

# Malinvestment in Energy

## How Incentivizing Renewable Energy Is Causing Capital Malinvestment

By Jonny Watt  
May 2019

**Capital Malinvestment: “a mistaken investment in [the] wrong lines of production, which inevitably leads to wasted capital and economic losses, subsequently requiring the reallocation of resources to more productive uses.”**

(Mises Wiki)



# Causes of Capital Malinvestment

## Monetary Policy

- ▶ The Federal Reserve causes capital malinvestment by altering interest rates, thus distorting market signals, resulting in investment in the wrong lines of production
- ▶ Credit expansion caused by fractional reserve banks assist in this process

## Fiscal Policy

- ▶ Government can also cause malinvestment by offering incentives to certain industries or businesses
- ▶ These subsidies primarily take the form of subsidies or tax breaks

# Subsidies for Wind Energy: The Production Tax Credit (PTC)

- ▶ A federal subsidy that provides a \$24 tax credit for every megawatt-hour (mWh) of renewable energy sold
- ▶ Cost taxpayers \$17.1 billion in the last 10 years
- ▶ Another \$48 billion in taxpayer funds by 2029
- ▶ From 2008 to 2019, PTCs to corporate wind energy producers have increased from \$600 million to \$5.4 billion

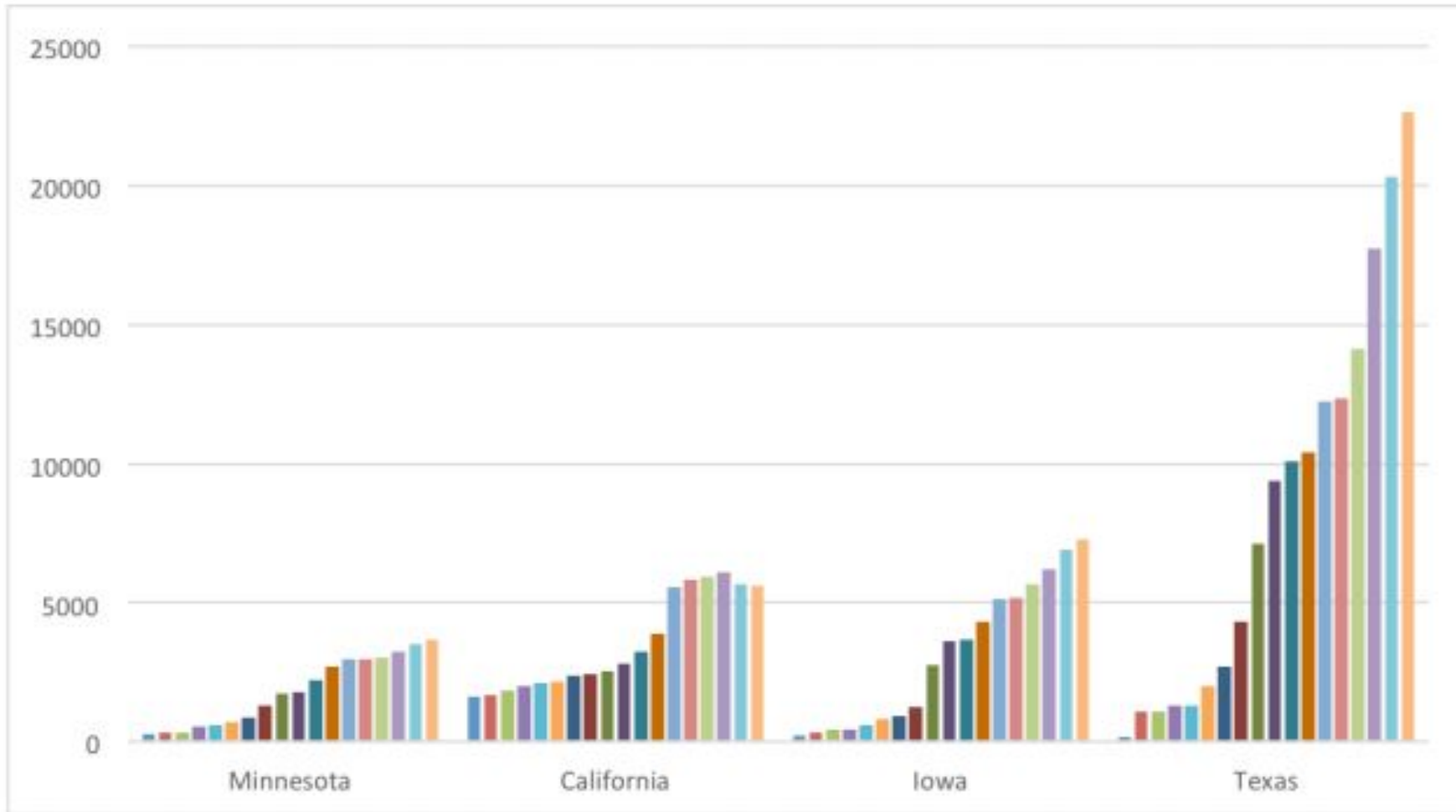
# Renewable Energy Tax Abatements

- ▶ Chapters 312 and 313 of the Texas Tax Code grant property tax abatements to manufacturing, renewable energy projects, and other public utilities
- ▶ The combined cost of these projects falls between \$790 million to \$1 billion every year
- ▶ Renewable energy projects make up 57% of all 313 agreements

# The Rise of Renewable Energy in Texas

- ▶ In 1999, Texas only produced 184 megawatts of wind energy
- ▶ After pouring over \$18 billion in federal, state, and local subsidies into the industry, Texas now produces nearly 23,000 megawatts of wind energy—a 12,400% increase
- ▶ This kind of increase is unprecedented and unmatched by any of the U.S.'s wind states (see figure 1)

Figure 1. Wind states in megawatts, 2000-2017

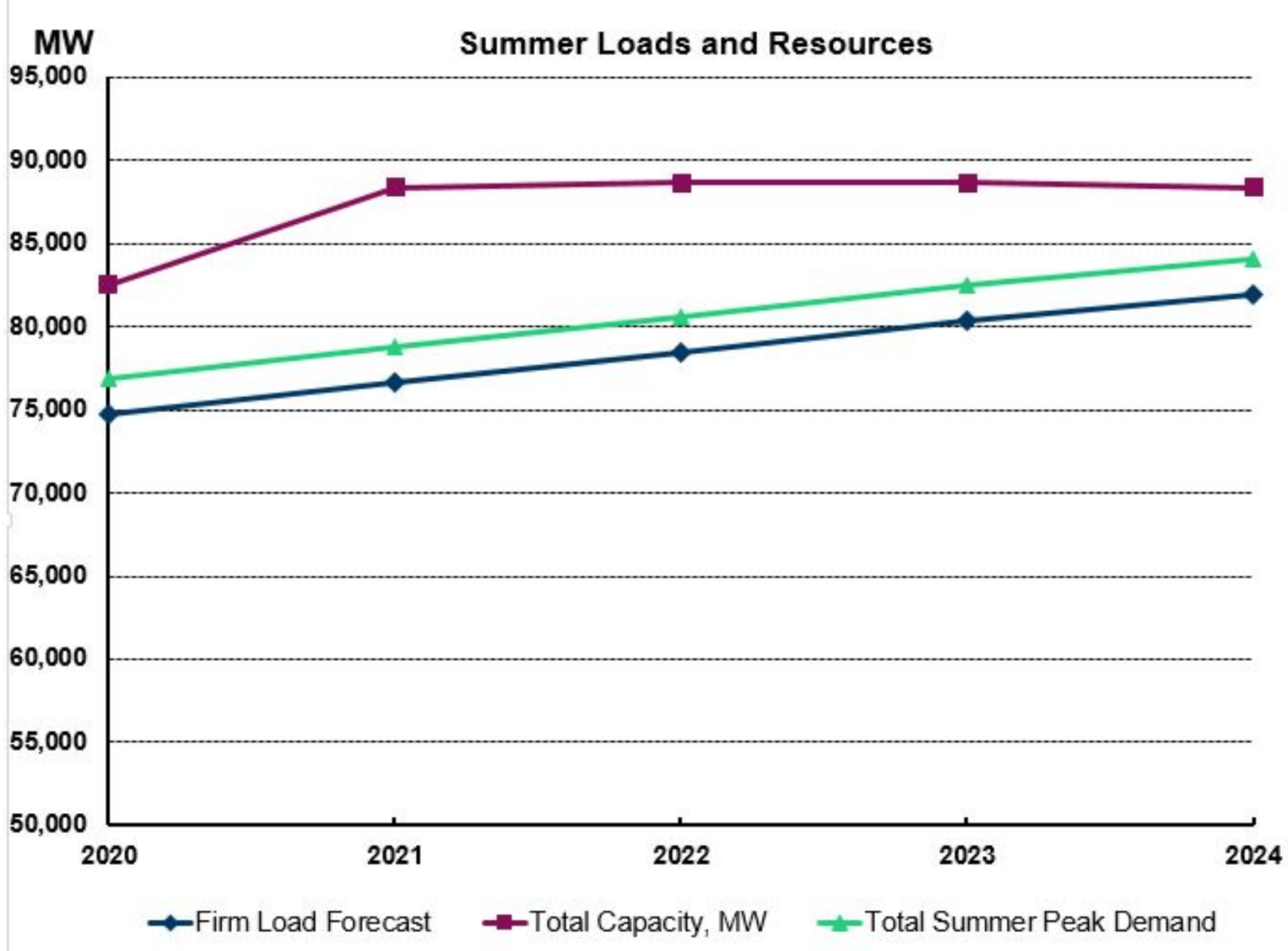


Source: The U.S Department of Energy WINDEXchange

# Additional costs of Renewable Energy Subsidies

- ▶ Local residents find it nearly impossible to sell property
- ▶ Decreased energy reserve margins
- ▶ Additional PUCT “tax” to address shortages





## ERCOT Capacity, Demand, and Reserves Report

# Next Steps: Correcting Malinvestment

“The result of the artificial boom and buildup of malinvested capital is a misalignment in the capital structure of the economy. To rectify this situation, the malinvested capital needs to be reallocated. The reallocation of capital to a sound production structure is the liquidation phase of the business cycle (a.k.a. "the recession"). The liquidation phase is necessary to realign the capital structure.”

[www.TexasPolicy.com](http://www.TexasPolicy.com)