

The Limit, Save, and Grow Act and Possible Scenarios for the Future of the Inflation Reduction Act

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The Inflation Reduction Act and its Global Impact

The Inflation Reduction Act (IRA) is a comprehensive climate and industry bill that became public law in August 2022. Over the next 10 years, IRA will allocate approximately \$370 billion in funding, with projections indicating a 40%-50% reduction in CO₂ emissions for the U.S. by 2030 compared with a 2005 baseline.

The IRA has already yielded tangible results for the U.S. economy. In April 2023, the American Clean Power Association noted that since the passage of the IRA, “More than \$150 billion of domestic utility-scale clean power investments [were] announced,” comprising 46 facilities.¹ Consequently, various renewable energy companies around the world have begun relocating their manufacturing operations to the United States. For example, a South Korean solar panel manufacturer, Hanwha Qcells, invested \$2.5 billion for a manufacturing complex in Georgia. Furthermore, Japanese, South Korean, and Chinese firms have started aligning their supply chains to qualify for the IRA’s subsidies for their battery products.²

These redirected investments have had reverberating effects on the major trading partners of the U.S. On September 24, 2022, the European Union established a task force with the U.S. to ensure that European manufacturers received IRA extended tax credits.³ Subsequently, in February 2023, the EU announced a \$270 billion “Green Deal” to “enhance the competitiveness of Europe’s net-zero industry” against the U.S. and Chinese support for their respective clean energy industries.⁴ More recently, Make UK, the UK’s largest manufacturing lobby, has called for a Royal Commission to devise a “industrial strategy” to counter “IRA subsidies”.⁵

IRA Back on U.S. Political Agenda as a Bargaining Chip

The recent standoff between the Biden administration and the Republican House regarding increasing the U.S. debt ceiling has put IRA back into U.S. political agenda. Despite calls to invoke the 14th Amendment, which could grant the president the power to meet the U.S. government’s debt obligations without getting approval from the Congress, President Biden has decided not to take unilateral action. Instead, he has waited for Republicans to initiate negotiations to raise the debt ceiling via Congress. On April 26, 2023, the Republicans responded by passing the Limit, Save, and Grow Act (LSGA) in the House.

¹ Kennedy, Ryan. “U.S. Inflation Reduction Act Triggers Plans for 46 Factories.” PV-Magazine Australia, April 21, 2023. <https://www.pv-magazine-australia.com/2023/04/21/us-inflation-reduction-act-triggers-plans-for-46-factories-says-industry-group/>.

² ArgusMedia. “IRA Spurs Japanese, South Korean Battery Investment.” May 10, 2023. <https://www.argusmedia.com/en/news/2447554-ira-spurs-japanese-south-korean-battery-investment>.

³ European Commission. “Launch of US-EU Task Force on the Inflation Reduction Act.” Statement 22/6402, October 26, 2022.

⁴ Ziady, Hanna. “Europe Unveils \$270 Billion Response to U.S. Green Subsidies.” CNNBusiness, February 1, 2023. <https://edition.cnn.com/2023/02/01/business/europe-green-deal-industrial-plan/index.html>.

⁵ Harris, Julian. “British Factories Seek Royal Commission to Counter Biden’s IRA Subsidies.” Bloomberg.com, May 9, 2023.

LSGA aims to limit “discretionary spending” and roll back various legislations passed in the previous Congress, such as the student debt-relief program. The LGSA also contains clauses to roll back parts of the Inflation Reduction Act (IRA), particularly targeting clean energy tax credits (specifically EV, PV production, hydrogen, and efficiency-related tax credits). The proposed rollbacks on original IRA provisions on CCUS and other O&G investments appear to have less impact.

This instant insight evaluates the likelihood of possible scenarios for IRA’s near future in light of recent developments in U.S. politics.

Individual Republican Legislators between a Rock and a Hard Place

In U.S. politics, the issue of raising the debt-ceiling has often allowed the House majority to score political points against a president from a different party. Putting such pressure on the U.S. president becomes especially attractive at the start of the presidential election cycle. Choosing IRA as the front for this political battle, however, leaves many Republican members of Congress between a rock and a hard place.

- Republican Congressional districts have been home to about two-thirds of major renewable energy, battery and EV projects announced since the signing of IRA in August 2022.
- Of the 14 major clean energy projects announced in April 2023, 12 were in Republican Congressional districts.⁶
- At least 37 congressional districts now represented by Republicans have welcomed expansions of new clean energy operations fostered by IRA, and the two related preceding Biden Initiatives: the 2021 bipartisan infrastructure law, and the CHIPS-Science Act.⁷

From a political bargaining perspective, prolonging the debt-ceiling crisis is likely also to harm Speaker McCarthy’s political standing, given his precarious support base within the House Republicans. Currently, the Republicans enjoy a slim majority in the House with only four votes to spare (222-213). Against this backdrop, four Republicans joined the Democrats to vote against LGSA on the House floor: Rep. Gaetz (Florida), Rep. Biggs (Arizona), Rep. Buck (Colorado), and Rep. Burchett (Tennessee).

One potential framing by the Republican party that may resonate with voters, who otherwise benefit from IRA, is “handing over money to China via renewable investments.” This talking point has not, so far, gained significant traction in popular discourse.

⁶ E2. “14 New Large-Scale Clean Energy Projects in April, Almost All in Republican Congressional Districts.” May 3, 2023. <https://e2.org/releases/14-new-large-scale-clean-energy-projects-in-april-almost-all-in-republican-congressional-districts/>.

⁷ Dumain, Emma and Timothy Cama. “One Reason the Debt Fight Is Getting Awkward for Republicans.” Politico E&E, April 22, 2023. <https://www.politico.com/news/2023/04/22/gop-attacks-energy-spending-00093204>.

Implications / Potential Scenarios

Minimal changes to non-energy provisions of IRA - **Likely**

In negotiations to raise the debt ceiling, if it comes into play, President Biden is most likely to focus on COVID funds and possibly the student debt-relief program. If IRA is part of the discussion, it will likely revolve around non-energy related aspects, such as strengthening IRS capacity or revisiting certain social welfare clauses.

No change in IRA in its entirety – **Somewhat Likely**

Holding Republicans accountable for cuts on food assistance, income support, and particularly health care (especially Medicare) may be a politically expedient option for President Biden to mobilize his voters prior to elections. Meanwhile, the continuation of the debt-ceiling crisis will also harm Biden's electoral prospects, especially as such delay results in undesired fiscal consequences. This political discount rate of time may push Biden to make symbolic gestures related to IRA. The potential candidacy of independent Senator Joe Manchin, the original sponsor of IRA, in the 2024 presidential elections further increases the cost of attrition for Biden in the debt-ceiling crisis with the House Republicans. Should the economic costs of this crisis become more tangible, Senator Manchin's agenda of "fiscal responsibility" may resonate with centrist voters who would otherwise vote for President Biden.

Significant Rollbacks in IRA – **Unlikely**

Since IRA has already been enacted as law, the political buck stops with Biden – and overturning IRA would be a political blunder for Biden in the 2024 presidential elections. Emissions and climate constitute an important agenda item for the progressive base of the Democrats, whose election turnout rates are likely to drop as a response to policy setbacks in such issues. The Senate majority and Biden's veto threat preclude such a "political defeat" for Democrats.

Conclusion

The IRA has already begun delivering tangible benefits in the U.S., with much of it going to Republican districts. While LGSA has brought House Speaker McCarthy into the national spotlight, he does not have sufficient political clout to pursue a reversal of the IRA, especially when it would hurt the electoral prospects of individual Republican members of Congress. The Democratic majority in the Senate and President Biden's veto threat further secure IRA policies. Our assessment suggests that Biden will use other bargaining chips before conceding on the (energy-related) provisions of IRA.

Predicting the future of IRA after the 2024 elections remains a challenging task as political and economic uncertainties abound. Should Biden be reelected, IRA is likely to proceed with full force, with the majority of its political dividends expected to yield from 2025 onwards. Various reports suggest that both President Trump and Governor DeSantis, the two front-runners for the Republican presidential ticket, are in favor of (at least) the infrastructure part of the IRA. Towards this end, Republican operatives have reportedly begun to pressure Democratic senators in swing-states to support fast-track permitting for both fossil fuel and renewable infrastructure and transmission investments.⁸ Additionally, during his tenure, President Trump's prioritized establishing an "energy-bridge" across the Atlantic; hydrogen constitutes another area where this cooperation can materialize. Accordingly, we do not expect significant changes to most of the energy-related parts of the IRA.

⁸ Colman, Zack. "DeSantis, Pence Allies Launching Campaign to Speed Energy Approvals." Politico, February 28, 2023. <https://www.politico.com/news/2023/02/28/desantis-pence-allies-campaign-speed-energy-approvals-00084353>.



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