Discussion of

“Climate Risk and Corporate Investment: Transmission Mechanisms and Heterogeneous Effects”

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The paper in one slide

Question. Does economy-wide climate risk change how much firms invest, and why?

Design. US public firms 1985–2017; climate risk = share of Wall Street Journal news about climate (Engle et al. 2020); the 2006 Stern Review as a salience shock.

Findings. More climate news → less capex, but only before 2006. After Stern, brown firms cut capex less than green firms and lower their emission intensity.

My take: important question, careful data work. The Stern evidence is the most interesting part; the time-series result needs a harder look.

Comment 1: What does the climate-news coefficient capture?

One series, about 130 quarters. Every firm sees the same climate-news number, so the 418,000 firm-quarters do not add identification. Anything that moved with WSJ climate coverage over 1985–2017 loads on it.

Two shifts at once. WSJ climate coverage was flat until about 2001, then rose; capex fell from 9% of assets (2000) to under 5% (2002–2003). One shift lines up with the other, with no climate content needed, and looks "persistent" for 25 quarters (Figure 1).

Timing runs the wrong way. The effect exists only before 2006, when climate news was thin, and vanishes once climate risk became real.

Attention is not uncertainty. The index counts how much climate is in the news; the wait-and-see (real-options) story needs uncertainty about outcomes.

Comment 1 (cont.): Size, instruments, and fixes

Too big? One SD of news = −8% of average capex, 3× policy uncertainty. The instrument version is 4.5× larger (−4.69 vs −1.03, Table A1): −37% of average capex.

The instruments share the problem. Global temperature also trends up and hits firms directly. Hurricane Katrina tests storm damage, not climate news.

Fixes

Show the picture: climate news and average capex over time, with and without a trend.

Placebo news indices with similar trends (WSJ share on technology, China): do they also "cut investment"?

Lead with differences across firms within the same quarter (Tables 4–7, 12 already do this).

Comment 2: What does the Stern Review comparison show?

Show the green firms. The result is relative: did brown firms keep investing, or did green firms cut? Plot capex of the brownest vs greenest quartile around 2006.

Real options predict green firms wait: they are not in the regulators' sights, so they can delay; brown firms cannot.

A crowded window (2004–2009): oil boom, An Inconvenient Truth, IPCC 2007, the financial crisis. The gap peaks in 2007 and fades (Figure 2). Why a UK report for US firms?

Fixes: placebo dates; industry × quarter effects; compare UK/EU firms, where Stern was more salient.

Comment 3: What do brown firms do with the money, and why?

What they do

Intensity = emissions / revenue. Commodity prices lifted brown firms' revenue in 2006–2008, so intensity falls without abatement. Show absolute emissions.

Early Trucost emissions are mostly estimated from industry and size, not reported.

"Cleaner production" is inferred, not seen. Capex is a total: what is it spent on?

Why they do it

Internal or external? Shareholder proposals and regulation are both called "stakeholder pressure". Put both in one regression.

Capex vs R&D. Missing R&D is set to zero, so the R&D null says little. If it holds on R&D reporters, use it as a falsification test.

Minor comments

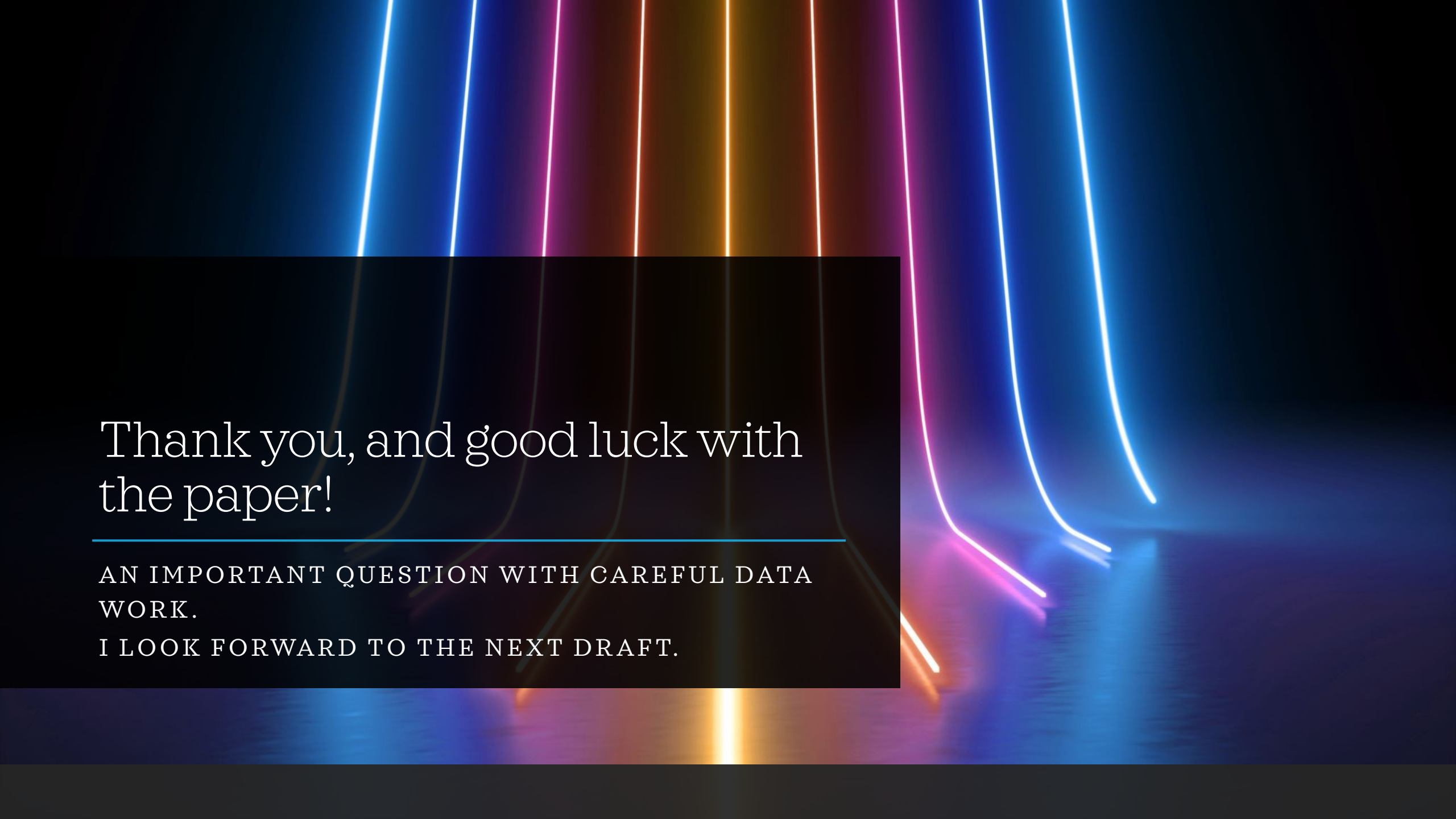
Quarterly capex looks year-to-date. Table 1 (mean 3.47, median 1.80, max 27.3) matches Compustat's cumulative capex (3.32, 1.64, 27.7), not true quarterly capex (1.42, 0.76, 12.2).

Firm-level exposure (Section 6) could be a third term in Eq. (1), but the evidence is thin: 10% significance, one horizon, data from 2002.

Instrument description: the appendix says the second stage uses first-stage residuals; Table A1 says 2SLS. Which is it?

R&D zeros: report the share of firm-quarters with R&D set to zero.

Typos: "Section ??" (fn. 2), "We also re-estimating" (p. 17).



Thank you, and good luck with the paper!

AN IMPORTANT QUESTION WITH CAREFUL DATA WORK.

I LOOK FORWARD TO THE NEXT DRAFT.