



The Daily Dish

Wow, Didn't See That Coming. Not.

DOUGLAS HOLTZ-EAKIN | DECEMBER 5, 2022

I told you so. Well, actually, AAF's Tori Smith [told](#) you so. "The Inflation Reduction Act's clean vehicle tax credits include rules of origin for a vehicle to qualify for the credit.... The clean vehicle tax credits, as currently proposed, could violate U.S. trade commitments under the World Trade Organization and the U.S.-Korea Free Trade Agreement. Violating commitments under these agreements would likely put the United States at risk of facing disputes, which could subject Americans to retaliation from trading partners."

As [reported](#) by the *Financial Times*, the European Commission president said "Europe should 'adjust our own rules to make it easier for public investments', von der Leyen said in her first public response to Washington's green energy subsidy scheme, which EU leaders say risks 'fracturing' transatlantic unity by luring European companies to relocate. Washington's measures have soured ties between Washington and Brussels and triggered a chorus of demands from EU states for a competitive response, fuelling fears of a trade war."

The Europeans are cognizant of the damages of industrial policy disrupting trade in two dimensions. First, they are obviously dismayed by the overt, illegal subsidies by the United States. But in responding, they recognize that individual states should not respond and risk distorting trade patterns within the European Union itself. Instead, any response should occur at the supranational level, addressing the U.S.-versus-Europe incentives, but leaving country-by-country incentives within the EU unchanged.

The reality is that the climate policy in the Inflation Reduction Act is a costly, uncoordinated set of clean energy subsidies that will yield tremendous economic inefficiency. The international distortions add to the economic costs and the potential retaliation lifts the economic cost even further. Coming up next is a burdensome regulatory expansion that will hobble growth. There simply are better ways to reduce greenhouse gas emissions.