If Your Industry Needs The Government, It Isn't Working

Any product requiring government aid is not commercially competitive.

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In this photo taken on March 17, 2013 and released by China's Xinhua Nesw Agency, a solar-panel-covered building is seen at the Suntech Power headquarters in Wuxi, east China's Jiangsu Province. The world's biggest solar panel manufacturer was forced into bankruptcy court Wednesday, March 20, 2013, becoming the latest casualty of a painful slump in the global solar industry.

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Suntech, one of the world's largest photovoltaic manufacturers, has now declared bankruptcy, ignoring the enormous enthusiasm from environmentalists just as the tide ignored King Canute. Many of us had warned about just such a threat and been denigrated as old fogies, shills for the

oil/gas/coal industries, or simply ignorant. This misguided enthusiasm provides a good object lesson.

Predicting the advent of new technologies is always problematical, but their potential success less so. Most consumer products have few 'advocates' beyond their manufacturers, but energy technologies like renewables and alternative fueled vehicles are a prime exception. Numerous lobbyists promote electric vehicles, solar, biomass, etc., but nobody ever made a movie called "Who Killed Betamax?"

Examining successful technologies can yield some rules that provide insight, though not necessarily proof, of whether a new technology will prosper. First and foremost, any product that requires a significant amount of government aid to encourage people to buy it is, by definition, not commercially competitive. The government has often provided research support to successful technologies, including hydraulic fracturing, but rarely to the point of subsidizing their purchase or deployment.

[See a collection of political cartoons on energy policy.]

And pointing to another government's financial support of a product to urge its adoption should be considered an argument in opposition to, not in favor of, us doing so. The notion that a country will 'dominate' an industry by developing it first is nonsense, as any business executive can attest.

The second indicator is the definition of a 'better' product. An environmentalist will often support those that reduce emissions without regard for other considerations, but consumers have shown that this is hardly their only concern. Cost, convenience, even attractive packing can play a role, as does emissions, but the combination that most consumers prefer is not necessarily the same as advocates. If a product is really better, it will move on its own.

Third, the choice of a technology or fuel rather than an outcome implies some weakness in the argument. Promoting lower pollution is a viable policy; promoting a specific product is not, in part because it leaves open the possibility that even regulators might not get behind it. Electric vehicles are a perfect example; they are promoted by advocates regardless of their cost-effectiveness in reducing pollution. Even in the semi-documentary "Who Killed the Electric Car?" the regulator remarks that the policy is not to promote a particular choice, but lower pollution.

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Fourth, arguments about future viability should always be taken with a grain of salt, especially when that viability doesn't seem to produce enthusiasm amongst producers. If economies of scale will make a product competitive, the private sector will build the factories necessary. If this can't be accomplished without serious government aid, that means it probably won't be accomplished with the aid.

Finally, there is a huge difference between modest improvements in engineering and serious scientific advances. The current models of photovoltaic cells do not produce enough electricity that gradual reductions in manufacturing costs will make them competitive any time soon. Battery technology is not good enough to make them appealing for consumer vehicles except as a niche product. In both cases, radical changes are needed, not better assembly lines. But improving automobile efficiency by 5 or 10 percent a year requires no breakthrough to accomplish.

The casual way proponents of some technologies believe that the government can mandate progress is rather alarming. A more realistic approach would not only be more cost effective, but improve their credibility with decision-makers and the public.

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