Does Environmental Policy Uncertainty Hinder Investments Towards a Low-Carbon Economy

Author:Joelle Noailly, Laura Nowzohour, Matthias van den Heuvel

Date:2022-08-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30361)

Attachment:[click here](https://www.nber.org/system/files/working_papers/w30361/w30361.pdf)

From:NEBR-working\_paper

We use machine learning algorithms to construct a novel news-based index of US environmental and climate policy uncertainty (EnvPU) available on a monthly basis over the 1990-2019 period. We find that our EnvPU index spikes during the environmental spending disputes of the 1995-1996 government shutdown, in the early 2010s due the failure of the national cap-and-trade climate bill and during the Trump presidency. We examine how elevated levels of environmental policy uncertainty relate to investments in the low-carbon economy. In firm-level estimations, we find that a rise in the EnvPU index is associated with a reduced probability for cleantech startups to receive venture capital (VC) funding. In financial markets, a rise in our EnvPU index is associated with higher stock volatility for firms with above-average green revenue shares. At the macro level, shocks in our index lead to declines in the number of cleantech VC deals and higher volatility of the main benchmark clean energy exchange-traded fund. Overall, our results are consistent with the notion that policy uncertainty has adverse effects on investments for the low-carbon economy.