

Remarks by Assistant Secretary for Economic Policy (P.D.O) Eric Van Nostrand on Economic Impact of the Inflation Reduction Act

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Thank you for having me, and thank you all for participating in TACRE. I am Treasury's Chief Economist, so I spend a lot of time at conferences focused on aggregated economic statistics, macro data, and trying to find the most efficient way to grow GDP. But I especially love coming to TACRE because this talented group reminds us that Treasury's economic goals are not just about aggregate statistics: they are about ensuring that our economy grows in an inclusive manner that taps the diverse talents of Americans from the widest range of backgrounds.

I'm excited to speak with you today about one important example of those efforts: President Biden's Inflation Reduction Act (IRA). The IRA is the most significant investment in reducing carbon emissions in American history, and the Treasury Department is working hard to implement it. Importantly, President Biden and Secretary Yellen's approach to climate change rejects the outdated notion that there is a trade-off between addressing the climate crisis and economic strength—that we have to sacrifice our economic and inequality goals if we want to reduce carbon emissions. Rather, the IRA is emblematic of a more modern approach: it is designed to boost economic growth while addressing climate change. And—just as importantly—it is designed to deliver clean investment to left-behind places, communities at the forefront of fossil fuel energy production and those that have benefited least from the economic growth of the past few decades.

Today, I'm going to focus mainly on that last, especially important goal of the IRA. I'll discuss how clean investments are experienced in American communities, how the IRA supports investment, and how those investments impact the lives of individual Americans.

The IRA was crafted to make investments in clean technology in areas that are historically less well-off than the big productivity centers that typically attract the most investment. That's what President Biden means when he speaks of growing the economy from the bottom-up and the middle-out, rather than directing investment to already-wealthy areas. As we implement the law at Treasury, we

are analyzing existing data to find practical evidence that the IRA is working as designed and creating economic growth for Americans who need it most.

The truth is, the IRA is a long-term investment in America's future. As such, it will be years before we can fully assess its comprehensive impact. But we can see early signs of impact in the data. And the data we have seen over the past several months are promising.

In particular, we're seeing clean investments incentivized by the IRA are already being steered to disadvantaged communities. These include:

- Areas with low incomes, low educational attainments, and high unemployment rates. These areas stand to benefit the most from the economic opportunity that clean investment creates.
- It also includes "Energy Communities," which are areas with local economies historically reliant on fossil fuels for employment, wages, and tax revenue. These are the areas that were at risk of being left behind in the clean energy transition. But the IRA includes measures to make sure that these communities are, on the contrary, the largest beneficiaries of the new clean energy economy.

[We first reported these](#) findings last year, but they have [continued to hold true](#) over the past months. Our economists are revisiting the data as updates come in and I'm happy to report that each time we revisit the latest data, we continue to see evidence that the IRA is directing investment to these areas. Government investment like this, policy that expands America's productive capacity while combating climate change, is a clear example of what Secretary Yellen calls "modern supply-side economics," policy that spurs economic growth and addresses inequality or other social ills.

Indeed, the IRA's modern supply-side goal – spurring economic growth while combatting climate change – is not only good politics, it's also good economics. There is compelling and intuitive evidence that modern industrial strategies can be particularly effective in the most disadvantaged communities. Increases in labor demand in depressed local economies lead to persistent increases in employment and earnings. As Secretary Yellen said earlier this year, "investing in people and places that have been underserved can yield the biggest bang for the buck economically, giving us greater returns on our public investments."^{[1](#)}

We don't have perfect data yet on how the IRA will impact Americans of different races in different ways. I'll discuss where we are seeing most announced IRA investment dollars, and I'll also elaborate on how we expect long-term climate and pollution abatement from the IRA stands to disproportionately benefit communities of color.

DISADVANTAGED AREAS

Let me begin with an analysis of the specific parts of the country where clean investments have been announced since the IRA was passed. To analyze the geographic and socioeconomic distribution of clean investment announcements in the post-IRA era, I will rely on data from the

Clean Investment Monitor (CIM), a data product from the Massachusetts Institute of Technology and the Rhodium Group that catalogs and maps U.S. clean energy investment announcements before and after the IRA.

Clean investments have historically been concentrated in places with low incomes and educational attainments. This has always been true. But since the IRA passed, there has been much more clean investment and this trend of clean investment being equitable investment is even stronger. Three quarters of post-IRA clean investment announcements have been in counties with below-average wages; more than 80% in counties with below-average college graduation rates. This is true for all regions of the country and all technologies supported by the IRA; the investment and benefits tend to accrue to disadvantaged counties.

Before the IRA, 68% of announced investments in clean technologies were in counties with median incomes below the U.S. aggregate median income. After the IRA, 75% of announced clean investments have been in counties with median incomes below the U.S. aggregate median.

Before the IRA passed, 79% of announced clean investments were in counties with college graduation rates below the U.S. aggregate rate. Since the IRA passed, 84% of announced clean investments have been in counties with college graduation rates below the U.S. aggregate rate.

ENERGY COMMUNITIES

Next, let me focus on the impacts on what we call “Energy Communities.” Energy Communities are areas historically reliant on fossil fuels for employment, wages, or tax revenue. As defined in the IRA, Energy Communities are defined as areas with a coal mine or coal plant closure, areas that had high fossil fuel employment and a recently high unemployment rate, or brownfield sites (such as land that is underutilized due to pollution from former industrial use).^{[\[2\]](#)}

These areas were specifically targeted in the design of the IRA to ensure that communities that would otherwise be left behind in the transition to green energy would benefit from the investment the IRA incentivizes. The Energy Community Bonus offers a supplemental tax credit to clean electricity investment and production in energy communities.^{[\[3\]](#)}

Our analysis shows that before August 2022, when the IRA passed, an average of \$2 billion per month of clean electricity investment was announced in Energy Communities and \$2.5 billion per month

throughout the rest of the United States.^{[\[4\]](#)}

After the IRA passed, those numbers ballooned to nearly \$4.5 billion per month in Energy Communities and to \$3.5 billion in the rest of the United States. That's an increase of \$2.4 billion per month in Energy Communities and \$1 billion per month in the rest of the country. Clean investment announcements are growing throughout the U.S., with especially strong growth in Energy Communities.

RACIAL EQUITY

Finally, I will review the statistics on IRA impacts broken down by race. Here, the early data are a bit more nuanced: when just considering the data overall, it may seem that these clean investments are landing in areas that tend to be whiter than normal. Indeed, only 36% of clean investments have been in counties with non-white shares above the US aggregate non-white share. This is partially a function of urban versus rural communities and their demographics – these clean energy investments tend to be in non-urban counties, which tend to be whiter. Importantly, though, within those rural communities, especially diverse communities do seem to be benefiting disproportionately. More than half of investments announced so far are in rural counties where nonwhite population shares are higher than the U.S aggregate rural nonwhite population share. There's more work to do to make that trend even clearer for Americans of color as we continue to implement the law.

Furthermore, we expect that IRA investments could lead to disproportionate improvements for Black and Hispanic Americans in two important ways:

First, we know at the aggregate level that Black and Hispanic workers tend to be much more vulnerable to business cycle volatility. Black and Hispanic unemployment rates tend to rise much more than the white unemployment rate when there are national downturns. A 1 percentage point change in the national unemployment rate is typically accompanied by 1.6 and 1.4 percentage point increases in the unemployment rates for Black and Hispanic workers, respectively.

Importantly, the good news is that the converse is also true—decreases in the unemployment lead to disproportionate decreases in the unemployment rates for Black and Hispanic Americans. So when an area emerges from recession, Black and Hispanic workers see disproportionate improvements. Therefore, to the extent IRA investments are targeted at distressed areas with higher unemployment rates, pulling those local areas out of their local recessions can disproportionately benefit Black and Hispanic Americans.

Second, there is ample evidence that shows that both combatting climate change and reducing pollution benefit Black Americans in particular. For example, counties with higher shares of Black residents have faced higher mortality rates and greater economic damage from climate impacts^[5], so reduction in emissions will in turn benefit the Black community more.

Further, reductions in air pollution will also benefit Black Americans, whose communities are exposed to local pollution more than white communities.^[6] The IRA will improve local air pollution as it incentivizes the transition to EVs from gas cars and away from fossil fuel electricity to clean electricity. Since air pollution is concentrated near Black communities, general air pollution reductions will tend to flow to minority communities.

LOOKING AHEAD

In conclusion, I emphasize that we remain firmly in the early stages of assessing the IRA's impact. It is a new element of our modern industrial strategy, and it will take many years before its full implications are clear. Even beyond the clean investments I discussed, we know some IRA benefits are already in action today. The IRA offers tax credits to Americans purchasing electric vehicles and energy efficiency improvements. And we know many Americans claimed these tax credits for tax year 2023.

Other IRA impacts will take longer to measure, like data to see if the employment and income effects are demonstrated as announced investments come to fruition. Construction on clean manufacturing sites will take a few years, and you can expect at least five years to for projects like solar farms and wind farms to go from inception to electricity generation.

Economists at Treasury and other researchers will be watching to assess these impacts in real time: on our climate, on our economy, and especially on a diverse range of American communities. Thank you for your time.

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[1] <https://home.treasury.gov/news/press-releases/jy2178>

[2] <https://energycommunities.gov/>

[3] Further guidance on Energy Community Bonus qualifications is available from the IRS.

[4] Citations

[5] Hsiang et al. 2017.



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