Are We Subsidizing Our Own Tariffs? Rethinking the Rare Earth Revival

written by Jack Lifton | October 4, 2026

Washington wants to rebuild an American rare earths industry. It is committing public money to mining, separation, metal-making, and magnet manufacturing while using tariffs to encourage domestic production. These policies are presented as complementary instruments of industrial revival. But what happens when one policy increases the cost of building the facilities that the other policy is financing?

We may be subsidizing an industry partly to compensate for costs we imposed on it ourselves.

A September 30 report published by the American Enterprise Institute, *The Impact of Tariffs on the Cost of Capital in the US*, deserves the attention of everyone financing America's rare earths revival. Its authors, Kyle Pomerleau, Thomas Brosy, Robert McClelland, and John Wong, examine how tariffs on imported equipment and the inputs used to manufacture capital goods affect investment economics.

Their baseline analysis estimates that the tariff regime in place before the Supreme Court struck down the emergency-powers tariffs in February 2026 increased the economy-wide cost of capital by as much as 2.7% and raised the marginal effective tax rate on new investment by 4.2 percentage points. Those estimates describe a particular tariff regime, not today's burden on a rare earths project. Nevertheless, the underlying mechanism is directly relevant: taxing the equipment and materials required to build productive capacity makes that capacity more expensive.

The report uses “cost of capital” in the economic sense of the gross return an investment must earn to cover its costs, including depreciation, financing, and taxes. It does not mean every company’s borrowing rate rose by 2.7 percentage points. The distinction matters. A plant can become less attractive to investors even if its interest rate remains unchanged, simply because acquiring and installing its equipment costs more.

For rare earths, this is an industrial problem with financial consequences.

America cannot restore a competitive rare earths supply chain by opening mines alone. A mine produces material that must pass through a sequence of operations before it becomes a component that an original equipment manufacturer (OEM) can use. Beneficiation, chemical extraction, separation, refining, metal-making, alloying, magnet manufacturing, and customer qualification each require their own capabilities. Each also requires equipment, people, and working capital.

A tariff on a finished imported magnet may improve an American magnet manufacturer’s competitive position. A tariff on the machinery needed to manufacture that magnet may worsen it. A tariff on imported feedstock can burden a domestic processor before a suitable domestic supply exists. The result depends on what is taxed, where in the chain the tax falls, and what alternatives are actually available.

The words “protecting American industry” do not resolve those questions.

Some imported equipment can be replaced by American equipment. Some can be sourced from allied countries. Some have no immediately available domestic equivalent with the required performance and operating history. Developing an alternative takes time, engineering work, and money. A purchasing manager

cannot substitute patriotism for a furnace, a control system, or a production line that meets specifications.

Buying an American-made machine also does not necessarily eliminate tariff exposure. Its manufacturer may use imported components or materials. The burden can reach a project indirectly through the price its domestic supplier charges.

Consider a hypothetical plant requiring $100 million of equipment. If $40 million of that equipment is subject to an effective 25% tariff, and the purchaser bears the full charge, the project must find another $10 million before allowing for financing effects or other cost changes. This example is arithmetic, not an estimate for any named company. But it illustrates the problem: the additional expenditure does not, by itself, create additional throughput, improve recovery, or produce a better magnet.

Now introduce government financing.

A grant can reduce the amount of private capital needed. A government loan can provide financing that private lenders are unwilling to supply on acceptable terms. A loan guarantee can reduce the risk borne by a lender. A purchase commitment can reduce uncertainty about future demand. A price floor can protect a producer against specified market outcomes.

These instruments can make a strategically necessary project financeable. They do not all accomplish the same thing, and none automatically solves the project's metallurgy.

MP Materials Corp.'s (NYSE: MP) July 2025 agreement with the Department of Defense illustrates the breadth of intervention now possible. The announced arrangement included a $400 million preferred-equity investment, a $150 million loan commitment for heavy rare earths separation, a ten-year price floor of $110 per

kilogram for neodymium-praseodymium (NdPr) oxide, and a ten-year purchase agreement covering magnet output from its planned 10X facility. These are distinct forms of capital and commercial support, rather than a single uncomplicated subsidy.

The relevant question is what industrial capability such arrangements buy, at what total cost, and with what continuing obligations.

I accept that national security can justify paying more for a dependable supply than the lowest available market price. A supply interruption can impose costs far greater than the premium required to maintain an alternative producer. But that premium should be identified honestly. A strategic procurement decision is not proof that the supported operation has achieved commercial competitiveness.

Government support can finance the learning period during which a competent producer improves recovery, reduces scrap, raises throughput, and qualifies its products. It can also conceal persistent operating deficiencies if continued support becomes the substitute for correcting them.

This is where capability due diligence must precede financial enthusiasm.

Before committing public money, the government should determine whether the process works on representative feedstock, whether it works repeatedly, and whether it can operate at the proposed throughput. It should establish what product will be delivered, which customer needs it, and what qualification remains. Announced capacity is not qualified production. A successful laboratory sample is not evidence of continuous commercial operation.

The same questions apply to private investors.

A government-backed company may enjoy lower financing risk without enjoying lower technical risk. A guaranteed market may support revenue without establishing efficient production. A rising share price following a financing announcement tells us what investors expect; it does not tell us how many tonnes of specification-compliant material the plant can deliver.

Selective government financing introduces another possible unintended consequence. Supported companies may obtain capital and expand on terms unavailable to technically capable competitors. That can be justified if the selection reflects demonstrated capability and strategic need. It becomes dangerous if political visibility or promotional skill substitutes for industrial merit.

We could end up financing redundant capacity at one stage while leaving an essential bottleneck elsewhere unresolved.

The sensible starting point is the customer. What magnet does the OEM require? What alloy makes that magnet? What metals make that alloy? Which separated products and feedstocks are needed to supply those metals? Build the supply chain backward from those requirements, then identify the missing capabilities.

This approach may lead to a domestic plant supplied initially with allied feedstock, or to an American manufacturer using proven foreign equipment while domestic equipment capability develops. Such arrangements require careful assessment of supply risk, but they can create useful American production sooner than insisting that every stage become domestic simultaneously.

Assess tariffs against that industrial sequence. Protecting a product while taxing the means of producing it can defeat the purpose of protection. Financing the resulting cost increase with public money can obscure the contradiction without removing it.

Government financing should likewise be tied to measurable progress: sustained recovery, throughput, product purity, customer qualification, and delivery. If continuing support is necessary for strategic reasons, its cost and purpose should remain visible.

America needs a functioning rare earths industry. It takes money to build it, but money alone cannot produce it. The objective must be dependable materials delivered to manufacturers, not the largest financing announcement or the most impressive list of proposed facilities.

Governments and financial markets cannot suspend economic reality. When Washington raises the cost of rebuilding an industry and then offers money to overcome that cost, investors should ask how much new capability the country is actually gaining — before celebrating the revival.