



Biden Has \$52 Billion for Semiconductors. Today, Work Begins to Spend That Windfall

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President Biden is heading to an IBM manufacturing plant in Poughkeepsie, N.Y., on Thursday to tout a new \$20 billion investment the company is making in semiconductor research and development as well as other advanced technologies.

It's the second big tech manufacturing announcement this week, following news from Micron that it will spend \$100 billion on a new computer chip plant in upstate New York.

The White House says the announcements are part of "a manufacturing boom" fueled by the CHIPS and Science Act, which Biden signed into law in August — a law that includes more than \$52 billion in federal subsidies.

While Biden is traveling to New York, a high-powered group will gather at the White House for its first meeting on how best to get that money out the door.

"We need a whole-of-government approach, and we need to get everyone on the same page to figure out how we're going to deploy that \$52.5 billion," said Ronnie Chatterji, who is coordinating the implementation of the CHIPS act.

Biden wants to beef up U.S. resilience after the pandemic

Semiconductors are needed to run almost everything that has any electronic component, from cars to the weapons the U.S. is sending to Ukraine.

But they are in short supply in the United States and around the globe due to supply chain disruptions exacerbated by the global pandemic.

The Biden administration is desperate to address the domestic shortage of chips — and also wants to counter the rising power of China.

The White House says that the U.S. produces only about 10% to 12% of the world's supply of semiconductors, and none of the advanced chips, whereas East Asia accounts for 75% of global production.

The White House wants to reverse that. "We invented this industry in the United States. I mean, there's a reason it's called Silicon Valley," said Chatterji, who was chief economist at the Commerce Department, and was part of former President Barack Obama's Council of Economic Advisers.

Chatterji's team holds its first meeting with top White House officials and cabinet members on Thursday, including representatives from the Commerce, Defense and State departments. Chatterji said the goal is to "get everybody on the same page about our objectives and our metrics."

Surging car prices showed why it's important to build chips in America

In an interview with NPR, Chatterji said surging car prices last year revealed the urgency and importance of his team's work.

"That was one of the biggest drivers of inflation," Chatterji said. "Probably one-third of the inflation increase in 2021 was because of cars ... We couldn't get the chips we needed to build the cars. And when you can't get the chips you need to build the cars, workers get furloughed and prices go up."

Concerns about China's economic, technological and military ambitions also fueled bipartisan interest to invest in semiconductor manufacturing in America.

But the subsidies represent a significant shift in thinking for Washington. Republicans and some Democrats have long opposed government interference in free markets. And there are concerns about wasteful spending.

There are worries about picking winners and losers

In the past, U.S. government investments in private sector companies haven't always gone smoothly. The government has a bad track record for "trying to pick the winners, and avoiding the losers," said Scott Lincicome, a trade economist at the libertarian-leaning Cato Institute.

Lincicome says too often, the subsidies go to those who spend the most money lobbying — or sometimes projects end up in politically important regions instead of the places where they make the most sense.

"Time and time again with U.S. industrial policy projects, the government has good intentions, but ends up actually backing the wrong horse," Lincicome said.

And he says there's no guarantee bringing semiconductor makers back to the United States will prevent shortages, noting as an example the recent shortages of baby formula despite large production capacity in the country.

Lincicome favors more trade agreements and reduced trade barriers to allow global markets to react more quickly to domestic and global supply shocks.

Chatterji is aware of the pitfalls associated with industrial policy. He said transparency, governance to avoid conflicts of interest and "rigorous measurement of outcomes" are key.

But he said he's confident the administration can reach its goals if all stakeholders work together: governments, private companies and labor.

"We have to keep our eye on the ball of setting a foundation for all of industry to survive, including small- and medium-sized enterprises," he said. "That's the way we avoid that critique about picking winners that's plagued industrial policy in the past."