New U.S. Department of the Treasury Analysis Highlights How Policies to Address Climate Change Promote Economic Growth

November 13, 2023

Inflation Reduction Act and Bipartisan Infrastructure Law will reduce emissions and pollution, incentivize adaptation, increase R&D, reduce economic vulnerability

WASHINGTON – Today the U.S. Department of the Treasury published analysis on how the Inflation Reduction Act, Bipartisan Infrastructure Law, and other federal policies to address climate change can promote economic growth.

The analysis by Assistant Secretary for Economic Policy (P.D.O.) Eric Van Nostrand and Deputy Assistant Secretary for Climate & Energy Economics Arik Levinson describes how the Inflation Reduction Act will promote growth by reducing greenhouse gas emissions, incentivizing climate adaptations, combatting pollution that often accompanies greenhouse emissions, increasing research and development, and reducing economic vulnerability to the international price volatility of fossil fuels.

Van Nostrand and Levinson write, “Reducing greenhouse gases mitigates the costly damages those emissions would have caused—the most direct way that climate policy benefits the economy. Some of those economic costs are obvious, like costs due to more frequent and more powerful hurricanes, floods, and fires. Others are more subtle but still pernicious. Temperature increases have been found to cause declines in students’ academic performance and future incomes, as well as diminish worker productivity, reducing economic potential across the economy. The U.S. Council of Economic Advisers and Office of Management and Budget summarized twelve recent studies assessing the aggregate cost climate damages will impose on the U.S. economy. Collectively, they suggest climate damages are already reducing U.S. GDP, and that economic damages will accelerate as global average temperatures rise. Cutting back on greenhouse gases will therefore provide economic benefits, especially if the emissions reductions are part of a coordinated international effort like the Paris Climate Agreement.”

They continue, “[C]limate policies that promote clean energy may buffer the economy from fluctuations in fossil fuel prices. Just in the past three years, natural gas prices have quadrupled and then fallen by 50 percent, causing significant swings in electricity prices. And oil prices, which account for more than half of the retail price of gasoline, swung from below $40 per barrel to over $130... Renewable energy sources like wind and solar are not subject to that type of price uncertainty. Once the solar panels and wind turbines have been installed, the fuel to power them is effectively costless. Businesses and households that heat or cook with electricity powered by renewable energy will not be vulnerable to large price swings. And drivers of electric cars can rest assured that their transportation costs won't suddenly double. Creating a more stable and resilient energy system may therefore benefit all Americans by making the economy less susceptible to price shocks that can trigger recessions."

Full text of the analysis is available here.

###