to create an agency to finance as much as \$500 billion of clean-energy projects. With last fall's government takeover of housing financiers **Fannie Mae** and **Freddie Mac** fresh on their minds, conservatives are worried that a "clean energy bank" will repeat past mistakes.

"There is no way to determine whether such a program will be a little mistake or a big mistake," said Dan Mitchell, a fellow at the Cato Institute, a libertarian think tank. "But it will be bad news for the economy."

The Clean Energy Deployment Administration, a proposed program tucked into legislation that has advanced in both chambers of Congress, would operate within the U.S. Energy Department. The goal would be to guarantee loans or lend money directly to energy-project developers. Though it would start with as much as \$10 billion in its first year, the goal would be to provide enough money -- \$50 billion -- to support \$500 billion worth of loans.

Large companies see the need for such a program given the damaged credit markets.

"Whether it's renewable energy projects like wind, solar or geothermal, these are capital-intensive projects that really need long-term, low-cost financing," said Kevin Walsh, the leader of power and renewable energy at GE Energy Financial Services, a unit of **General Electric Co.** He said that banks are reluctant to provide such loans, and that a clean-energy bank would ease such reluctance.

On one level, the proposed clean-energy bank and **Fannie Mae** couldn't be more different. **Fannie Mae** and sibling **Freddie Mac** have operated off budget for decades, something that the White House may end now that the U.S. has pumped more than \$80 billion into the companies to keep them afloat. In contrast, loans guaranteed or offered by the clean-energy bank would be included in the federal budget, meaning that Congress would have to focus on whether borrowers were in arrears.

"In that way it is better than **Fannie Mae** and **Freddie Mac** because Congress really would have to keep track of what they are doing," said Peter Wallison, a fellow at the American Enterprise Institute, a conservative-leaning think tank.

In another sense, the clean-energy bank and the housing financiers are of a piece. Each has a public mission, whether it be spurring homeownership or encouraging alternative energy. Each can trace its origins to periods of government intervention in the U.S. economy, with **Fannie Mae** created in the 1930s after the depression. And each raises fears about distortions in the markets.

"Government specifically does not have the skills to allocate capital," said Mike Eckhart, the president of the

American Council on Renewable Energy. He says that a market-based system works because "skilled people" compete for resources "hour by hour." He says "that function cannot be replaced by a few dozen people in a building in Washington." He favors a limited government role in financing energy projects.

John Podesta, the Center for American Progress head who led President Barack Obama's transition team, says that a clean-energy bank is "well within the limit of the economy to absorb" and wouldn't crowd out private capital. "It's not an open-ended investment."

He also says that a clean-energy bank is "critical" if companies are to invest in a next generation of energy projects. In economic theory, government intervention is necessary to deal with negative externalities -- costs that markets don't factor in. Emissions from power plants and cars are among such problems, as the damage to the environment isn't fully reflected in the costs of producing electricity or transportation.

AEI's Wallison sees parallels to the Energy Independence Authority, launched under the Carter administration to offer as much as \$100 million for new energy projects.

The money was supposed to gasify and liquefy coal for transportation and electricity, said Wallison. But by the time a coal-gasification project was built in North Dakota, the gas to be produced from coal was much more expensive than natural gas, he said.

"That is going to happen to any of these plans that the administration or any people in Congress have," Wallison said. "The government will just end up eating the costs because these things very seldom wind up being economically viable."

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