



## Congress's semiconductor legislation won't hurt China, but it will hurt taxpayers

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August 1, 2022

Opportunists have never failed to take advantage of a panic, which is why some of the most profitable U.S. companies are looking to capitalize on China's hawkishness to extract massive subsidies from taxpayers. Not wanting to appear weak on China, a bipartisan Senate voted Tuesday to hand \$52 billion in subsidies to chip companies, which are enjoying historic revenue, are experiencing record investment in research and development, and are already in the process of building new domestic fabrication plants.

Industrial policy — the use of tariffs, subsidies, or similar measures to benefit a specific industry deemed vital — is alive and well in America. It shouldn't be. Industrial policy such as subsidizing the semiconductor industry is rarely justified, rarely works as planned, and is always costly to either taxpayers or consumers. Congress need look no further than China.

Notwithstanding billions of dollars in subsidies and support since 2014, “semiconductors represent a rare area in which the Chinese economy is dependent on the rest of the world — rather than the other way around,” according to a 2021 Brookings Institution report. China still has no company that can produce cutting-edge semiconductors and remains a net importer to the tune of \$300 billion. Even if China were able to make good on its stated goals, its companies would still “generate less than 15% of the industry’s overall R&D capacity,” according to Brookings. Contrast that to the U.S., where the industry has almost 50% market share by revenue and has reached an all-time high for R&D investment, trailing only pharmaceutical and biotechnology firms in the ratio of R&D to sales. America’s leaders should accept victory, not get into an “arms race” with Beijing on who can spend the most on a failed policy.

Industrial policy creates perverse incentives for companies, and that is certainly the case with CHIPS. In March 2021, the CEO of Intel announced the company would invest billions to create a new manufacturing base in Arizona. At the time, he said, “It does not depend on a penny of government support or state support or any other investments to make it successful.” Fresh from hitting record revenue, the CEO testified before Congress this year that without billions of taxpayers’ money, Intel may abandon its on-shoring strategy. The CEO gave the game away in January when he told Bloomberg, “Let's not waste this crisis.” The semiconductor industry has spent tens of millions of dollars to lobby for the passage of CHIPS as well as other measures to

benefit them. They have every right to do so. But too often, industrial policy amounts to little more than corporate welfare.

The federal government's ability to discern businesses vital to national security is sketchy at best. The Trump administration imposed Section 232 tariffs on both steel and aluminum in cases that "threaten to impair national security," a broad imperative that eventually led officials to declare that the domestic auto industry qualified for Section 232 tariffs. Can one really sustain the argument that the Toyota Camry or the Volkswagen Jetta represent a threat to national security? Such legal gymnastics are bipartisan. In June, President Joe Biden authorized the use of the Korean War-era Defense Production Act to support the solar panel industry. The solar panel industry? If these industries pass the "vital to national security" test, soon every widget maker in America will be lobbying Washington for the designation as well.

Industrial policy comes at a high cost. According to some estimates, Trump administration tariffs cost consumers \$51 billion, and a recently released Cato Institute study found that industrial policy protectionism has cost \$620,000 per job saved, again much of that borne by consumers who can ill afford a \$52 billion handout to tech giants at a time when inflation has hit a 40-year high.

Industrial policy has been debated in America ever since Alexander Hamilton submitted his Report on the Subject of Manufactures to Congress in 1791. Nearly every democratic country is grappling with this debate, but leaders in many other countries are working to unravel their yearslong wasted investments on industrial subsidization and policy. Japan gave up industrial policy decades ago; European attempts at creating national industrial leaders have largely failed; in India and Latin America, these policies have arguably hampered economic growth. The White House should avoid the same mistakes. Biden could send a clear signal by vetoing the \$52 billion taxpayer windfall to the semiconductor industry, but if you believe that he'll do it, I have a semiconductor plant in China to sell you.