



The Daily Dish

Senate CHIPS Bender

TORI SMITH | JULY 28, 2022

Policy agreement between proponents of free trade and Senator Bernie Sanders is uncommon to say the least. Yet the now-dubbed “CHIPS+” bill ([HR 4346](#)), which passed the Senate on Wednesday 64-33, brought these unlikely allies together. [Senator Sanders](#) called the bill “corporate welfare” and a “blank check” to semiconductor producers. He’s right.

The Senate-passed bill would create a \$76 billion slush fund (\$52 billion for subsidies and \$24 billion for tax credits) for the Commerce Department to dole out to semiconductor producers. It would also spend roughly \$200 billion on science and technology research grants.

Eakinomics has [preached](#) at length about the downsides of the many varieties of CHIPS served in Congress. AAF’s Tom Lee and I also recently covered the [good, bad, and ugly](#) of the trade provisions in the previous versions of CHIPS. Yet the CHIPS+ subsidies will create market distortions and trade consequences should the president sign the bill into law.

1. CHIPS+ could be a countervailable subsidy.

CHIPS+ is corporate welfare. Congress may call it a grant, but the trade term in this context is a subsidy. The bill does not seem to directly discriminate against foreign semiconductor manufacturers, but it does provide an incentive that foreign producers could see as unfair. The United States has countervailing duty laws in place to address subsidies like this one provided by foreign governments. These duties (also known as tariffs) make the imports more expensive in the U.S. market. Other countries have similar laws, and it is likely that U.S. semiconductor exports could be subject to such duties as a consequence of CHIPS+.

2. CHIPS+ could stimulate a global oversupply.

A CHIPS bill, with a [starting price tag](#) of \$16 billion, was originally proposed to address the COVID-19 pandemic-related semiconductor shortage. In 2020, when this first proposal came about, semiconductor producers were more concerned with running their businesses than with lobbying Congress for subsidies. A [new piece](#) by AAF's Fred Ashton details the private-sector investment currently planned to expand domestic and global semiconductor production: nearly \$80 billion in new U.S. investment by 2025 and more than \$800 billion in spending globally over the next 10 years. CHIPS+ is an unnecessary and wasteful handout to solve a shortage that the private sector is already addressing.

Intel - a major beneficiary and now advocate for CHIPS funding - is [venturing into new territory](#) with its factory in Ohio. Intel's chip production is behind the industry leaders TSMC and Samsung. Oversupply in the very near term could give Intel the flimsy evidence it needs to file a petition for trade protection in the medium term when it finds out that it takes a lot of time and money to be on the cutting edge of semiconductor production.

TL;DR - CHIPS+ is a subsidy that could lead to new countervailing duties on U.S. semiconductor exports and these subsidies could cause a global oversupply that would provide the pretext for new U.S. tariffs on semiconductor imports. In the end, taxpayers lose because CHIPS+ spends money we don't have and could increase the price of chips.