

# Takeaways from the IRA and the OB3

- **Tax vs. non-tax tools:** The same legislative-procedure factors that make tax tools attractive also make tax tools unstable
- **Carrots vs. sticks:** The IRA's carrots did not “stick” as well as many of us expected. **Why not?**
  - Carrots are costly (and repealing carrots frees up \$\$\$ for other priorities)
  - Carrots for durable goods (eg, electric vehicles and residential solar panels) don't create durable political constituencies
  - Carrots can lure “dirty tech” firms into clean tech but don't convert those dirty tech firms into clean tech defenders
- **Designing sticks:** Pigouvian prescription is to set the price of carbon equal to the marginal social cost
  - But we potentially need a new prescription when firms expect that sticks won't “stick”
  - In order for the expected price of GHG emissions from a new plant to equal the marginal social cost, the actual price of GHG emissions may need to exceed the marginal social cost