Insight

How the BBBA's Union Labor Requirements Undermine Its Climate Goals

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Executive Summary

- As part of President Biden's climate change mitigation strategy, the Build Back Better Act (BBBA) includes tax credits for electric vehicle (EV) purchases and for green energy production.
- These credits come with union labor requirements and could have a dramatic impact on the labor market for EVs and clean energy production, including in right-to-work states.
- Saddling the BBBA's climate provisions with union work requirements also could make it more challenging for manufacturers to make and sell EVs and products that facilitate the use of alternative energy.

Introduction

The House-passed reconciliation package, the Build Back Better Act (BBBA), includes climate change mitigation policies conditioned upon union labor requirements that incentivize union membership, even in right-to-work states. Among these are new tax credits to incentivize the purchase of electric vehicles (EV) manufactured by unionized labor, as well as several clean energy programs that include union wage requirements. Tying these climate policies to union work requirements could make it more difficult for manufacturers to produce green technologies, including EVs, and make these products more costly for consumers, thus undermining carbon-reduction efforts.

Credits for Personal and Commercial Vehicles

The BBBA includes tax credits in its climate provisions to incentivize EV purchases. The credits are available to consumers who purchase a new or previously owned electric vehicle. Qualifying individual purchasers would receive a $7,500 credit. For vehicles that have battery cells manufactured in the United States or are assembled in a U.S. union shop, the purchaser would receive an additional $500 and $4500 credit, respectively.

If all conditions are met, a purchaser could claim $12,500 in tax credits — but their claimable credits cannot exceed 50 percent of the EV's purchase price. In addition, the tax credit cannot be applied to vans, trucks, and sport utility vehicles that cost more than $80,000 and other vehicles that cost more than $55,000.

Four car models were produced in unionized plants in 2019, according to the United Automotive Workers. In 2019, only 3 percent of hybrid and electric vehicles were produced in unionized plants, and while the number of models has since grown, they do not necessarily qualify for the tax credit.

Effect on the Labor Market

President Biden has pledged to “Encourage and incentivize unionization and collective bargaining.” The tax rebate proposals for EVs and clean energy included in the BBBA would be a move toward that goal. These tax incentives are, in part, efforts to increase union membership and encourage consumers to purchase from certain businesses over others. Widespread unionization would increase the cost of labor, likely leading to rising prices in the long run and stifling innovation.

EV Credits

The labor-related effects of the EV credits would be twofold: Drive consumers to purchase EVs produced by unionized worksites and put non-unionized worksites at a competitive disadvantage. The credit effectively makes non-union-produced electric vehicles $4,500 more expensive than union produced vehicles for consumers, making it more difficult for industry to rapidly scale the use and purchase of EVs. The largest producer of electric vehicles, Tesla, is currently non-unionized, as are Nissan and Toyota. The EV credit would put the government in the business of picking winners and losers in the EV production market and incentivize unionization in states with right-to-work laws, which allow workers to choose whether to be part of a union without that decision affecting their employment. Currently 75 percent of plants that produce EVs and 68 percent of the EV-producing workforce operate in right-to-work states.5

The EV tax rebates allow union shops to capture a growing market, but would stifle productivity and growth in a sector that is crucial in reducing emissions. Producers of electric vehicles will likely see slower growth, higher operation and labor costs, and potentially job loss under unionization.

Prevailing Wages and Production Tax Credits

The BBBA includes 13 clean energy programs that require prevailing wage adjustments. Prevailing wage is determined by the Department of Labor and is based on wages typically paid to the majority of workers in a given area or previously negotiated union pay rates, which can be much higher than average wages. The BBBA requires prevailing wages for workers of federal contract projects (typically construction, alteration, or repair) in excess of $2,000.

Prevailing wage regulations increase the overall costs of projects and can shut smaller businesses with fewer financial resources out of the market and disproportionately harm racial and ethnic minorities. In addition to the prevailing wage requirements placed on businesses in alternative energy—including clean hydrogen, zero emission nuclear power production, clean fuel production and others—the BBBA includes an advanced manufacturing production credit that is intended to incentivize the production of materials for wind and solar power construction. The provision would provide unionized manufacturing facilities with an additional 10 percent tax credit bonus.

Conclusion

With 68 percent of workers and 75 percent of EV- and hybrid-producing plants operating in right-to-work states, these sectors would likely see intense pressure from the BBBA’s tax credits to consider unionization. The BBBA’s union labor requirements would stifle production and innovation in the EV and clean energy sectors—thereby harming the very industries on which they intend to rely for their climate change mitigation strategy.