

PRESIDENT BIDEN SIGNS SWEEPING LEGISLATION TO ADDRESS CLIMATE CHANGE AND REDUCE THE COSTS OF PRESCRIPTION DRUGS

President Biden today signed into law the [Inflation Reduction Act of 2022](#). On August 7, the Senate had passed the landmark legislation via reconciliation (51-50), and later that week, the House had passed the legislation by a vote of 220-207.

Democrats should be very proud for taking a decisive step forward to address climate change, while also lowering the costs of prescription drugs and health insurance. The climate and energy provisions, including clean energy tax credits, represent the largest-ever investment to address the climate crisis and are intended to accelerate the development of renewable energy technologies, accelerate the adoption of electric vehicles and drive the deployment of energy efficient technologies in low income and minority communities. Most significantly, these provisions will accelerate cuts to GHG emissions and position the country to deliver a substantial portion of President Biden's GHG emissions reduction target of 50% by 2030.

And there should be no mistake about how this came about – votes speak for themselves. Democrats have delivered, and not a single Republican Senator voted in favor. Democrats had to negotiate among themselves, or more to the point, with Senators Manchin and Sinema. So, some provisions fell by the wayside, including caps for insulin costs for non-seniors. It is a shame, but that is the sad reality of American politics today, with Republicans having largely abdicated their role in legislating as the opposition and the 50/50 split in the Senate giving every Democratic Senator a veto.

The legislation is a watered-down version of the Build Back Better Act (see my previous briefing note, available [here](#)). The BBB legislative package effectively died when Senator Manchin announced at the end of last year he would not support it (due to concerns over inflation), and so it fell off the radar screen until the end of July. My Senate contacts variously described the late-July news that Senator Manchin and Senate Majority Leader Schumer had reached a deal on a pared-down version of BBBA as “coming out of nowhere.” A stunning and welcome reversal for a package that was considered “dead in the water.”

In Sum

We could all wish it were bigger and covered child tax credits and universal pre-K education (among others), but political realities intruded. Nonetheless, it is a monumental legislative package that has the potential to have fundamental consequences for years to come. In sum, the legislation:

- will enable Medicare to negotiate prices on a list of prescription drugs (initially 10 in 2026, rising to 15 in 2027 and 2028, and to 20 in 2029), will cap out-of-pocket costs for prescription drugs for people on Medicare at \$2,000 per year and set a cap of \$35 per month for insulin for those covered by Medicare¹;

¹ The Senate parliamentarian struck out provisions that would have lowered the costs of prescription drugs and capped insulin costs, in each case, for those covered by private insurance; only seven Republicans voted with Democrats in favor of the \$35 monthly cap for people not covered by Medicare, and so it failed.

- will enable 13 million Americans, covered under the ACA, to benefit from reduced insurance premiums by extending subsidies that were part of the American Rescue Plan for three years, through the end of 2025 (the Department of Health and Human Service [estimates](#) that approximately 3 million Americans would lose their health insurance without this extension)²;
- will make the largest investment ever in combatting the climate crisis –\$369 billion (including close to \$280 billion in clean energy tax credits), positioning the United States to cut GHG emissions from 2005 levels by 40% by 2030,³ with the largest share of funding allocated to tax credits and rebates for renewables – solar panels, wind turbines and heat pumps, and electric vehicles;
- will establish a minimum corporate tax of 15% (for enterprises with income of at least \$1 billion) and impose a 1% excise tax on corporate share-buybacks by publicly traded domestic corporations, and any specified affiliates (defined to mean corporations more than 50% of the stock of which is owned by the public company or partnerships more than 50% of the capital interests or profits interests of which are owned by the public company), subject to offset for stock issued, including to employees (the narrowing of the carried interest exemption was dropped from the final version at Senator Sinema’s insistence); and
- will, [in sum](#), raise over \$700 billion in revenue over ten years, and spend over \$430 billion on climate initiatives and ACA health insurance subsidies.

By the Numbers – per a [White House Summary](#)

Lowering prescription drug costs

- 5-7 million Medicare beneficiaries could see their prescription drug costs go down because of the provision allowing Medicare to negotiate prescription drug costs.
- 50 million Americans with Medicare Part D will have their costs at the pharmacy capped at \$2,000 per year, directly benefiting about 1.4 million beneficiaries each year.
- 3.3 million Medicare beneficiaries with diabetes will benefit from a cap on their insulin costs at \$35 for a month’s supply.

Reducing healthcare costs

- 13 million Americans will continue to save an average of \$800 per year on health insurance premiums
- 3 million more Americans will have health insurance than without the law.

Lowering energy costs

² The legislation will not close the so-called Medicare coverage gap that exists in 11 states.

³ The Rhodium Group [estimates](#) that the legislation could reduce GHG emissions to 31% to 44% below 2005 levels by 2030, with a central estimate of 40%. Without the legislation, that reduction would be in the range of 24% to 35%.

- Families that take advantage of clean energy and electric vehicle tax credits will save more than \$1,000 per year.
- \$14,000 in direct consumer rebates will be available for families to buy heat pumps or other energy efficient home appliances, saving families at least \$350 per year.
- 7.5 million more families will be able install solar on their roofs with a 30% tax credit, saving families \$9,000 over the life of the system or at least \$300 per year.
- Up to \$7,500 in tax credits for new electric vehicles and \$4,000 for used electric vehicles, helping families save \$950 per year.
- Putting America on track to meet President Biden's climate goals, which will save every family an average of \$500 per year on their energy costs.

Building a clean energy economy

- Incentivize powering homes, businesses and communities with cleaner energy by 2030, including:
 - 950 million solar panels
 - 120,000 wind turbines
 - 2,300 grid-scale battery plants
- Advance cost-saving clean energy projects at rural electric cooperatives serving 42 million people.
- Strengthen climate resilience and protect nearly 2 million acres of national forests.
- Create millions of good-paying jobs making clean energy in America.

Reducing harmful pollution

- Reduce GHG emissions by about 1 gigaton in 2030, or a billion metric tons - 10 times more climate impact than any other single piece of legislation ever enacted in the United States.
- Deploy clean energy and reduce particle pollution from fossil fuels to avoid up to 3,900 premature deaths and up to 100,000 asthma attacks annually by 2030.

Reducing inflation

- The legislation is projected to achieve hundreds of billions in deficit reduction.
- The deficit is projected to fall by more than \$1.5 trillion this year after falling by more than \$350 billion last year.

A Progressive Agenda While Reining in Inflation

Unquestionably, the country faces a series of headwinds: among them, the climate crisis, persistent social inequality, a public health crisis that will ebb and flow for years to come, severe supply chain dislocations and the challenges posed by China. (See [remarks](#) of Brian Dees, Director of the National Economic Council, who calls for setting out a new approach on industrial policy to tackle these headwinds, the central pillar of which was the BBBA.)

Above all, the Inflation Reduction Act confirms that government has a role to play in promoting growth and setting industrial policy. At its very core, it chooses John Maynard Keynes over Adam Smith/Milton Friedman – public investment to spur demand and reduce

unemployment, versus an unfettered free market. The theory has been refashioned by the President to fight inflation – the costs of energy drop while the country pivots to a whole-of-society effort to fight climate change.

The Inflation Reduction Act also represents a reversal of prior tactics to address climate change. This is not an energy tax, or cap-and-trade legislation. It does not set a carbon price. It relies largely on a combination of grants, loan guarantees and tax credits (many available for ten years), as well as other incentives to foster decarbonization and reduced emissions, rather than on penalties.

Climate Change and Energy Security

The legislation, with an climate/energy price tag well below the \$550 billion initially called for as part of BBB, nonetheless represents the largest investment in clean energy sources and energy security in US history. It has the potential to contribute significantly to job creation (by creating new jobs in sectors tied to sustainable technology and GHG emissions reduction) as well as the way we live our lives. It also will provide a much-needed boost to global efforts to fight climate change and reach the Paris Agreement commitments.

The legislation addresses the growing impact of the climate crisis and high energy costs in five key ways:

- Through policies that will lower prices to drive vehicles and to heat homes and help consumers afford technologies that will lower energy prices and reduce emissions, the legislation will lower consumer energy costs.
- Through policies that will support energy reliability and cleaner production, and investments in clean energy manufacturing, the United States will lessen its reliance on foreign sources of energy and foreign imports of clean technology, thereby bolstering energy security.
- Through federal support for clean energy solutions, the legislation turbocharges the clean tech opportunities presented by the Infrastructure Investment and Jobs Act (*see my previous briefing note, available [here](#)*) and makes unprecedented contributions to decarbonizing all sectors of the American economy.
- Through investments focused on disadvantaged communities, the legislation advances social and environmental justice goals.
- Through investments in the agricultural and forestry sectors, the legislation supports resilience in rural communities and facilitates adaptation to climate change.

The climate provisions include:

Reduced consumer energy costs

- \$9.1 billion for consumer home energy savings, consisting of \$4.6 billion for grants to state energy offices to develop and implement a HOMES rebate program for homeowners and aggregators for whole-house energy savings retrofits and \$4.5 billion for grants to state energy offices to develop and implement a high-efficiency electric home rebate program, as well as funds to educate and train contractors engaged in home energy efficiency and electrification improvements. This means rebates, for example, for installing heat pumps to heat water or to heat/cool spaces,

upgrading electric wiring, adding insulation, ventilation and sealing, or purchasing electric appliances such as stoves, ranges and dryers.

- Extension, through 2032, increase and modifications of non-business (*i.e.*, individual taxpayer) energy property tax credits (with specified limits for windows, doors, heat pumps and heat pump water heaters, biomass stoves and boilers, and home energy audits, among others)
- Tax deductions for energy efficient commercial buildings
- Tax credits, through 2032, for individuals purchasing a new “clean vehicle” the final assembly of which occurs in North America (up to \$7,500), as well as for previously owned “clean vehicles” (up to \$4,000, for households with income of not more than \$150,000)
- Tax credits, through 2032, for “qualified commercial clean vehicles” (up to \$7,500 if weighing less than 14,000 pounds, and up to \$40,000 if weighing 14,000 pounds or more), the final assembly of which occurs in North America

Domestic manufacturing and energy security

- Tax credits worth an estimated \$30 billion for investment in advanced manufacturing production (for solar energy components, wind energy components, inverters and battery components) and tax credits worth a further \$10 billion for investments in the facilities that manufacture these technologies
- \$500 million for enhanced use of the Defense Production Act, intended to support domestic manufacturing of energy-efficient technologies (such as heat pumps) and the processing of critical minerals
- \$3 billion for the costs of providing direct loans for re-equipping, expanding or establishing manufacturing facilities to produce advanced technology vehicles
- \$2 billion to provide grants for domestic production of efficient hybrid, plug-in electric hybrid, plug-in electric drive, and hydrogen fuel cell electric vehicles (subject to the recipient providing at least 50% of the costs of a project)

Decarbonization of the economy

- Extension of incentives for biodiesel, renewable diesel and alternative fuels
- Residential energy tax credits for battery storage technology and extension to 2032, increase and modification of credits for new energy efficient homes
- Tax credits, through 2032, for alternative fuel vehicle refuelling properties (*e.g.*, charging stations)
- Tax credits, through 2027, for clean fuel production
- Tax credits, through 2032, for zero-emission nuclear power production
- Tax credits for sustainable aviation fuel (through 2024) and clean hydrogen
- Loan guarantees of up to \$40 billion of Department of Energy loans under the Energy Policy Act, plus \$3.6 billion to cover the costs of the guarantees
- \$27 billion for grants to non-profit organizations under the Greenhouse Gas Reduction Fund established under the Clean Air Act to develop technologies to reduce or avoid GHG emissions, including \$7 billion for grants to enable low-income and disadvantaged communities to deploy or benefit from zero-emission

technologies, including distributed technologies on residential roof tops, and to carry out other GHG emission reduction activities, and another \$8 billion for financial assistance and technical assistance in low-income and disadvantaged communities

- \$5.8 billion for financial assistance for projects related to “advanced industrial technologies” to accelerate GHG emission reductions to net zero at manufacturing facilities engaged in energy-intensive industrial processes
- \$5 billion for loan guarantees under the Energy Policy Act for infrastructure reinvestment to reduce GHG emissions in electricity generation
- \$5 billion for grants to states, air pollution control agencies, municipalities and Indian tribes to address GHG air pollution
- \$4 billion for grants and financial assistance for drought mitigation in Reclamation States (Arizona, California, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington and Wyoming), with priority to the Colorado River Basin and other basins facing similar long-term drought
- \$3 billion for zero-emissions USPS vehicles
- \$2 billion for direct loans for the construction or modification of electric transmission facilities designated to be necessary in the national interest
- \$1 billion in grants to assist states and units of local governments to adopt building energy codes meeting zero emissions targets
- Incentives and fees to improve monitoring and mitigation of methane emissions, including a penalty of \$900 per metric ton of emissions that exceed 2024 federal limits, increasing to \$1,200 per metric ton in 2025 and \$1,500 per metric ton in 2026 and each year thereafter; according to [UN Environment Program](#), methane has accounted for roughly 30% of global warming since pre-industrial times, and today methane emissions are increasing faster than at any other time since record-keeping began in the 1980s
- Investment through tax credits in carbon capture, utilization and storage (CCUS) technologies and infrastructure
- Acceleration of environmental permitting, including funding to increase federal agency permitting resources and improve stakeholder engagement – allocations are made to the Department of the Interior, US Forest Service, Department of Energy, Federal Energy Regulatory Commission, Federal Highway Administration, National Oceanic and Atmospheric Administration (NOAA) and the Environmental Protection Agency
- Extension and modification of credit for electricity produced from certain renewable resources

Investments in disadvantaged communities and environmental justice

- \$3 billion investment in environmental and climate justice block grants to address harms caused to disadvantaged communities by pollution and climate change
- \$3.155 billion to reconnect communities and support equitable transportation planning in disadvantaged communities

- \$3 billion for zero-emissions equipment and technology for ports
- \$2.6 billion investment in coastal communities and climate resilience, plus additional amounts for NOAA facilities, national marine sanctuary facilities, research, hurricane forecasting and agency engagement
- \$2.2 billion for state and private forestry conservation programs
- \$2.150 billion for low-carbon material in federal buildings and \$975 million to fund emerging and sustainable technologies for federal buildings
- \$2 billion for reimbursements or incentives for low-carbon transportation materials for federal-aid highways and tribal transportation facilities
- \$1 billion for low or zero-emission heavy-duty vehicles, such as transit and school buses, and garbage trucks
- \$1 billion to improve energy/water efficiency and climate resilience of affordable housing
- Increased energy credits for solar and wind facilities in low-income communities
- Funds for grants and financial assistance for disadvantaged communities to provide domestic water supplies to communities that lack access

Investments in farms, forestry and rural communities

- \$9.7 billion for funding USDA assistance programs for rural electric cooperatives to fund resilient, affordable and reliable rural electricity
- \$3.1 billion for farm loan relief for at-risk agricultural operations
- \$2 billion for national forest system restoration and hazardous fuel reduction projects
- Funding for electric loans for renewable energy under the Rural Electrification Act and grants under the Farm Security and Rural Investment Act
- Funds to carry out projects for the conservation, protection and resiliency of lands and resources administered by the National Park Service and Bureau of Land Management, as well as conservation, ecosystem and habitat restoration projects
- Funds available for investments in agricultural conservation under the Food Security Act
- Grant programs for projects for alternative aviation fuels and low-emission aviation technologies, and grants to increase the sale and use of agricultural commodity-based fuels through infrastructure improvements blending, storing, supplying or distributing biofuels

Concluding Thoughts

The Inflation Reduction Act is a game-changer for at least two reasons. First, it represents the most significant effort in years to address the costs of prescription drugs, and second, even in its watered-down form, it is transformative in respect of addressing the effects of climate change.

Foremost among the impacts is that it positions the United States to come close to reaching President Biden's initial goal of reducing GHG emissions by half (from 2005 levels) by 2030. While we have seen inflation affect, on a daily basis, a significant proportion of Americans,

the costs of both primary and secondary effects of climate change are likely to be even more impactful, particularly for those in disadvantaged communities and communities of color.

The legislation provides the means to reduce methane emissions and provides significant incentives to invest in clean energy. It allocates funds to push through environmental justice initiatives in disadvantaged communities, as well as for rural communities. At a time when Vladimir Putin is seeking to exploit western vulnerabilities through energy-policy blackmail, the legislation addresses that vulnerability of ours by enhancing energy security in myriad ways.

Finally, with less than four months to go before COP27, the legislation positions the United States as a credible global leader in the fight against climate change.

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