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Biden's Big Plans Bypass Green-Linked Debt That Investors Crave.

Joe Biden wants to spend his way to a greener and more sustainable future for America. For now though, he'll probably be financing it the old-fashioned way — with taxes and traditional bonds.

None of the \$21 trillion Treasuries market includes bonds linked to the funding of environmentally-friendly projects, despite a seemingly insatiable investor hunger for these new types of ethical assets.

Germany, France and Italy have capitalized on it, and the U.K. and Canada are both planning debuts. In the U.S., municipalities have been selling record amounts of green bonds, but the world's largest seller of debt is conspicuously absent.

It's more than a little ironic. Biden needs trillions of dollars and global investors are only too happy to pour cash into the world's safest bonds. Such debt could be splashed on new power grids to avoid the kind of chaos seen in the Texan deep freeze this year, or electric-vehicle charging for the fleet of Tesla Inc. devotees.

Yet officials haven't publicly floated the idea of green Treasuries, with Treasury Secretary Janet Yellen saying private capital must fill most of the funding gap.

Biden's infrastructure plans and climate agenda come at a time when green bonds have become one of the fastest-growing corners of international finance, with issuance above \$200 billion so far this year.

The coronavirus crisis has accelerated the trend, since governments and companies are trying to spend their way to a recovery as well as transition to lower carbon economies. While the administration could easily raise funds from existing borrowing and taxes, debt linked to sustainability projects is a way for many issuers to signal that the money is going into good causes.

Green debt "fits the Biden agenda and investor demand would be strong," said Ronald van Steenweghen, a money manager at Degroof Petercam Asset Management in Brussels.

In the absence of a move from the federal government, regional administrations in America have already pushed ahead.

Last year saw a record of around \$20 billion of green bonds, according to data compiled by Bloomberg show and the municipal debt market may be headed for a second straight year of unprecedented environmental debt issuance, spurred in part by the conversation around Biden's plans.

The Washington Metropolitan Area Transit Authority just sold \$874 million in green bonds, while the New York Metropolitan Transportation Authority is one of the biggest issuers.

Still, that's a small slice of the \$3.9 trillion U.S. municipal market, where states and localities raise money for transport, schools and housing. And it's minuscule compared to the behemoth that is the funding done by the U.S. Treasury, which has historically tended to take a very long time to ponder any changes to its debt lineup.

Proposals to extend bond market maturities beyond the current limit of around 30 years have been floated repeatedly and gone by the wayside, while the idea of issuing debt linked to a replacement for the discredited Libor benchmark has been kicked around for more than a year.

Green Treasuryies seem "quite far away at the moment," said Gennadiy Goldberg, senior rates strategist at Toronto-Dominion Bank. "I wouldn't be surprised to see the Treasury explore the issue at one of their upcoming refunding meetings, but would suspect even such exploration would take a back seat to more timely issues."

Treasury department spokeswoman Lily Adams declined to comment on whether the U.S. was considering issuing green bonds.

Slow Hurdles

The lack of commitment hasn't stopped investors from salivating over the prospect of the world's biggest borrower joining the green rush in coming years. Issuers are managing to lower their costs, since the scramble for these assets creates a so-called "greenium", as well as boost their image.

To start issuing, the U.S. Treasury would need to create a mechanism to separate the funds raised from green securities from those in the general account, and a framework for what the money could be spent on. That would also take time.

In the European Union, set to become the world's biggest green issuer, technocrats aim to publish green bond standards this summer, after political leaders first proposed the debt back in September.

Political divisions within government could also prove a roadblock. There is a risk that any future administration would discontinue the program, undermining the Treasury's "stable and predictable" mantra, Toronto-Dominion's Goldberg said. Officials are also likely to be aware of the potential liquidity implications, he added.

Some senators are pushing for muni-bond subsidies for infrastructure, similar to former President Barack Obama's "Build America" bonds that were sold in 2009 and 2010 to help the economy recover from the financial crisis. Others are trying to create a national green bank.

"Another Build America Bond type program would be the easiest way to get a green type bond out there," said Amar Reganti, a managing director at Wellington Management and a former deputy director of the Treasury's Office of Debt Management. "The government could kick start a green bond type program through state and local governments, getting those expenditures out faster."

Ultimately it may come down to how much top-level political support there is for green Treasuries. In the case of the U.K., last year its debt office appeared uncertain over the need for separate green debt, but a push by parliamentarians and ministers looks set to deliver green gilts before the U.K. hosts a major United Nations climate summit this year.

Biden needs to prove to the world that the U.S. is showing climate leadership to overcome a credibility gap, after his predecessor Donald Trump pulled out of the Paris accord on greenhouse gas emissions.

His plans have drawn criticism from the likes of Alexandria Ocasio-Cortez for not going far enough on the environment, so green debt could be a way to show the government is putting its money where its mouth is.

“No other administration has ever talked about climate and the environment as much as this group,” said Ian Katz, an analyst at Capital Alpha Partners in Washington. “The way this administration approaches things on ESG and climate is ‘let’s go as far as we can.’”

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