The Inflation Reduction Act and Trump 2.0

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In August of 2022, a landmark piece of legislation was passed called the Inflation Reduction Act (IRA). One of its focuses was addressing our climate situation. And it did this with incentives that fed the American economy with a shot of Vitamin B12 in the form of tax incentives that kickstarted a flurry of clean energy investments. However, with the election of Trump, it appears his second administration has its sights set on re-carbonizing America's energy appetite.

Let's look at the weaknesses and strengths of IRA when it comes to its fate against a hostile administration and strategies to protect it.

Where the IRA is most susceptible to being undermined.

- *Targeted Rollback of Specific Tax Credits*
    - The IRA’s heavy reliance on tax incentives, while usually providing a degree of durability, also makes specific credits easy targets for legislative changes through budget reconciliation - which, by the way, requires only a simple majority in the Senate.
    - The electric vehicle (EV) tax credit is particularly vulnerable. There has been significant political rhetoric against this credit, with claims that it disproportionately benefits foreign automakers or makes the U.S. dependent on Chinese supply chains. The Trump administration and its allies may see cutting this credit as an easy way to score political points while arguing they are protecting American jobs.
- *Reversal of Uncommitted Grant Funding*
    - The Biden administration has been working to finalize grant awards before the new administration takes office. However, any uncommitted or partially committed grants could be paused, rescinded, or redirected by a new administration.
    - Sectors like industrial decarbonization, which require substantial upfront investment and long lead times, may see companies hesitant to accept new grants if the political environment shifts against them. For example, industries such as steel and cement that rely on IRA grants for clean technology upgrades might reconsider their investments if they sense instability.
- *Regulatory Rollbacks via Executive Action*
    - Many of the IRA’s provisions rely on regulations enforced by the Environmental Protection Agency, such as emissions standards for power plants and vehicles. These are particularly vulnerable since they can be reversed or weakened through executive actions rather than needing full legislative repeal.
    - The Trump administration may likely pause or withdraw power plant rules, EV emissions standards, and other regulations almost immediately. These regulations

are essential for achieving the IRA's decarbonization goals, so their rollback could significantly hinder emissions reduction progress.

- *Reallocation or Impoundment of Approved Funds*
  - There's also the possibility of "impounding" funds, where the administration pauses or redirects already allocated funds. Trump has hinted at potentially using this tactic to withhold IRA funds even after they've been approved by Congress, especially if they haven't been legally committed.
  - This could impact ongoing projects that are reliant on IRA funding but haven't fully locked in their agreements, particularly in areas like renewable energy infrastructure and electric grid modernization.
- *Vulnerability During Tax Extension Debates*
  - The IRA is likely to face its toughest tests during tax extension debates in 2025, when provisions from the Trump-era tax cuts will be up for renewal. Republicans might use this opportunity to revise or repeal certain IRA tax credits as part of negotiations to extend tax cuts for corporations and high-income individuals.
  - There's a risk that some of the IRA's tax incentives might be traded off as a "pay-for" to offset the cost of extending other tax cuts, particularly if the Republicans push for a deficit-neutral approach.
- *Political and Economic Narratives*
  - The IRA is also vulnerable to shifting public opinion and political narratives. For instance, framing clean energy incentives as being anti-American manufacturing or beneficial to foreign competitors (particularly China) can sway public support against the act.
  - This is especially true for policies around EVs, where there's already a perception – often fueled by political rhetoric – that these measures could hurt American automakers or increase dependence on Chinese battery materials.

However, the IRA was carefully structured to ensure durability against potential political changes, making it difficult to fully dismantle even under a more hostile administration.

The key areas where the IRA is most resilient.

- *Long-Term Tax Credits Embedded in the Tax Code*
  - The IRA's reliance on tax credits rather than direct spending programs is one of its strongest defenses. Tax incentives for renewable energy, EVs, energy efficiency, and clean manufacturing are embedded in the tax code and set to last for at least a decade.
  - Because tax credits are not part of the annual appropriations process, they are less vulnerable to immediate budget cuts. Changing or repealing these credits would require new legislation, which is politically challenging given that many of these credits benefit businesses and create jobs in Republican districts.

    - The ten-year horizon of these credits gives private companies confidence to invest in long-term projects, creating economic dependencies that are difficult to disrupt without significant political cost.

- *Broad Geographical Distribution of Benefits*
    - The IRA strategically allocates investments and incentives in a way that benefits Republican-leaning states and districts, particularly in rural areas where land and resources for solar, wind, and bioenergy projects are abundant.
    - Many Republican-leaning states have seen substantial job growth and economic activity from clean energy projects funded by the IRA. This makes it politically risky for Republican lawmakers to cut off funding or repeal the tax credits that their constituents are benefiting from. For example, states like Texas, Georgia, and Ohio are experiencing significant investment in clean manufacturing, battery plants, and solar projects due to the IRA, creating a local constituency supportive of maintaining these incentives.

- *Market-Driven Clean Energy Deployment*
    - The IRA leverages market forces by making clean energy more competitive through subsidies and tax incentives. This approach taps into the natural market shift toward cheaper, cleaner technologies like solar and wind, which are already becoming economically viable even without subsidies in many areas.
    - The global momentum for clean energy - driven by declining costs, technological advances, and international demand - means that the U.S. market is unlikely to shift back to fossil fuels even if federal incentives are weakened. The economic case for renewables and EVs is increasingly strong, especially as companies face pressure to decarbonize from investors, consumers, and foreign markets.

- *Corporate Buy-In and Supply Chain Investments*
    - Major corporations have already committed billions of dollars to clean energy projects, EV manufacturing, and battery production spurred by the IRA. These investments are tied to the long-term stability of the tax credits and incentives provided by the act.
    - The extensive investments in new factories, supply chains, and infrastructure are difficult to unwind once they are underway. Corporations and industry groups are likely to lobby against efforts to repeal or significantly alter the IRA because they have already planned their strategies around its incentives.

- *Built-In Flexibility for States and Local Governments*
    - The IRA includes grants and funding mechanisms that involve state and local governments, creating additional stakeholders invested in the law's success. These grants are often tied to matching funds or collaborative projects that states would not want to lose.
    - Because state governments, even in conservative areas, benefit from clean energy funding and job creation, they may resist attempts to undermine the IRA, especially if their economies are already benefiting from these projects.

- *Nonprofit Green Banks and Financing Mechanisms*
    - The IRA established a Greenhouse Gas Reduction Fund to support local green banks and financing programs independent of direct federal control. These entities can continue to provide funding for decarbonization projects even if federal priorities shift.
    - By decentralizing some of the funding through non-profit green banks, the IRA creates a buffer against political interference, allowing decarbonization projects to continue even in the absence of strong federal support.

- *Global Clean Energy Trends*
    - The IRA aligns with broader global trends in decarbonization and clean energy investment. Even if the U.S. government were to slow down its climate policies, the global market for clean technologies, driven by demand in Europe, China, and other regions, is set to continue growing.
    - U.S. companies are incentivized to keep up with international standards, especially as major economies set ambitious decarbonization targets and impose regulations (like the EU's carbon border adjustment mechanism) that favor cleaner technologies.

Protecting the IRA from potential dismantling under the new, less supportive administration or a Republican-controlled Congress is critical to maintaining the progress the U.S. has made toward decarbonization and clean energy deployment.

Strategies that can be employed to safeguard the IRA.

- *Accelerate Project Implementation and Funding Commitments*
    - The Biden administration and state governments can fast-track the implementation of IRA-funded projects, especially grants and contracts that are not yet fully finalized. By pushing more funds into projects that have already begun, the government can create legal and financial barriers to reversing these commitments. For example, finalizing long-term contracts with companies or state agencies makes it harder for the next administration to withdraw funding without facing legal challenges or significant backlash from stakeholders.
- *Encourage Corporate and State-Level Stakeholder Buy-In*
    - A crucial part of protecting the IRA is to expand corporate and state-level buy-in. The more companies and local governments benefit from the IRA, the harder it becomes politically to dismantle it.
    - Encouraging states, especially those led by Republican governors, to take advantage of IRA incentives for clean energy infrastructure, job creation, and manufacturing can build bipartisan support. This can be achieved by emphasizing the economic benefits like job creation, local investments, and energy independence.
    - Corporations, particularly in the renewable energy, EV, and clean manufacturing sectors, should be mobilized to lobby against repeals, highlighting the risk to their investments and jobs if these incentives are rolled back.

- *Leverage Grassroots Advocacy and Public Opinion*
    - Building a strong coalition of grassroots organizations, environmental groups, and local communities to raise awareness about the benefits of the IRA can pressure lawmakers to maintain its provisions.
    - Publicizing success stories—such as job creation in rural areas, lower energy bills due to energy efficiency upgrades, and new clean manufacturing plants—can build broader public support. Highlighting how Republican districts are disproportionately benefiting from IRA investments can be an effective counter-narrative against efforts to repeal it.
    - Mobilizing public opinion through campaigns, town halls, and social media can put pressure on elected officials, especially those in swing states or districts.

- *Legal Challenges and Protections*
    - Exploring legal protections for funds already disbursed and contracts already signed can help shield certain aspects of the IRA from being easily overturned. If grants and contracts are legally binding, any attempt to retract them could result in lengthy legal battles, deterring a new administration from pursuing that path.
    - State attorneys general, especially in states that have benefited from IRA funding, can play a crucial role in defending these investments in court.

- *Focus on Building Market Momentum*
    - The IRA has sparked significant investments in renewable energy, EVs, and clean technologies. By accelerating market-driven growth, the clean energy sector can reach a critical mass where it is no longer dependent on government incentives.
    - Encouraging the private sector to accelerate deployment of clean energy projects ensures that even if incentives are reduced, the market dynamics (like cost competitiveness of renewables and EVs) will continue driving adoption.
    - States with strong clean energy industries (e.g., Texas for wind energy, Georgia for EV battery plants) are less likely to support repeals that would harm their local economies.

- *Optimize Use of Green Banks and Independent Financing*
    - The IRA includes provisions for the creation of Greenhouse Gas Reduction Funds and local green banks that can operate independently of direct federal control. Expanding these funds and ensuring they are well-capitalized can create self-sustaining financing for clean energy projects.
    - By using nonprofit and local financing structures, these initiatives can continue even if federal support is weakened.

- *Focus on Bipartisan Issues Like Energy Security and Job Creation*
    - Framing the benefits of the IRA around energy security, economic growth, and job creation rather than solely as a climate initiative can help gain support across party lines.

    - Highlighting how investments in clean energy reduce dependence on foreign oil and create resilient, well-paying jobs can appeal to a broader political base. For example, emphasizing domestic manufacturing of solar panels, EVs, and batteries can align with the goal of rebuilding American industry.

- *Incentivize Private Sector Lobbying*
    - Large corporations that benefit from the IRA, especially those that have made significant investments in renewable energy, EVs, and energy efficiency, should be incentivized to lobby in favor of preserving the law.
    - Highlighting the financial risks of policy reversals to major companies and their shareholders can encourage sustained lobbying efforts to protect the IRA.

Conclusion

The IRA's design, with its focus on tax credits, market-driven incentives, and decentralized funding mechanisms, provides a strong foundation for resilience. However, proactive measures – accelerating implementation, building public and private sector support, leveraging legal tools, and focusing on bipartisan benefits – are essential to protect the act from being dismantled. The key is to create enough economic, legal, and political momentum that any effort to undo the IRA would face substantial resistance, making it politically and practically unfeasible.