



Written by [Veronique de Rugy](#) on March 2, 2023

The American Way Versus the Politicians' Way

Let's call it the "Biden way": When our president can't get his policies through Congress, he tries to impose them in other ways. Just look at his student loan forgiveness plan, which faced a stiff Supreme Court challenge this week, and his imposition of stricter "Buy American" provisions to the infrastructure-spending bill. Now, he wants to reshape corporate America by attaching the big string of "high-quality" child care to, of all things, semiconductor subsidies.



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This strategy, while popular with other presidents, has only one redeeming aspect: It beautifully illustrates how politics diverts industrial policy and similar attempts to direct the economy away from their stated goals. See, politicians say they want to subsidize this and that to improve manufacturing or bolster national security, but invariably sabotage themselves by weighing the policies down with rules and requirements that have nothing to do with the plans.

It is certainly true with last year's "bipartisan" CHIPS Act, which provides \$52 billion to revive American microchip manufacturing. Now, Biden's Commerce Department has announced that companies getting the subsidies will have to do (and not do) a bunch of other things if they want the money.

Specifically, subsidized firms must provide "high-quality childcare for plant workers." They can even divert some of the subsidies to build child care centers and hire providers — activities that do little to increase the supply of microchips. Companies will also be required to do all sorts of financial disclosures and share part of any unanticipated profits with the government. Preference for funding will be given to companies that promise not to buy back stock. *The New York Times* cleverly named this approach the "Chips and Strings."

These strings will significantly undermine chip manufacturing by increasing production costs. For instance, when the administration says high-quality child care, it really means more expensive child care because of requirements that caregivers be college-educated and such. Building those child care and chip factories will be subjected to Buy American and environmental requirements, Davis-Bacon pay requirements and minority and women material sourcing requirements, along with pressure to be more open to the demands of labor unions.

I don't want you to think that these industrial policies would succeed if there weren't strings attached



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— I don't believe that. The best way to outcompete China is not to emulate China's heavy economic interventions. For one thing, America's already-profitable chip industry doesn't need such funding. Second, even if Biden's scheme were to work and all the hoped-for factories were built, we would still be far from making most chips at home. That's a good thing, as I explain below, making this a rotten strategy to begin with.

Indeed, even without these requirements, it would take years to build new chip factories. These would also be unlikely to offer the industry's most advanced manufacturing technology. By then, freer, nimbler firms could be building completely different chips. That's what happened in the 1980s when the United States was having this same semiconductor fight, but with Japan. The U.S. government resorted to subsidies only to produce a product that was immediately displaced by more lucrative segments of the industry. Added requirements will only multiply the cost of each project and the time required for companies to deliver.

More importantly, the best way to compete is to renew our wildly successful commitment to free markets and entrepreneurial innovation.

This requires ending subsidies and letting the market direct capital to its highest and best uses.

In addition, competing with China demands that we keep our supply chains diverse rather than be more self-sufficient. Diversification avoids single points of failure. Better supply chains require, among other things, removing the regulatory barriers that "currently block or deter the construction of chip fabrication plants and the broader ecosystem of facilities and companies a domestic semiconductor industry requires for long-term success," says Adam White in the *Wall Street Journal*.

Finally, liberalizing immigration would make more workers available for chip manufacturing and child care. In fact, this would do more to reduce the price of child care than all the president's attempts to reshape corporate America combined.

There is so much to be done to make this country more competitive when it comes to doing business, building and innovating. But industrial policy — especially when it's loaded with politically fashionable requirements — moves us in the opposite direction.

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