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Quantifying Risks to the Federal Budget from Climate Change

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Last week, the President released his [FY 2023 Budget](#). In it, the President lays out a clear set of values – that the United States must invest in our economy and people. In doing so, we will not only grow the economy, but we will reduce the deficit and improve the country’s long-term fiscal outlook. The need to invest in our Nation’s future is especially true when it comes to the unprecedented risks we face from the climate crisis – and the opportunities we can create through action.

Climate change threatens communities and sectors across the country, including through floods, drought, extreme heat, wildfires, and hurricanes that affect the U.S. economy and the lives of everyday Americans. Estimated damages from a subset of these events have grown to about \$120 billion a year over the past five years. Future damages could dwarf current damages if greenhouse gas emissions continue unabated.

The Federal Government plays a critical role in helping American families, businesses, and communities recover from the impacts of extreme weather events – often acting as an insurer of last resort. Growing damages from extreme weather events would add new pressures on the Federal budget and taxpayers.

To better understand and address these risks to taxpayers and the Federal budget, last May, the [President directed](#) the Office of Management and Budget (OMB) to develop and publish annually an assessment of its climate-related fiscal risk exposure, as well as develop new methodologies to quantify climate risk within the Federal government’s economic assumptions.

Today, for the first time in history, OMB is formally accounting in the Federal Budget for risks of climate change. OMB is publishing two new assessments, Federal Budget Exposure to Climate Risks and a new section in the Long-Term Budget Outlook focused on climate change. The first of these chapters is supported by an OMB white paper. Additionally, OMB and the Council of Economic Advisers have released a white paper that outlines how better modeling of the broader economic impacts of climate change can help to quantify economic and fiscal impacts of climate change and climate action.

What Our Initial Assessment Found – Fiscal Risks of Climate Change

The fiscal risk of climate change is immense. An analysis by the Network for Greening the Financial System estimated that, under current policy pathways, climate change could reduce U.S. GDP by 3 to 10 percent by the end of this century. The new Budget analyses found that, at the upper end of that range, climate change could lead to an annual Federal revenue loss at the end of the century of 7.1 percent, which in today's dollars would equal \$2 trillion per year. Furthermore, the analyses found that, the Federal Government could spend between an additional \$25 billion to \$128 billion annually on just six types of Federal expenditure: coastal disaster relief, flood insurance, crop insurance, healthcare insurance, wildland fire suppression, and flooding at Federal facilities. A few specific examples of these potential impacts include:

- Federal expenditures on crop insurance premium subsidies are projected to increase 3.5 to 22 percent each year due to climate change-induced crop losses by the late-century, the equivalent of between \$330 million and \$2.1 billion annually.
- Increased hurricane frequency could drive up spending on coastal disaster response between \$22 billion and \$94 billion annually by the end of the century.
- Rising wildland fire activity could increase Federal wildland fire suppression expenditures by between \$1.55 billion and \$9.60 billion annually, the equivalent of an increase between 78 percent and 480 percent, by the end of the century.
- Over 12,195 individual Federal buildings and structures could be inundated under ten feet of sea level rise, with total combined

replacement cost of over \$43.7 billion.

Budget Actions We Must Take

The need for urgent action is why the President called on Congress in the State of the Union and through the Budget to advance legislation that decreases energy prices, combats climate change, and grows the clean economy. The President's Budget for fiscal year 2023 invests \$44.9 billion to tackle the climate crisis, an increase of nearly 60 percent over FY 2021. This includes more than \$15 billion to increase clean energy innovation and deployment and further U.S. competitiveness through innovative technologies that accelerate the transition to a clean energy economy, including more than \$7 billion to help reduce greenhouse gas emissions in the power sector and over \$3 billion in the transportation sector. The Budget also includes more than \$5 billion in mandatory funding for the Department of Transportation to support the transition to a clean transportation sector. Additionally, the Budget includes more than \$18 billion to strengthen climate resilience and adaptation efforts across the Federal Government and protect communities from climate change impacts. Funding these activities will not only help confront the risks created by the climate crisis, but help ensure that 40 percent of the benefits from climate and clean energy funding is directed through the Justice40 Initiative toward addressing the disproportionate impacts of climate change on disadvantaged communities.

Investments to confront the climate crisis will reduce greenhouse gas emissions, drive down clean energy prices, make our Nation more resilient, present new opportunities for American innovation and well-paying jobs, provide benefits to historically underserved communities, and work to protect against the long-term fiscal risks identified in the new Budget analyses released today.