

# Whose Green Stuff to Fund Green Energy?

Published in *Barron's* | January 30, 2012

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Using taxpayer dollars to support companies or prop up whole industries is a bad idea. Instead, we should let free markets do the hard and risky work of deciding how capital is invested.

At Solyndra's Fremont, Calif., factory in May 2010, President Obama said "companies like Solyndra are leading the way toward a brighter and more prosperous future," and were "the true engine of economic growth."

Let's hope not. The solar-panel maker went belly-up, as did government-supported solar ventures EverGreen Solar and SpectraWatt. The \$500 million loan guarantee to Solyndra, a project backed by Obama supporters looks like a decision propelled by sun worship rather than commercial merits.

What if it had been a profitable coal-fired plant funded by Obama opponents?

The problem is not that several renewable-energy industry firms with questionable economics got preferential government financing. It's the trend of letting the state, rather than markets, pick favorites.

The same applies to ventures in education and housing. Free, private capital markets are ruthlessly efficient and self-correcting, directing capital to winners and away from losers. While they don't always get it right, banks, private-equity firms and venture capitalists are supposed to do hard-nosed analysis and invest based on commercial prospects, not political fashion. If they don't get it right, their money vanishes.

Washington lends on politics and ideology. Therefore, business failures often attract more resources, not fewer. Failed Fannie Mae and Freddie Mac have received \$145 billion in taxpayer capital since they were revealed as failures. The Congressional Budget Office now estimates that their losses could balloon to \$400 billion.

Government credit is almost always for popular causes: "clean" energy, college, home ownership, small business. Supposedly cost-free loan guarantees for mom,

God and apple pie are irresistible to politicians and voters alike. However, they cause overinvestment and overconsumption, making society poorer.

Steven Chu runs a Department of Energy that's provided billions in venture debt to dozens of solar, wind, biofuel, battery and electric-car companies with questionable economics. Shortly after Solyndra filed for bankruptcy, the energy department provided loan guarantees to two more politically connected solar projects: \$737 million for Solar Reserve to build a 110-megawatt solar tower in Nevada, and \$337 million for Mesquite Solar to develop a 150-megawatt solar plant in Arizona.

If these are commercially viable, why the government guarantees? They put taxpayers' money at risk, rather than willing investors'.

The venture-capital industry's business is funding and helping build unproven businesses. If storied venture capitalists and green-energy enthusiasts such as John Doerr and Vinod Khosla believe in unproven energy projects, let them risk their limited partners' capital on solar, wind and biofuel ventures -- keeping the profit if they're right, or eating the losses.

College also seems like a good idea to many Americans, not least because college grads earn more money over their lifetimes. But when Uncle Sam offers a helping hand, he distorts the market. College is not the best path for all. Without subsidized tuition, many would choose cheaper colleges, trade schools or work, and be better off. A trillion dollars in student loans is now outstanding, most backed by government guarantees. That's more than all U.S. credit-card debt.

Easy credit from the government changes colleges, prompting overconsumption, inflation, and overinvestment. Colleges invest in more capacity than they otherwise would, because subsidized financing shields them from many of the true costs. From 1982-84 to the present, tuition has nonetheless increased 505%, while the consumer-price index increased 127%; energy, 100%; and health care, 301%.

Every Washington pol professes to be for small business. Since 1953, the Small Business Administration has provided small-business loans; it now has more than \$90 billion worth of loans and guarantees in its portfolio. If these are loans the financial sector would have made, the program is pointless. If, however, the SBA is making loans that wouldn't have been made on comparable terms by financial institutions, it's distorting the credit market.

Nowhere has government financing caused greater harm than in housing, by weakening and politicizing mortgage-credit standards in order to increase home

ownership. That push was the single greatest cause of the mortgage implosion, financial crisis and Great Recession. From 1996 to 2008, the Department of Housing and Urban Development increased Fannie Mae's and Freddie Mac's targets for mortgages to people who would not otherwise have been able to get a home loan. Fannie and Freddie also were eager to increase market share. Using the Fed's easy money, their weak credit standards fueled a massive housing bubble. Then, risky private-sector loans were made in the slipstream of soaring housing prices, creating an illusion of riskless profits.

Every American shouldn't necessarily own a home. After all, there are alternatives other than the park bench: renting, and saving for a sizeable down payment (they shrank precipitously in the bubble). Astonishingly, even after the easy-credit-induced financial Armageddon, politicians of both parties clamor for government to continue to prop up the housing market. Housing prices need to find bottom before healthy recovery is possible.

In September, President Obama again called for a government infrastructure bank. As a senator, he cosponsored the National Infrastructure Bank Act of 2007, consonant with his preference for government, rather than markets, to allocate resources and pick winners.

Banks, businesses, private-equity firms and venture-capital firms take calculated risks in environments they think they can assess, with the prospect of making returns commensurate with the perceived risk. Government financing of private-sector activities survives -- notwithstanding the immense harm it does -- because it's popular. Recipients and administrators are highly motivated to prop up such programs, and the costs of improvident political lending are widely dispersed. They include, among others, taxpayers and other hidden victims: those who paid more for, or lost access to, credit due to market distortion.

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