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No, Corporate Welfare Won't Help US Compete Against China

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Another week, another reminder that heavy-handed government industrial policy is in fashion.

Nobel Prize-winning economist Michael Spence recently endorsed it as embodied in the newly passed "CHIPS+" legislation, an attempt to bolster America's semiconductor industry. The endorsement, like so many, rests not on evidence or economics, but on blind faith in Congress and the administration.

Spence writes that "the infrastructure bill, the CHIPS Act, and the (Inflation Reduction Act) amount to a stunning increase in long-term investment in America's growth potential, and in balancing out the various dimensions of its growth pattern, prominently for carbon dioxide emissions reduction and sustainability."

In other words, these new expenditures — amounting to more than $1 trillion — spent by the same government that can't deliver the mail efficiently or run trains for a profit are supposed to generate the advertised abundance of goodies. We're to trust that these monies, disbursed by the same administration that botched the withdrawal from Afghanistan, will achieve only successful results.

Color me unconvinced.

Why should we believe that this latest round of subsidies will succeed when we know that the $54 billion given to the airlines to ensure their travel-readiness at the end of the pandemic failed? Why should we believe that this subsidy boondoggle will produce better results than hundreds of corporate welfare programs for well-to-do companies like Boeing and General Electric have produced so far?

Specifically, why should we believe that the Inflation Reduction Act (IRA)'s massive swelling of "investment" in climate action will succeed as advertised and completely ignore the long record of failure of government subsidies of green energy?

A recent Wall Street Journal editorial, citing a scholar who plugged the IRA's carbon dioxide reduction estimates into the United Nations climate model, noted that "the bill will reduce the estimated global temperature rise at the end of this century by all of 0.028 degrees Fahrenheit in the optimistic case. In the pessimistic case, the temperature difference will be 0.0009 degrees Fahrenheit."

That's effectively nothing. But once you trace where the money is going, you quickly realize that CO_2 reduction isn't the whole story. This legislation is a cornucopia of subsidies and tax credits to green-energy companies, as well as to consumers who don't need the handouts.

Even if by some miracle the IRA produces the desired environmental effect, don't count on it to reduce inflation. The faith in these policies is baffling.

What about the semiconductor industry? It certainly is the hero of the lavishly praised CHIPS Act. Spence believes that doling out $52 billion in the form of tax credits and subsidies — all of course with bureaucratic strings attached — "will unleash a surge in private investment in key areas" and insists that "this is not mere speculation." But again, where's the evidence?

In fact, the evidence suggests the opposite. As the Cato Institute's Scott Lincicome and Alfredo Carrillo Obregon explain,

"there has been even more chipmaking investment dedicated to the U.S. market, even as federal subsidies have languished. Construction is now underway at four major U.S. facilities and will continue with or without subsidies ... This is because, as numerous experts have explained over the last year, there are real economic and geopolitical reasons to invest in additional U.S. semiconductor production — no federal subsidies needed."

Other private-sector research-and-development investment increased, too. George Mason University's Don Boudreaux calculated that in 2019, "inflation-adjusted R&D spending (at least in the physical sciences, the life sciences, and engineering) was 38 percent higher than it was only three years earlier."

Before that, private sector research and development increased steadily for decades even though federal investment in R&D remained flat. Anyone who believes American companies need subsidies to invest and be productive is unfamiliar with the facts.

Still, the most shocking claim from a Nobel-laureate economist is that this corporate welfare is necessary for the United States to compete with China. Such zero-sum thinking about international trade is bunk.

As Paul Krugman, another Nobel-laureate economist, noted in his 1996 book, "Pop Internationalism," it is "simply not the case that the world's leading nations are to any important degree in economic competition with each other, or that any of their major economic problems can be attributed to failures to compete on world markets."

I don't often agree with Paul Krugman, but in this case, Michael Spence should consider doing so.