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## Room for Debate: A Running Commentary on the News

« Room for Debate Home

« Back to Discussion

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### Why Is the U.S. Losing the Green Race?

Americans pride themselves on being global leaders in innovation. So why is the nation lagging behind China and Germany on renewable energy?

## The Evidence Is Mixed

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What is the role of government in energy markets? Conventional wisdom presumes that a proper accounting of the negative environmental effects in the pricing of fossil fuels would result in renewable fuels being cheaper. The Chinese and German governments understand this; the United States government does not.

Let's examine this claim. Economists have reported wildly varied estimates of the environmental costs associated with energy. Some studies say that existing prices for conventional fuels, like natural gas, are too high relative to their external costs rather than too low because of regulatory distortions. For those fuels for which the evidence of environmental externalities is clear, the appropriate solution is a tax that increases the price and allows producers and consumers complete freedom to adjust. But such a policy creates visible costs and diffuse benefits, and politicians prefer the opposite: visible beneficiaries and diffuse costs to the taxpayers and the economy.

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The bigger question:  
Can we be certain  
that there will  
eventually be a  
viable market for  
solar power?

Another rationale for targeted subsidies is that innovators in energy markets cannot capture the full benefits of their innovations. Notice that the complaint, however, is that business will underinvest in research and development across the board, not that investors pick the wrong technologies in which to invest. If this is a serious problem, the solution is to make all research and development more attractive through subsidies.

Don't we need to keep up with China? To be sure, in industries characterized by network effects or large economies of scale relative to the size of the world market, there are advantages to countries that jump out to an early manufacturing lead. Early firms will expand rapidly and later entrants will not be able to achieve sufficient scale to become viable. In theory, then, a country that hosts these "first movers" can permanently increase its welfare relative to the rest of the world through clever government intervention.

But can we be certain that there will eventually be a viable market for solar power or that solar panel manufacturing is in fact characterized by very large economies of scale? No, we can't. And if there is evidence that the economies of scale in solar power markets are great enough to fear that a first mover could choke off future competition in the market, I have not seen it.

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Topics: Barack Obama, China, Environment, Germany, solar energy