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).
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
“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.”

Paul F. Cwik “The Liquidation Phase and Profit Margins” Mises Institute