It's Back to the Future on the US Clean Tech Industry

President Barack Obama and Gov. Mitt Romney recently stated how each would "get tough" with China. This reminded me of a conversation with economists I had in Vice President Biden's office several years ago. We discussed how to put together the president's stimulus proposal and the possibility of using clean tech programs — solar, wind, batteries and others — as one of the lynchpins of the program.

The room split into two camps. On one side, environmental activists argued for a strong government role in helping these relatively nascent industries grow and flourish. On the other, conventional economists argued that we should allow the markets to determine which industries would succeed — they even pulled out the old line about the government not picking winners and losers.

I felt a sense of déjà vu. I had this exact same conversation more than 25 years ago when I worked in the Reagan Administration. The United States has faced this question before in other industries, especially the semiconductor industry in the 1980s.

In those days, Japan targeted key industries for development as part of its industrial policy. It protected them at home, provided special investment incentives and preferred financing, promoted their exports with subsidies, and maintained an undervalued currency. The result was massive overinvestment and excess capacity that was dumped into the U.S. market.

The United States questioned whether Japan’s dumping was a gift to consumers or a destructive force against an industrial capability of vital long-term importance. We also questioned whether the gift would always be given or whether once Japan reached dominance, prices in the United States would rise to Japanese levels.

Sound familiar?

When considering China, it is important to remember the lessons learned from our issues with Japan in the 1980s.

We need to realize that many of our trading partners are already intervening in the market. They see clean tech as the industry of the future and have put policies in place to support them.

Although China is not the only country that does this, it is the most aggressive.

In 2001, China began to focus intensely on energy, especially clean energy, and set targets for installing wind turbines, solar panels, hydroelectric dams, and other

renewable resources. In 2006 the program drove China to double its wind power capacity, it doubled again the following year and again the year after that. In 2003 China had virtually no solar power industry, but by 2008 it was making more solar cells than any other country and taking customers away from American industry, which invented and commercialized the technology.

The latest solar plan, which covers the period through 2015, calls for significant government assistance, preferential treatment and significant oversight. This includes increased subsidies; more support with industry, financial and tax policy, and further aid for the development and production of equipment used to produce polysilicon, silicon ingots, wafers, cells and panels.

The point here isn't that some of these programs are illegal — some are and some aren't — but that the Chinese government had a plan that helped its solar industry grow from a non-factor to the world's largest producer of solar in less than a decade. It is now moving to consolidate these gains.

The United States needs its own program to support industries deemed important — and clean tech is important. This is not picking winners and losers; we are already doing that. If we want the United States to remain competitive globally in clean technologies, we need to do something that is rare in Washington these days: We need to be bold.

The United States government did this back in the 1980s. To help American manufacturers deal with Japan's industrial policy that specifically targeted the semiconductor industry, the federal government enacted a wide variety of initiatives. Several are relevant today in dealing with China.

Currency Policy

To deal with Japan's undervalued currency, the United States negotiated the Plaza Agreement in 1985 in conjunction with France, Japan, United Kingdom and West Germany. By reducing the value of the American dollar, the Reagan Administration was able to help make American exports more competitive.

We have the same problem today with China. Both the Bush and Obama administrations have gone out of their way to avoid labeling China a currency manipulator. China's recent decision to devalue its currency in order to prop up exports is a sign that jawboning and looking the other way will not work. We need an aggressive currency policy, enacted in conjunction with our allies in order to ensure change.

Trade Laws

The Reagan administration used our trade laws to remove market-distorting measures enacted by the Japan government and Japanese manufacturers. This included self-initiating an anti-dumping case against Japanese semiconductor manufacturers and negotiating the 1986 Semiconductor Agreement.

In cases where we believe China is not playing by the rules, we should not hesitate to push to use our trade laws. By threatening a trade case, President Obama last year was able to get the Chinese to stop subsidizing wind power firms that used Chinese-made parts at the expense of imports [1]. The administration's decision, in conjunction with the European Union and Japan to force China to lift export limits on rare earth minerals [2], is another example. Finally, when the government imposes tariffs on the Chinese solar and wind industries, we must ensure that the U.S. Customs and Border Protection has the resources it needs to prevent Chinese cheating.

"Buy American"

The United States used the purchasing power of the federal government to build a market for semiconductors and, when necessary, codified this preference through "Buy American" laws.

Although conventional economists eschew such rules, they are legal as they long we include products made by countries that have signed the World Trade Organization's Government Procurement Protocol [3]. This still gives many of our solar global competitors access to the American government marketplace. However, it does send a signal that we believe it is important where we purchase products, especially for the military.

Support Basic Research

To support the semiconductor industry, the U.S. government developed initiatives, such as Sematech [4], to help support our domestic manufacturers through funding basic, non-commercial research and development.

Today, the United States should increase support for the U.S. Photovoltaic Manufacturing Consortium [5], a U.S. research consortium built along the lines of, and with the support of, Sematech. By leveraging the power of our corporate and university R&D to solve common manufacturing problems, we help the American clean tech industry.

As we debate the role of government in supporting American clean tech manufacturing, we must remember that the Chinese government doesn't want to just be a leader in a number of technologies, but *the* leader.

The United States government must determine how we are going to respond. With strong action, we have the opportunity to nurture a globally competitive industry in a sector that has great promise both economically and environmentally. Without it, we face a future where the United States is sitting on the sidelines.

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