

# **The US Inflation Reduction Act: context, overview, economic implications**

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# US Inflation Reduction Act: Der Wolf im Schafspelz

Lesedauer: 13 min



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Quelle: <https://www.dezernatzukunft.org/us-inflation-reduction-act-der-wolf-im-schafspelz/>

**Context and overview**

**Implications**

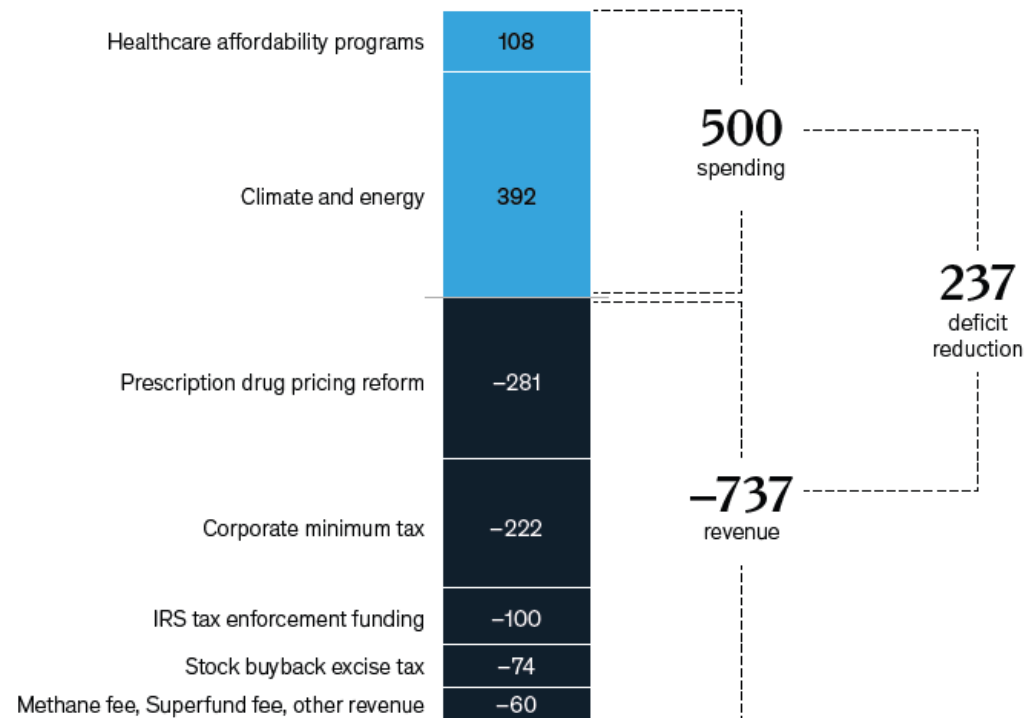
# Context: after a failed cap-and-trade bill under Obama, Biden agenda focuses on investment, standards and justice

## Background

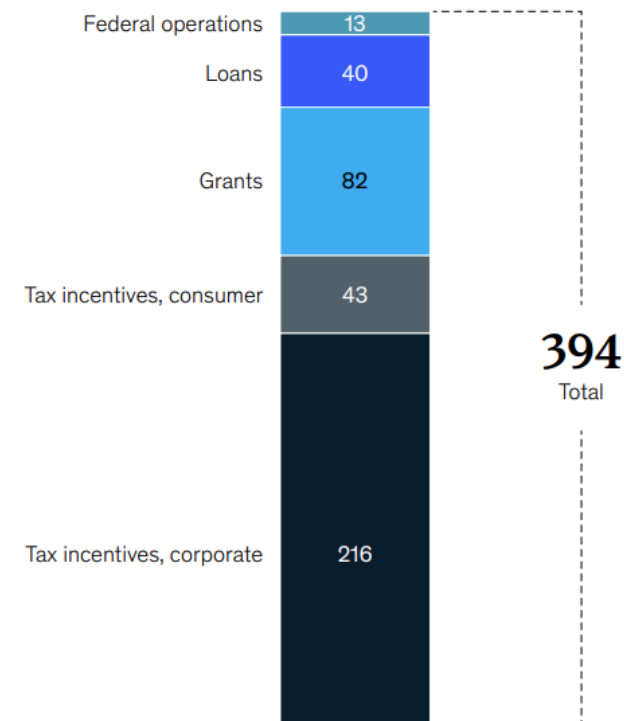
- Failed Obama cap-and-trade bill in 2009 and, subsequently, climate policy mainly via presidential decrees
- Near standstill during Trump-presidency, at the same time alignment within climate and left-centre community around the need for a Green New Deal
- Biden's Build Back Better agenda with a strong focus on investments, standards (local content, wage, etc.) and social justice
- Inflation Reduction Act as a result and compromise between Democrats' left and right wing with a partial focus on deficit reduction

# IRA: Deficit reduction, sizable climate and industry funding, significant macro implications

IRA provisions, CBO estimate (USD billion)



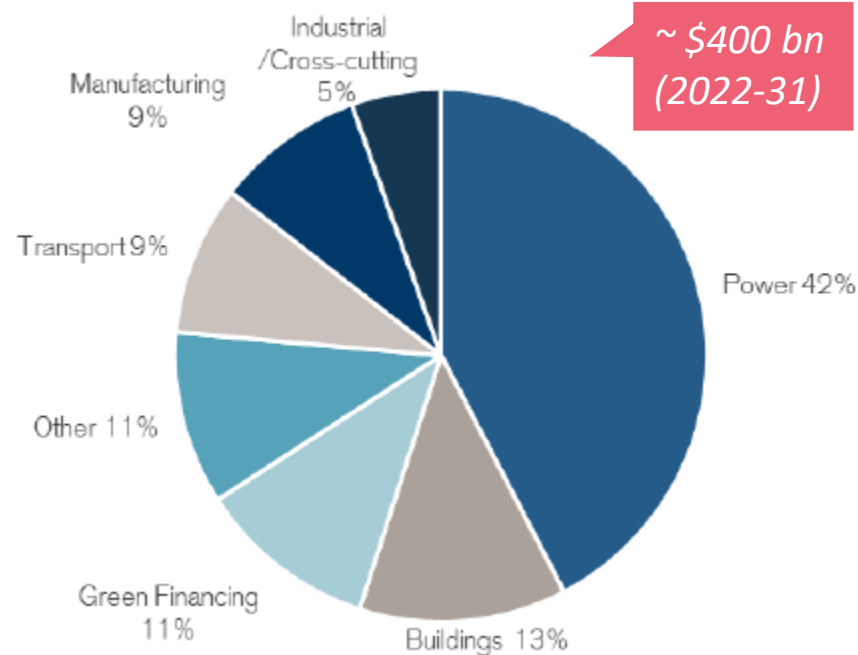
Energy/climate funding, CBO estimate (USD billion)



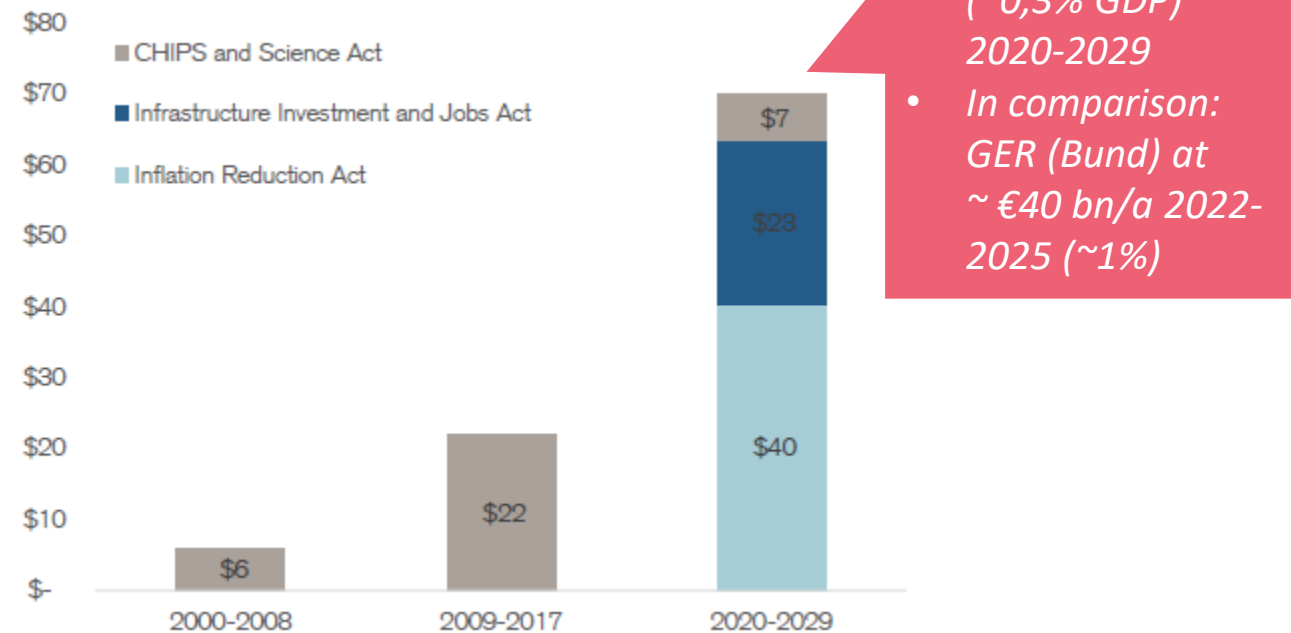
Quelle: McKinsey 2022, <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-inflation-reduction-act-heres-whats-in-it>

# Climate spending in context: tripling of historic US spending to ~0,3% of GDP, but less than Germany which stands at ~1%

Breakdown of IRA provisions, CBO estimate



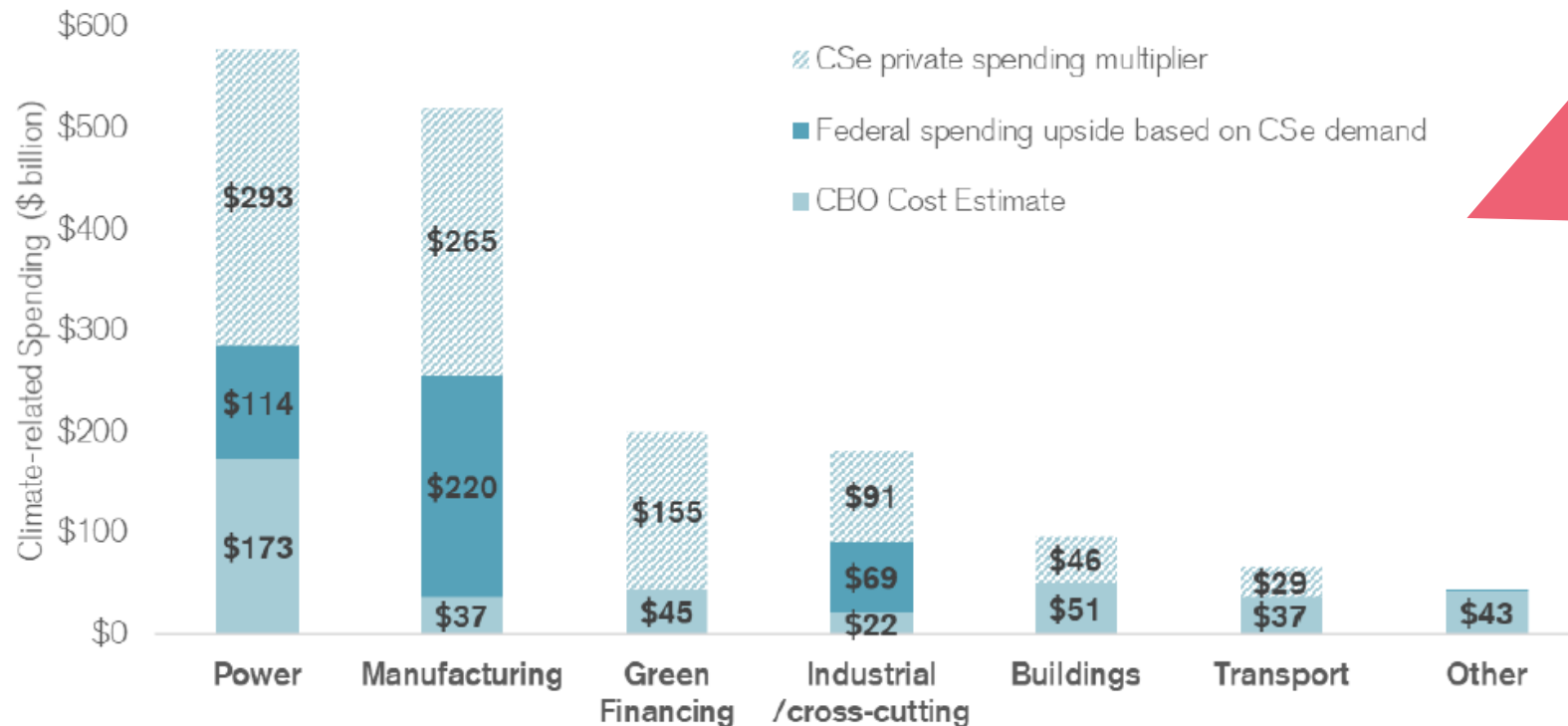
Federal government's average annual climate spending (in billion USD)



Quelle: Credite Suisse 2022, IRA – A tipping point in US climate action

# Climate spending in context: doubling of CBO estimate possible, as most tax credits are uncapped

Potential public and private climate spending – Credit Suisse estimate (in USD billion)



- Large upside potential: +\$400 bn 2022-2031 based on CS demand estimate
- Public/private-multiplier of >1 resulting in total climate spending of up to \$1,7 trillion (7% GDP)

Quelle: Credite Suisse 2022, IRA – A tipping point in US climate action

# Instruments: tax credits, local content and wage standards, loan and guarantee programmes

## Tax credits

- Power: electricity production tax credits, investment tax credits, nuclear production tax credits
- Hydrogen, CCUS, advanced industrial facilities: hydrogen production credits, CCUS credits
- Transport: clean vehicle credits, commercial clean vehicle credits, EV charging credits, alt. fuels credits
- Manufacturing: Advanced manufacturing tax credits (PV, wind, batteries, minerals, etc.), other small grants
- Buildings: Enhanced non-business energy property credits, residential clean energy credits, other
- Other: grants/loans for conservation, agriculture, drought mitigation use

## Standards

- „buy american“: Domestic content benefits, e.g. +10% EPTC; requirements, e.g. threshold for critical minerals for EV-batteries or battery components manufactured in US
- Wage: Prevailing wage and apprenticeship requirements
- Social: Plus 10% if projects are in energy fossil fuel community

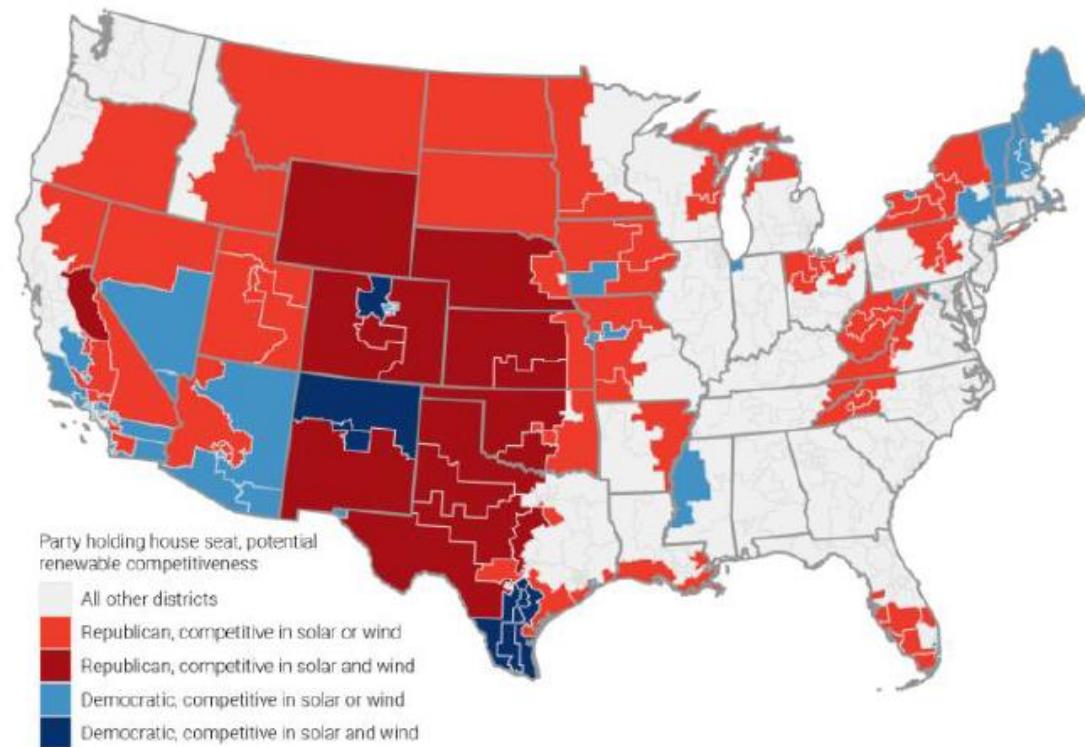
## Loans/guarantees, +\$350 billion leveraged

- Expansion of DOE's Loan Program Office, leveraging ~350 billion USD in loans and guarantees for clean investments, manufacturing, infrastructure, and social justice energy projects



# Economic interests created by the IRA could make these climate legislations more politically durable

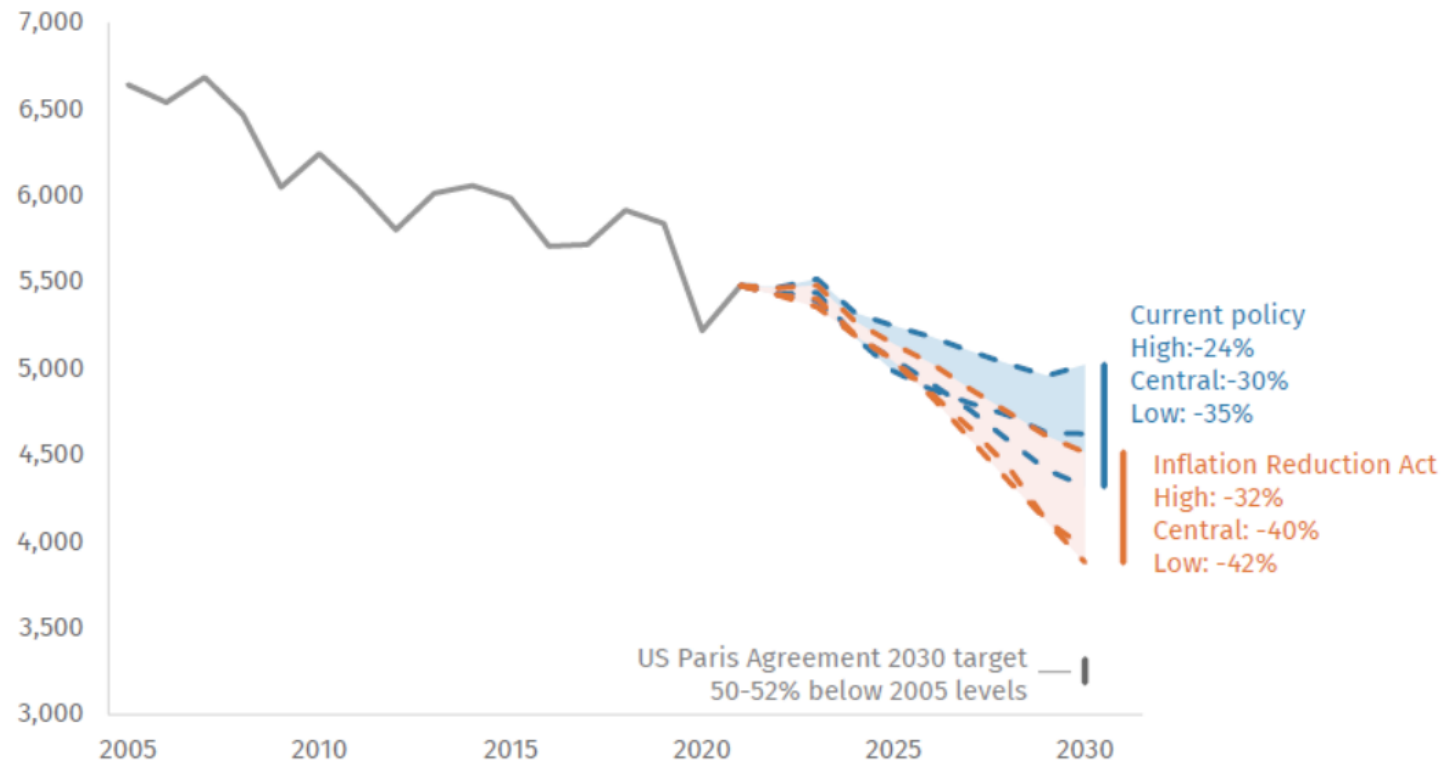
Party representation and renewable energy potential by congressional district



Quelle: Credit Suisse 2022 based on Brookings analysis

# A tipping point in climate action: additional 10% of emission reduction in 8 years, but not yet Paris compatible

US GHG-emissions (million metric tonnes CO<sub>2</sub>-e)



Quelle: Rhodium Group 2022, <https://rhg.com/research/climate-clean-energy-inflation-reduction-act/>

## **Context and overview**

**Implications**

USA STATT DEUTSCHLAND

## Tesla legt offenbar Pläne für Batteriefabrik in Grünheide auf Eis

ELEKTROAUTO-SUBVENTIONEN

„Verräter, Bastarde“ – Wie die USA enge Verbündete gegen sich aufbringen

Milliardensubventionen für grüne Technologie

## 5+ Warum ein Handelskrieg zwischen USA und EU droht

EU trade + Add to myFT

EU demands rapid response to Joe Biden's \$369bn green subsidy package

Berlin proclaims (European) 'year of industrial policy'

# What implications will the IRA have on climate, the EU and Germany?

## Opportunities

- Tipping point in US emission reduction
- Learning effects and cost reductions for clean technologies internationally, race to the top
- Impetus for new European climate/industrial policy agenda, e.g. EU platform for transformational technologies
- Impetus for new European fiscal facility
- New growth opportunities for EU/GER manufactures that fulfil US local content requirements or in those areas that don't require any

## Threads

- Discrimination of EU/GER manufactures selling in US through local content requirements if legislation stays unchanged
- Offshoring of manufacturers from EU/GER to US, e.g. Northvolt
- Uncoordinated, hasty European or national responses that distort EU market and hinder sensible structural change
- Retaliation measures that hurt long-term climate action, e.g. tough green standards that discourage developing countries
- Trade war and escalation that hurts all parties involved

# Contact

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## Annex

# A European response should be truly European and consider long-term economic and climate implications

## Preliminary thoughts

- Paradigm shift underway: from efficiency-driven globalisation towards stronger focus on resilience
- Coordinated, balanced European response needed (beyond FR-GER alignment) instead of national responses
- Non-distorting European fiscal support and new instruments that consider differing economic potentials of member states and do not lock in the current industrial structures (consideration of future renewable energy cost structures in EU/GER, no excessive subsidies)
- Push for new global level playing field that considers new paradigm; development of global climate alliance around common green standards
- EU local content requirements: If used, not tied excessively to environmental performance as this could discourage developing countries' climate efforts and global collaboration