Let’s Acknowledge Inflation Reduction Act’s Significance — And Its Inadequacy

Robert Pollin

The Schumer-Manchin reconciliation bill, called the Inflation Reduction Act (IRA), is a massive piece of legislation that aims to boost the economy and fight the climate crisis. It passed the Senate on Sunday, and is expected to quickly pass the House. On the economic front, the bill will reduce the deficit, close critical tax loopholes exploited by big corporations, and create millions of new jobs over a decade through the implementation of numerous energy and climate measures. The IRA is the most important climate bill in U.S. history. Nonetheless, it is also a bill full of defects, and parts of it will actually make the climate crisis worse, says Robert Pollin, one of the world’s leading progressive economists, in this exclusive interview for *Truthout*. Pollin is distinguished professor of economics and codirector of the Political Economy Research Institute at the University of Massachusetts-Amherst. He is the author of numerous books, including *Climate Crisis and the Global Green New Deal*: *The Political Economy of Saving the Planet*(coauthored with Noam Chomsky), as well as of scores of green economy transition programs for U.S. states (including California, Maine, New York, Ohio, Pennsylvania and West Virginia) and different countries.

C.J. Polychroniou: The IRA is far less ambitious than what was originally envisioned in the Build Back Better Act, but still regarded as a step in the right direction. If it becomes law, it will address some outstanding concerns about

climate, health care and corporate taxes. The agreement would raise approximately $739 billion over 10 years and spend $433 billion over a decade, which means it will reduce the deficit. However, the big winners from this deal will be climate and energy as the IRA pledges $369 billion toward energy security and clean energy. The bill's supporters in Congress state that the climate and environmental measures included in the bill will reduce carbon emissions by 40 percent below 2005 levels by 2030. So, let's start with the climate details in the act. First, is the sum of $369 billion spent over a decade big enough to address an existential threat like global warming? In fact, will the climate and energy provisions incorporated into the bill, which include the requirement that the Interior Department offers at least 2 million acres a year for offshore oil and gas leases, even achieve the designated emissions-reduction target by 2030?

Robert Pollin: The Inflation Reduction Act is the most significant piece of climate legislation ever enacted by the U.S. government. It is also, in itself, not close to sufficient, to move the U.S., much less the global economy, onto a viable climate stabilization path. We need to be 100 percent clear on both points. This is the only way that we can, at once, take maximum advantage of the major resources the IRA will provide to fight the climate emergency while also recognizing the huge areas where the bill accomplishes little to nothing as well as where it actually contributes to worsening the crisis.

First, on the positive side, it is a big deal for the federal government to provide roughly $400 billion over 10 years to fight climate change. To put this into perspective, this is exactly $400 billion more than what had been on the table only three weeks ago. This level of federal support will also encourage at least another $600 billion in private spending. The public funds will leverage private investment through, among other specific programs, tax credits for clean energy investments, consumer rebates for electric vehicle and heat pump purchases, loan guarantees that lower risks to banks for clean energy investments, and a national Green Bank underwritten by the federal government. This would bring total public plus private clean energy spending from the IRA to roughly $1 trillion over 10 years, or about $100 billion per year.

This is a huge sum of money, but also not nearly enough. Keep in mind that $100 billion equals about 0.4 percent of current overall economic activity, i.e., GDP. By my own estimates and those by others, for the U.S. to reach the emission reduction targets set out by the Intergovernmental Panel on Climate Change

(IPCC) — i.e., a 50 percent CO2 emissions cut by 2030 and zero emissions by 2050 — will require about $400 billion in today's economy and an average of $600 billion per year between now and 2050. So the total amount of public and private clean energy spending generated by the IRA would deliver, at best, about 25 percent of the necessary funding level. Again, 25 percent is way better than 0 percent. But it is also way worse than 100 percent.

I want to emphasize that this is a best-case scenario. The main reason is because of what Sen. Joe Manchin extracted from his fellow Democrats in exchange for his endorsement. Manchin agreed to support the IRA only if, in return, his fellow Democrats would support the construction of the 300-mile Mountain Valley natural gas pipeline that would run through West Virginia as well as Virginia.

The pipeline will likely create major environmental damage, including the contamination of rural streams and land erosion. But still worse is the obvious fact that building a new natural gas pipeline only makes economic sense if we are still burning natural gas to produce energy for the next 50 years or so. This is despite the fact that burning natural gas — along with burning oil and coal — to produce energy is, by far, the main cause of climate change. Support for the Mountain Valley pipeline in West Virginia is, unfortunately, fully consistent with the point you mentioned, that the IRA mandates the expansion of oil and gas exploration leases on federal land and water.

How can we possibly reconcile a supposedly transformative piece of climate legislation with building new natural gas pipelines? The only conceivable way to get there is to also support massive-scale deployment of carbon capture technology as a major component of the overall U.S. emissions-reduction program. Carbon capture technologies aim to remove emitted carbon from the atmosphere and transport it, usually through pipelines, to subsurface geological formations, where it would be stored permanently. To date, the general class of carbon capture technologies have not been proven to work at a commercial scale, despite decades of efforts to accomplish this. After all, carbon capture would be the savior for oil, coal and natural gas industries if the technology could be made to work commercially at scale. A major problem with most carbon capture technologies is the prospect for carbon leakages that result through flawed transportation and storage systems. These dangers will only increase to the extent that carbon capture does end up becoming commercialized and operates under an incentive structure in which maintaining safety standards cuts into

corporate profits.

Matters become still worse to the extent that the IRA channels big-time funding into carbon capture, as could easily happen. Several of the major programs within the overall bill do not have fully specified mandates, including the Greenhouse Gas Reduction Fund, the Clean Energy Investment and Production Tax Credits, and the Clean Energy Loan Guarantees. When push comes to shove — and, in particular, with oil companies and the likes of Senator Manchin doing the pushing and shoving — big chunks of funding through these programs are likely to be channeled into carbon capture. This would then mean less money for solar and wind — where the money needs to go.

Another fundamental problem with the IRA is the major level of funding that it is slated to provide nuclear energy development. This support is coming at exactly the same time that Russia's invasion of Ukraine has demonstrated, yet again, the unavoidable dangers that result through operating nuclear power plants. In the earliest stages of the war, the Russian military took control of both the inactive Chernobyl nuclear plant as well as the highly active Zaporizhzhia plant, the largest in Europe. As of just last week, the Director General of the International Atomic Energy Agency Rafael Grossi stated that conditions at Zaporizhzhia are "completely out of control" underlying "the very real risk of a nuclear disaster." There is absolutely no reason to rely to any significant extent on nuclear energy when the prospect for disaster is staring us in the face, and when building a high-efficiency renewable-dominant energy infrastructure is a realistic, safe and low-cost alternative.

I need to highlight two other major defects with the IRA's climate program. One is the absence of any just transition support for the working people and communities in the U.S. that are now dependent on the fossil fuel industry. This includes about 2.5 million people throughout the country — about 1.7 percent of the U.S. workforce — employed in the oil, natural gas and coal sectors as well as several ancillary industries, including gas stations and pipeline construction. Implementing just transition policies for these workers and communities — including guaranteed reemployment at equal wages for displaced workers and high levels of clean energy investments in current fossil fuel-dependent regions — can be accomplished at very low costs. I estimate that, as an average through 2050, the costs would be about $3 billion per year. That is about 0.5 percent of an adequate overall clean transition program. One possible explanation as to why

there is not even a mention of such measures in the IRA is that phasing out fossil fuels is truly not part of its agenda, while carbon capture is right at its center.

The other major hole in the IRA is the total lack of support for a global clean energy transition. The U.S. and other rich countries are mostly responsible for causing the crisis. At the same time, the only way to move onto a viable stabilization path is if all countries stop burning fossil fuels to produce energy and build clean energy-dominant infrastructures. As a matter of simple fairness as well as self-preservation, the rich countries need to deliver the bulk of funding for this global project. The fact that the IRA is silent on this issue means that we have to struggle to deliver the necessary financial support to the global community through other channels. One place to start would be to transfer a significant share of the nearly $800 billion annual U.S. military budget into a global clean energy investment fund.

We also need to generalize this point. As I said at the outset, the IRA is, at once, the most ambitious climate program ever enacted in the U.S as well as being not close to adequate relative to the magnitude of the crisis. It is therefore critical that we organize as effectively as possible to use the IRA as a springboard through which we can overcome all of its many major failings. One simple but effective way to accomplish this is to set increasingly stringent fossil fuel consumption phase-out standards at the state and municipal government levels. This would not necessarily entail any significant government spending. One example would be a requirement for utilities to cut their fossil fuel consumption by, say, 5 percent per year every year, with CEOs facing major personal liability for noncompliance.

The agreement reached between Schumer and Manchin sets a new corporate minimum tax of 15 percent. Is this supposed to be a new principle of just taxation? Indeed, how does one respond to the claim of orthodox economists that the IRA is just a "tax increase bill?"

The IRA includes two new corporate tax measures: the 15 percent minimum tax on the domestic profits of large U.S. companies, and a 1 percent tax when corporations buy back their own shares in order to artificially boost their stock prices on Wall Street. Both of these are generally positive developments. The minimum corporate profit tax rate provision is designed to prevent corporations from using accounting tricks to cut their tax burden well below the 21 percent

profit tax rate that is currently on the books and frequently avoiding taxes altogether. At least now, even if the accountants have figured out how to avoid the 21 percent standard corporate tax rate, the companies are still stuck with a minimum 15 percent tax bill.

Corporate executives' overall compensation is generally tied to their firms' stock market performance. Boosting share prices artificially through stock buybacks is therefore an easy way for CEOs to give themselves a raise. The 1 percent tax rate on buybacks will certainly not end the practice. But it may encourage CEOs to spend a bit less of their working days worrying about goosing stock prices and a bit more time on operating a company that treats its employees and community well and creates good products.

The IRA is expected to strengthen the economy and create some new jobs by spurring major investments in renewables, energy storage and advanced grid technologies. You and some of your colleagues at the Political Economy Research Institute at the University of Massachusetts-Amherst have in fact concluded a major report on the employment impact of the Schumer-Manchin agreement, which is drawing lots of attention. Can you highlight the job creation impact that the act is likely to have? Moreover, will all states benefit from the job creation and employment opportunities that it entails?

We have estimated that the average level of job creation through the combination of public and private spending resulting from the IRA will be about 912,000 jobs. Jobs will be generated across all sectors of the economy and in all parts of the country. This is a healthy, but not a massive, expansion within the overall U.S. labor force. It is equal to about 0.5 percent of the overall labor force. We cannot expect any greater impact when the level of spending will be about 0.4 percent of GDP. At the same time, this level of job creation will certainly refute the long-repeated climate deniers' mantra that advancing a viable climate stabilization program has to be a job killer. In fact, even the relatively modest IRA will generate far more jobs than those that would be lost every year through something like a 20-year fossil fuel industry phase out.

We can't yet say that these new jobs will necessarily offer high-quality opportunities that pay decently, offer good benefits and working conditions, and provide opportunities for workers to freely become union members. These are features that workers and organizers will need to fight for as the new wave of IRA

investments emerge. The fact that the overall investment program will be heavily subsidized by the federal government means that the government will have the leverage to establish strong labor standards for any firms with their hands in the till for subsidies.

What about inflation? Will the act help reduce inflation?

The IRA will not have an impact immediately on inflation. But after a few years, it will help to lower prices through two main channels. The most obvious is by lowering energy prices by substituting cheap renewables for expensive fossil fuel energy. According to the International Renewable Energy Agency, the costs for producing electricity with fossil fuel energy in the advanced economies ranged between 5.5 to 14.8 cents per kilowatt hour as of 2020, with these figures rising in 2021 in the aftermath of the COVID lockdown. By contrast, the average prices for onshore wind and solar photovoltaics were 3.3 and 4.8 cents respectively in 2021. Moreover, the costs of solar and wind power fell sharply between 2010 to 2021, led by the massive 88 percent decline in solar PV. The average costs for solar and wind should continue to decline still further as advances in technology proceed along with the rapid global expansion of these sectors. What could, nevertheless, wipe out this opportunity to reduce inflationary pressures is if the U.S. does actually proceed with attempting to keep its fossil fuel industry alive through unproven and expensive carbon capture technologies.

The story is similar with nuclear. The U.S. Energy Information Administration estimates that generating a kilowatt of electricity through nuclear as of 2027 will cost 8.2 cents, more than twice the current figure for onshore wind and nearly double that for solar PV.

The other major way in which the IRA could be anti-inflationary is through the provisions of the bill on health care that we have not been discussing. In particular, under the IRA, the federal government will be empowered to negotiate the prices that the Medicare program pays to private pharmaceutical corporations to purchase prescription drugs. In the U.S. at present, the most widely used prescription drugs cost an average of roughly twice as much as what the exact same drug costs in other high-income countries. This is because, in the other countries, the governments negotiate prices with the pharma corporations, preventing them from extracting monopolistic profits. In the U.S., by contrast, the pharmaceutical companies regularly mark up drug prices far beyond what is

needed to cover their costs. This is the main reason they have consistently been the most profitable industry in the U.S.

Overall, then, the IRA can contribute to reducing inflationary pressures in the U.S. to the extent that it succeeds in fighting the power now exercised by the giant oil and drug companies.

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