How Sincere Is the US Inflation Reduction Act for the EU?

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Inflation Reduction Act in Bad Faith

The Inflation Reduction Act[1], whose major goals are to "reduce the deficit and lower inflation," was signed by US ***President Joseph Biden*** *in August 2022. As it turns out in 2023, the Act is motivated mostly by self-interest, and its name is a misnomer. While it has a modest impact on inflation control, its attempt to reduce the deficit is unrealistic at best. Biden introduced a budget package[2] in March that would increase the US national debt ceiling from its current level of roughly $31.5 trillion to up to $51 trillion by the year 2033, a dramatic increase of nearly $20 trillion over the next 10 years, which can only "inflate the deficit". How may these actions genuinely lower inflation? The Act's aims such as energy security, combating climate change, improving healthcare, and tax reform are only a smokescreen. The Act appears to be in line with Europe's aspirations for addressing climate change in terms of its emphasis on energy and climate change, but this turns out to be a cover-up.*

The discriminatory credit provisions of the Act are a serious setback for Europe. In particular, $7,500 in US tax credits will be available for the purchase of a new electric vehicle, while a $4,000 tax credit subsidy is available for the purchase of an older electric vehicle. The subsidies, however, are unfair:

- The United States, Canada, and Mexico must be the locations for the vehicle's assembly;
- The United States shall provide at least 40% of the major raw materials used in the battery, or it can be the countries which signed a free trade agreement with the USA; by 2026, the percentage will rise to 80%;
- By 2029, the raw material percentage would rise to 100%, with at least 50% of battery parts being produced or assembled in the "three North American countries."

A Protectionist Legislation Harming EU Investments in Industries

Such discriminatory subsidy clauses have overt trade protectionist undertones in line with the “America First” slogan. According to Eurostat (quoted from Factbox of Reuters[3]), the European Union shipped automobiles worth approximately 36 billion euros ($39 billion) to the United States in 2022, with around 65% coming from Germany and less than 9 billion euros worth of cars imported into the EU from the USA. A protectionist Inflation Reduction Act would disrupt the entire value chain.

To clarify the context, Europe has been a significant source of investment and production in the industry with more than 25% of the world’s vehicles produced there and 20% of the supply chain. In order to create a partnership with more than 800 participants across the whole battery value chain, the EU founded the European Battery Alliance (EBA)[4]. 250 million euros are spent by Europe annually to support domestic battery production. Many European businesses have already thought about transferring their manufacturing to the United States in order to save costs in the current environment of increasing risk of a global downturn, especially given the skyrocketing energy prices.

The Inflation Reduction Act completely derails the EU’s green efforts and disadvantages European firms that export electric vehicles or batteries to the US because they are also not eligible for tax rebates. The Inflation Reduction Act also offers incentives for businesses in the new energy sector and other industries to relocate factories in the United States, which will have adverse effects on the previous European countries’ investments in the renewable energy sector, worsening the overall economy and increasing unemployment.

Although the Inflation Reduction Act is meant to strengthen the US economy, it is only possible by channeling negative effects spread to Europe. To the detriment of European interests, the Act distorts markets and forces businesses to decide to invest in the United States under the influence of non-market forces. The Inflation Reduction Act surely leads to rising inflation in the eurozone with a weaker industry.

Why Such High Inflation in EU: The *Déluge* of Dollars

Since 2022, the long-standing dollar overdraft, war spending, and geopolitical tensions that cause high commodity prices have been the main causes of inflation worldwide. The Kiel Institute for the Global Economy estimates that from January 24, 2022, and February 24, 2023, the USA spent 43.2 billion euros[5]. The sum of money never appears out of thin air. The major goal of the Act is still to import wealth from other countries to plug the USA’s economic gap; in other words, it exports inflation (past spending) to other countries, mostly to its partners.

With a view to achieving stronger economic growth in the future, Europe must continue to expand and deepen the European Common Market, tap deeply into its internal potential, and raise investment in the two key development strategies of green transformation and digitalization. If the USA does not halt its widespread money printing programme, there will be no way out in the long run.

The Act demonstrates how consistently self-serving America is. The U.S. ignores the reality that its domestic economic policy is bound to have a systemic influence on a worldwide scale by taking advantage of the enormous size of the U.S. economy and its significant position in the international economic landscape. When developing domestic policies, the United States frequently overlooks the imperative to take on international duty. And common European households are responsible for paying the price for this policy.

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Notes

[1] Summary: the Inflation Reduction Act of 2022, https://www.democrats.senate.gov/imo/media/doc/inflation_reduction_act_one_page_summary.pdf

[2] Biden's $6.8 Trillion Budget Pitch Sets Up a Showdown, https://www.nytimes.com/live/2023/03/09/us/biden-budget-tax-news

[3] Factbox: How U.S. electric vehicle subsidy rules impact Europe,

https://www.reuters.com/business/autos-transportation/how-us-electric-vehicle-subsidy-rules-impact-europe-2023-03-30/

[4] EBA official site, https://www.eba250.com/

[5]Ukraine Support Tracker, A Database of Military, Financial and Humanitarian Aid to Ukraine, at https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/

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