



Policy Memo: Federal Subsidies Do Not Create Innovation

President Biden intends to use the federal government procurement system to work towards 100 percent clean energy and zero-emissions vehicles.ⁱ The president's goal is for all new light-and medium-duty vehicles to be electric-powered and for heavier vehicles to make progress in that direction. The federal government would also encourage the development of 100 percent clean energy and zero-emissions vehicles by leveraging the \$500 billion

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annual purchasing power of its procurement programs.ⁱⁱ While it is important for the United States to lead the world in clean energy and electric vehicle innovation, such innovation should occur in the private sector away from government control.

President Biden has also stated that he wants to restore the full electric vehicle tax credit, which grants a subsidy of roughly \$7500 for each electric car. Bjorn Lomborg of the Copenhagen Consensus Center describes this approach as “one of the costliest ways to cut emissions.” Further, the International Energy Agency has

found that an electric car only emits about ten tons less CO₂ over its lifetime compared to a gasoline car.ⁱⁱⁱ Dan Eberhart, CEO of Canary LLC, an oilfield services company, suggests that “Electric Vehicles are currently a costly way to reduce carbon emissions and unlikely to put a serious dent in oil demand in the near term.”^{iv} If emissions overall are not dramatically reduced through a transition to electric vehicles, a massive investment of public funds into the industry is not a good use of resources. Eberhart states that subsidizing electric vehicles isn’t only a poor use of taxpayer dollars, “it turns out subsidies are also bad for business.”^v

Ronnie Thompson of the American Conservation Coalition points out that “calls for developments in electric vehicle technology and public transportation efficiency are warranted, but the plan largely ignores the important role the private sector must play in these efforts and instead emphasizes one government job scheme after another.”^{vi} In fact, Tesla founder Elon Musk (whose company received \$465 million from the government’s Advanced Technology Vehicles Manufacturing Loan Program) has been critical of government subsidies for the EV industry:

Over the years, there’s been all these sort of irritating articles like Tesla survives because of government subsidies and tax credits. All those things would be material if we were the only car company in existence. We are not. There are many car companies. What matters is whether we have a relative advantage in the market.^{vii}

There are existing government programs to encourage the development of electric vehicles, such as the Zero-Emissions Vehicle (ZEV) program in California and other states. Under the ZEV program, auto manufacturers are mandated to produce a certain number of electric cars or pay a fine for each electric vehicle they do not produce.^{viii} An automaker who does not believe in the viability of electric vehicles is forced to make them anyway, as the ZEV program requires at least a certain percentage of the fleet sales to be EV or hydrogen vehicles by 2025. As Eberhart points out, if consumer demand for EVs is not there by 2025, those vehicles will have to be sold at a loss.^{ix}

Key Point: There is already a large amount of private capital being spent toward EV manufacturing and innovation, and federal subsidies would only have negative consequences on an industry built on private sector innovation.

The Texas Energy Project is a project of the Texas Conservative Coalition Research Institute (TCCRI), a public policy research organization based in Austin, Texas. See txenergyproject.org and txccri.org for more information.

Endnotes

- i “Plan for Climate Change and Environmental Justice: Joe Biden” Joe Biden for President, October 2020 <https://joebiden.com/climate-plan/>
- ii *Ibid.*
- iii “The good and bad of Joe Biden’s \$2 trillion climate change plan: Bjorn Lomborg” Orange County Register, October 2020 <https://www.ocregister.com/2020/10/13/the-good-and-bad-of-joe-bidens-2-trillion-climate-change-plan-bjorn-lomborg/>
- iv “Not Even Elon Musk Thinks Subsidizing Electric Vehicles Is Good Public Policy” Forbes, November 2020 <https://www.forbes.com/sites/daneberhart/2020/11/19/subsidizing-electric-vehicles-is-poor-policy-thats-about-to-get-worse/>
- v *Ibid.*
- vi “The Good and Bad of the Biden Climate Plan” American Conservation Coalition, July 2020 <https://www.acc.eco/blog/2020/7/16/the-good-and-bad-of-the-biden-climate-plan>
- vii “Not Even Elon Musk Thinks Subsidizing Electric Vehicles Is Good Public Policy” Forbes, November 2020 <https://www.forbes.com/sites/daneberhart/2020/11/19/subsidizing-electric-vehicles-is-poor-policy-thats-about-to-get-worse/>
- viii *Ibid.*
- ix *Ibid.*