

# Lessons from solyndra



essay: Lessons From SolyndraessaySolyndra2011? 9?, Solyndra, 1100?, Solyndra, In September 2011, solar energy giant Solyndra filed for bankruptcy and laid off all of its approximately 1, 100 employees. The collapse was a major embarrassment for the Obama Administration because both President Obama and Vice President Biden had publicly singled out Solyndra” recipient of some half a billion dollars in taxpayer-backed loan guarantees” as a shining success of their approach to job creation and climate change. The embarrassment soon turned to scandal, however, as legislators discovered that the Administration had apparently ignored early warnings about extending such loans to Solyndra. As of this writing (four months after Solyndras collapse), Republican legislators are still pressing the Administration to release more emails between key officials to determine when they learned the true situation. 1My goal here is twofold: first, to summarize the key events in the Solyndra case and explain why it is a scandal and not just a bad investment; and second, to look beyond the Solyndra case to critique the very concept of government loan guarantees to particular companies. Because both the George W.

Bush and Obama Administrations supported such loan guarantees, this is a bipartisan critique. Even if one accepts the premises of environmentalists who argue that the government should encourage private investment in technologies that do not emit greenhouse gases, the Department of Energy loan program is unjustified. Much more efficient policy options are available” options that are much less susceptible to corruption than are federal officials channeling hundreds of millions of dollars to privileged corporations. The Basic Timeline2When Solyndra was formed in May 2005, its business plan

was to manufacture cylindrical panels made of CIGS (copper-indium-gallium-selenide) thin-film solar cells. This was an unconventional approach, as Solyndras competitors typically produced solar panels made of silicon. In July 2005, the Bush Administration created the 1703 loan-guarantee program as part of the Energy Policy Act of 2005. According to the Department of Energys (DOE) website: Section 1703..

. of the Energy Policy Act of 2005 authorizes the U. S. Department of Energy to support innovative clean energy technologies that are typically unable to obtain conventional private financing due to high technology risks. In addition, the technologies must avoid, reduce, or sequester air pollutants or anthropogenic [manmade] emissions of greenhouse gases. 3In December 2006, Solyndra applied for a government-guaranteed loan under the 1703 program. After jumping through various bureaucratic hoops, by January 2009 Solyndra had convinced the DOEs credit committee that the project “ appears to have merit.” Even so, DOE still would not grant the loan guarantee without further information.

President Obama, who had taken office in January 2009, was scheduled to formally announce the loan guarantee on a March 19 trip to California. However, the announcement was canceled when White House staff raised concerns, including a budget analysts now-infamous email (apparently sent to his or her colleagues working for the president, though the names have been redacted) on March 10 saying “ This deal is NOT ready for prime time.” 4 At about the same time, an Energy Department official wrote in an email that “ a major outstanding issue” of the loan centered on projections showing that the actual recipient of the loan, Solyndras Fab 2 subsidiary,

would be very low on cash by September 2011 and might need help from its parent company. Notwithstanding these concerns, by March 20, Solyndra received conditional approval of the loan guarantee.

In August 2009, the White House Chief of Staffs office sent an email to the Office of Management and Budget (OMB), reminding it that the Vice President was scheduled to make an announcement regarding Solyndra and asking if there was anything the White House could do to “ speed along” the formal approval. In early September 2009, after the relevant parties had signed off, the DOE officially approved the loan guarantee to Solyndra. Three days later, Vice President Biden (via video link) and Energy Secretary Steven Chu, along with Governor Schwarzenegger, presided at a groundbreaking ceremony for Solyndra in Fremont, California. In his remarks to the crowd, 5 Biden said of the incoming Obama Administration: “ We knew we had to act. And within 200 days we passed” 200 days ago” we passed the American Recovery and Reinvestment Act...

. The Recovery Act is working and youre going to see it work right on that site.” Later in his remarks Biden said:[P]art of our plan is to make sure that as we create these jobs, we create jobs of the future, like the ones youre creating. Jobs you can raise a family on, green jobs, jobs that will serve as the foundation, for a stronger American economy. Which is why its so important we invest in Solyndra, and invest in what Solyndras doing, not just to get us through today, but to power our way to a much brighter tomorrow.

... Were journeying in a sense, closer and closer to the sun, to a more solar-powered America. And as we do, were leaving a shadow of a less efficient,

more damaging past behind us. And I'm really happy, along with the Secretary, to announce today, that we've closed a \$535 million loan guarantee for Solyndra" more than half a billion dollars. This is the first of what the Secretary's going to be announcing, the Department of Energy will be making available, for more than \$30 billion in loan guarantees the Recovery Act is providing, and will provide, to American companies that are leading the way to a new, clean energy future. The loan to Solyndra will allow you to build a new manufacturing facility, and with it, almost immediately generate 3,000 new well-paying construction jobs.

And once your facility opens, there will be about 1,000 permanent new jobs here at Solyndra, and in the surrounding business community, and hundreds more to install your growing output of solar panels throughout the country. It's important. It's important because these jobs are going to be permanent jobs. These are the jobs of the future, these are the green jobs, these are the jobs that won't be exported. These are the jobs that are going to define the 21st century and the jobs that will allow America to compete and to lead, like we did in the 20th century. [Emphasis added.]

]After Biden's remarks, Energy Secretary Chu" who won the Nobel Prize in physics in 1997 and is regarded by many as the perfect type of expert to direct scarce funds into socially-wise investments" said the following: I want to thank you all for working so closely with the Department of Energy on what will be a shared success story. I want to thank Vice President Biden for being a part of this event. I also want to thank Senator Feinstein..

. Senator Boxer, and of course Governor Schwarzenegger for their leadership to develop a clean energy economy in California. As you can see, if you build a better solar panel, the world will beat a path to your door.

Building a smarter solar panel is exactly what Solyndra has done. Compared to traditional solar panels, Solyndras innovative thin-film systems produce more energy for less money and less hassle. The proof that the world is clamoring for a clean energy economy, is that \$2 billion worth of pending solar orders. [sic] Because of this loan guarantee, those orders will be filled by American workers. You hear a lot these days about green jobs. Today were seeing them in action. [Emphasis added.

]On May 26, 2010, President Obama visited the Solyndra plant in Fremont. In his remarks, 6 he said: Its fitting that this technology is being pioneered here in California. Where else, right?..

. Its here that companies like Solyndra are leading the way, toward a brighter and more prosperous future.... [W]e recognized that there was only so much that government could do. The true engine of economic growth will always be companies like Solyndra..

.. But that doesnt mean the government can just sit on the sidelines. Government still has the responsibility to help create the conditions in which students can gain an education so they can work at Solyndra, and entrepreneurs can get financing so they can start a company. [Emphasis added.]By December 2010, Solyndra was out of cash and approached the DOE for another loan to avoid bankruptcy. Although there was no new infusion of taxpayer money, the government worked with Solyndra and by

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February 2011, the Obama Administration had restructured the original loan to Solyndra, allowing outside investors to pour in another \$75 million. Even so, by September 1, Solyndra had filed for bankruptcy and laid off its approximately 1,100 workers.

**The Appearance of Corruption** The basic timeline above demonstrates that the Obama Administration adopted Solyndra as the poster child of its stimulus package and of its efforts to fight climate change. Because the company collapsed, leaving taxpayers on the hook for perhaps half a billion dollars, the episode is not only an embarrassment politically, but also casts doubt on the government's ability to “pick winners” in the future. However, more than incompetence is involved: Solyndra has become a scandal due to evidence that key Obama officials acted inappropriately and ignored warnings that could have shielded taxpayers. For example, a mere two days before President Obama's visit to the Solyndra plant, an Obama fundraiser emailed his concerns: A number of us are concerned that the president is visiting Solyndra.

The press has reported that the company has had to restate earnings” and there is an increasing concern about the company because their auditors... have issued a “going concern” letter [which means they are warning of potential near-term bankruptcy]” RPM].

... Many of us believe the company's cost structure will make it difficult for them to survive long term. The company is burning through capital at a rate of over \$10.0 M per month from Q1-Q3 according to its own S-1 filing” and

over \$20 million a month including op ex [operating expenditures] and cap ex [capital expenditures]. This is a very large red flag.

This email was forwarded up the chain of command, and someone from the White House staff replied internally: “ Obviously, if the company were robustly well financed without our help, they wouldnt have needed our funding” so the going concern letter and its inability to file an S1 doesnt worry me per se. That said, we clearly need to make sure that they are stable and solid.” 8An even more serious problem concerns the restructuring of the original Solyndra loan guarantee, a move that placed new, private investors at the front of the line in the event of a default.

The result was that the governments (i. e., taxpayers) claims as a creditor were subordinated. Before the restructuring, Assistant Treasury Secretary Mary Miller wrote to Jeffrey D. Zients, deputy OMB director, and warned him that the change might be illegal.

She advised the DOE to consult with the Justice Department before continuing with the plan. “ To our knowledge that never happened,” Miller wrote to the OMB in August 2011. Making things even worse, a DOE stimulus adviser, Steve Spinner, whose wifes law firm represented Solyndra on the application, repeatedly pushed for the original loan guarantee to be approved.

For example, Spinner wrote an email to an OMB staffer in August 28, 2009 (just before the official approval) asking, “ How [expletive] hard is this? What is he waiting for? Will we have it by the end of the day?” 9Fueling suspicion of corruption is the fact that from 2008 to 2011, Solyndra spent almost \$1. 9



million on lobbyists. 10 Partisans also argue over the significance of George Kaiser, a major fundraiser for the Obama campaign whose firm, Argonaut Ventures, participated in the infusion of new money into Solyndra (and now stands ahead of taxpayers in the liquidation process).

Kaiser visited the White House repeatedly in 2009 and 2010 and (according to released emails) discussed Solyndra, despite earlier White House denials that the topic had ever come up. 11 Finally, the most recent aspect of the brewing scandal involves the Administrations apparent effort to get Solyndra to delay the announcement of the layoffs of 200 workers until after the 2010 midterm elections. 12 Federal Loan Guarantees Inefficient, Even When a “Success” Despite the efforts to cast Solyndra as a lone bad apple, the Department of Energy has guaranteed other renewable energy projects that later collapsed. 13 However, even if the DOE program had always backed “winners” meaning that no borrower ever defaulted, and so taxpayers never contributed a dime” it still would have encouraged an inefficient use of resources.

As the White House staffers email ironically illustrated, the reason that firms such as Solyndra need government backing is that private investors think the loans are too risky. When the government comes in and, in effect, co-signs on the loan, this doesnt remove investors original doubts. Rather, it simply leaves the taxpayer on the hook should something go wrong, while private investors get to keep their gains if everything goes right. (The Solyndra case is even more convoluted because much of the federally guaranteed loan amount came directly from the Federal Financing Bank, part of the Treasury. 14) Government loan guarantees do not create more

physical resources and do not (by themselves) induce individuals to save more. Consequently, when the government backstops a particular loan that would not otherwise have occurred, it draws scarce funds away from other projects that private investors originally preferred, all things considered. Unless we have some compelling reason to believe that politicians and their staffs are more careful with taxpayer dollars than private investors are with their own money, such loan guarantees will cause investment to be deployed into inferior uses.

The Problem of Climate Change Proponents of the DOE's loan guarantees have responded to the Solyndra failure by saying that the program has been, overall, an “unmitigated success” in encouraging investment in socially beneficial renewable-energy projects that would not have occurred with purely private financing. 15 In the eyes of these defenders of the DOE, the alleged “negative externalities” of climate change mean that the market economy currently yields too many coal-based power plants and too few solar- and wind-based plants. Even if we accept every premise of that argument, it would still not justify the federal government's granting loan guarantees to particular projects. For one thing, the potential for abuse and corruption, especially in light of the Solyndra scandal, should be all too obvious.

If government officials have the ability to steer hundreds of millions of dollars into the coffers of specific companies, it is very naive to expect that science alone will guide the process. Even if we set aside the practical problem of corruption, a small group of government “experts” does not, in principle, have all of the relevant knowledge needed to determine which projects

should get a helpful assist in their funding. Furthermore, even if the bureaucrats knew which projects should receive more funding than the market alone would provide, how could they determine the appropriate dollar amount of the loan guarantee? The Solyndra example illustrates the point. Even if Secretary Chu et al. were right in thinking that solar-panel manufacturers represent the wave of the future, these officials, in backing Solyndra, made a much more specific bet on the type of solar panel. The company unraveled, in part, because the price of traditional silicon solar panels fell much more rapidly than most analysts had anticipated.

Even if we concede their premise of the need for government to correct negative externalities, those economists who are concerned about climate change should, at most, favor a generic tax on carbon emissions or some version of a “ cap and trade” system. Under such an approach, the government” again relying on “ experts” who might come up with a grossly wrong number” would force private individuals and firms to “ internalize the externalities” of their behavior with respect to climate change. Although there are serious problems with a carbon tax, 16 it would, at least in theory, lead to an efficient response to the threat of climate change.

Once the alleged market failure had been corrected, the standard profit and loss signals would perform their magic, just as they do in conventional sectors. If the specter of damages from carbon emissions really did mean that more investment should flow into solar panels, then the relatively higher tax placed on coal-burning power plants would automatically give solar an advantage. So long as the government had correctly quantified the “ social cost of carbon” and penalized carbon usage appropriately, market forces

would once again, as if by an Invisible Hand, lead businesses and consumers to the efficient outcome. essay essay -X