Solyndra Failure Stirs Investigation And Politics, And Poor Historical Memory

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As the critical subject of spending, the economy, and job creation circulates within D.C. and the nation, the recent bankruptcy filing of California solar company Solyndra – which only two years ago received a $535 million loan from the U.S. government – has begun to dominate economic and political news and discussion this week.

At a hearing yesterday held by the House Energy and Commerce investigative subcommittee, Republican and Democratic lawmakers questioned the Obama Administration's decision to refinance Solyndra's $535 million loan (which released another $67 million to the company) when there were indicators revealing the solar company was potentially near collapse.

Republican lawmakers in particular have pounced on the White House over the Solyndra failure, pointing out emails that they said showed the White House rushed the financing of Solyndra so that Vice President Joe Biden could attend a September 2009 groundbreaking event for the company's new factory and announce the approval of the loan guarantee.

"The documents demonstrate that, when DOE was reviewing the Solyndra guarantee in 2009, it was well aware of the financial problems the deal posed," Rep. Cliff Stearns (R-FL), chairman of the panel's Oversight and Investigations subcommittee, said yesterday. "What the documents show is that the rush to push out stimulus dollars may have impacted the depth and quality of DOE and OMB's review."

The committee also released a memorandum which asked how the Department of Energy (DOE) and Office of Management and Budget (OMB) "ignored red flags in their rush to spend stimulus dollars" by backing the loan guarantees for Solyndra.

"The political pressure to approve the Solyndra deal appears to have caused DOE and OMB to miss or disregard numerous shortcomings regarding Solyndra's financial viability," the memorandum said.

"E-mails and communications produced to the committee show that DOE and OMB staff repeatedly questioned whether the company had the financial resources to support the operations of the loan guarantee project, a 650,000-square-foot manufacturing facility for solar panels," the memorandum further stated.

Playing politics, Republicans have pointed out that one of Solyndra's main financial backers, billionaire George Kaiser, also happens to be a big Democratic campaign donor.

(It deserves to be pointed out to Republican critics who are trying to infer that the loan to Solyndra was politically motivated that President Bush tried to get a loan to Solyndra conditionally approved before Obama took office. Furthermore, one of the earliest and biggest investors in Solyndra was Madrone Capital Partners, which is funded by the Waltons of Wal-Mart fame who have donated millions to Republican campaigns. The CEO of Solyndra, Brian Harrison, is also a registered Repbublican.)

But the Obama Administration, while cooperating with the House investigation, is pushing back.

White House Press Secretary Jay Carney defended the loan guarantee to Solyndra, arguing that there is no such thing as a risk-free investment, especially in new technology markets such as clean energy.

Democrats are also saying that the Solyndra loan represented a tiny fraction of the $40 billion in clean energy investments backed by the DOE.

All parties have a point here: oversight of government finance management is always critical; but all investments come with risk, including the risk of bankruptcies such as experienced by Solyndra.

And Solyndra's bankruptcy may not be a bad thing in the long term when it comes to overall return on investment in new technology. Andrew Holland, Senior Fellow for Energy and Climate at the American Security Project and regular contributor to The Atlantic, offers some sobering insights as well as an important reminder from economic history:

[P]olicymakers should be careful not to besmirch the entire concept of clean energy subsidies because of this one bad experience.

The DOE's loan guarantee program is the most important of the government's clean energy subsidies. It was the centerpiece of Title XVII of the Energy Policy Act of 2005. This was the section of the bill devoted to creating incentives for new technologies that reduced greenhouse gas emissions. It was offered as an amendment in the Senate, supported by both Republicans and Democrats, as the consensus method for mitigating climate change. The argument at the time, put forth by Republican senators like Chuck Hagel and Pete Domenici, was that we should fight climate change by investing in new technology, not by government mandates or a carbon price.

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[T]he argument has taken hold that any spending and subsidies for clean energy are a "boondoggle" or just throwing money down a rathole. There is a real danger that the short cuts that may have been taken on the Solyndra loan will poison this important subsidy program.

The solar industry is in a period of rapid flux right now. It is seeing drastically reduced prices; they have dropped from about $2 per watt in 2009 to about $1.40 today and are moving toward $1 per watt in 2012. This rapid drop in prices will soon make installing new solar competitive with traditional electricity generation, like coal or natural gas. Firms such Solyndra, whose business models required a high price, will have a hard time staying in business under such intense competition.

An important comparison for the solar industry today is the auto industry a century ago. Have you ever heard of the Lexington Motor Company, the Kissel Kar, or the Liberty Motor Car? These were all auto manufactures that ceased to exist over the course of the Ford Model T's 19-year production run, between 1908 through 1927. They went bankrupt because they could not compete on price, quality, or capacity with the standard set by the Model T. You may, however, have heard of Pontiac, Cadillac, Oldsmobile, and Chevrolet — they were all independent companies that were acquired by General Motors in this period. As an industry matures, we should expect to see a shakeout through bankruptcies and mergers that leads to fewer, but bigger and stronger, companies.

Today, we are seeing this consolidation in the solar industry. The U.S. Solar Energy Industries Association lists over 1000 member companies in the U.S. Around the world there are thousands more. That is surely far too many for an efficient industry. Already, the solar equipment industry has seen $3.3 billion in mergers and acquisitions activity this year. Solyndra is the most high-profile American solar bankruptcy this year, but not the only one: Evergreen Solar and SpectraWatt have also filed for bankruptcy this year.

Among TurnerGPA's focuses is energy policy, and we are fortunate to have former New Mexico Congressman Harry Teague on our team. Harry fought in Congress for policies to build America's clean energy economy. One of his highest priorities was to spur investment in job-creating renewable energy projects, including wind and solar, despite the fact that he headed a company involved in the oil business.

"Frankly, Rep. Teague's unabashed willingness to put America's interests above self-interest is refreshing and commendable," said Caren Z. Turner, President of Turner GPA.