

The Government Can Set the Price of Rare Earths. It Cannot Set Their Value.

written by Jack Lifton | October 20, 2026

In a Financial Times [commentary](#) published on October 8, 2026, economist Mohamed El-Erian examines the United States Treasury's growing willingness to intervene directly in financial markets to achieve political and economic objectives. He cites the Argentine peso, American Treasury bond yields, and the Japanese yen. His underlying argument is that government intervention can succeed when it aligns with economic fundamentals, but can fail, sometimes spectacularly, when political objectives replace those fundamentals. I believe El-Erian's analysis applies directly to the current American effort to rebuild a domestic critical minerals industry, particularly the attempt to establish a non-Chinese rare earth supply chain. Indeed, I think the consequences of government intervention in critical minerals pricing may ultimately matter more for American manufacturing than the financial market interventions he discusses.

The United States government has entered a new era of economic statecraft in which national security considerations increasingly determine capital allocation. The federal government is no longer content simply to regulate, tax, subsidize, or purchase industrial products. It is becoming an investor, a lender, a price guarantor, and, in some cases, a preferred customer. It also tries to decide which industries should exist in the United States, how quickly they should develop, and what prices their products should command. **The difficulty is that governments can create financial incentives, but they cannot repeal the laws of chemistry, physics,**

engineering, or economics. For the critical minerals industry, this distinction is fundamental, and I fear that Washington's current enthusiasm for industrial intervention is obscuring it.

I have argued for years that the American discussion of critical minerals reflects a fundamental misunderstanding of the industrial supply chain. A mineral deposit is not a metal, a metal is not necessarily an industrial material, and an industrial material is not a qualified component ready for use by an original equipment manufacturer. The economic value of a mineral deposit is determined not simply by the quantity of an element that it contains, but by the cost of extracting that element, separating it from the other constituents of the deposit, converting it into a useful chemical or metallic form, and ultimately manufacturing a product that a customer can and will purchase. A rare earth deposit may contain substantial quantities of neodymium, praseodymium, dysprosium, and terbium, but unless those elements can be economically recovered, separated, refined, converted into metals and alloys, and incorporated into qualified magnets, the deposit's theoretical value may have little relationship to its commercial value.

The American government appears increasingly determined to accelerate this process through financial intervention. Its objective is understandable. China dominates the commercial production and processing of rare earths and has developed an industrial infrastructure that the United States allowed to disappear over several decades. But losing that infrastructure was not simply a financial event. It was an industrial and technological event, involving the disappearance of manufacturing capacity, experienced personnel, specialized equipment, customer relationships, and accumulated operating knowledge. Reversing it requires much more than raising raw material prices or subsidizing the market capitalization of companies that claim they intend to restore what was lost.

The clearest example of government intervention in the American rare earth market is the Department of Defense's July 2025 [agreement](#) with MP Materials Corp. (NYSE: MP). Its [price protection agreement](#) establishes a ten-year mechanism based on US\$110 per NdPr kilogram equivalent, as defined in the contract, covering eligible neodymium-praseodymium in concentrate, oxide, and metal products. Quarterly government payments compensate MP Materials for the shortfall when the contractual volume-weighted benchmark falls below that threshold, subject to the agreement's eligibility and calculation provisions. After the specified production milestone associated with the 10X facility, the government is entitled to 30% of the amount by which that quarterly benchmark exceeds US\$110 per NdPr kilogram equivalent, applied to eligible volumes. This is not an ordinary commercial supply agreement. It explicitly intervenes in the economics of rare earth production, intended to provide revenue certainty for a strategically important domestic producer.

It is important to distinguish this price floor from a universal American market price. The government has not ordered every American buyer to pay US\$110 per NdPr kilogram equivalent. Instead, it has established a contractual financial guarantee for a particular producer, based on a specified benchmark. Nevertheless, the agreement has created a powerful reference point for investors, financiers, and other rare earth companies seeking government support. The government is effectively declaring that the prevailing international price may be inadequate to sustain the domestic industrial capacity it considers essential for national security. That judgment may be correct, but acknowledging its possible validity does not mean the US\$110 contractual threshold is the economically correct price for every NdPr product, or that every proposed American rare earth project becomes commercially viable at that price.

China's rare earth industry did not achieve its dominant

position through an ideal free market. It benefited from decades of industrial policy, state directed investment, infrastructure development, technological accumulation, and the concentration of manufacturing demand within China. The resulting prices cannot automatically be treated as those that would prevail in a genuinely competitive global market. The United States can therefore reasonably question whether Chinese quotations adequately reflect the cost of creating and maintaining an independent supply chain. But the appropriate question is not whether the American government can establish a price floor. Clearly it can. The question is whether that floor supports a competitive industry or merely shields selected companies from the consequences of their own operating costs.

Unlike copper, aluminum, or gold, the rare earths are not traded in a deep, liquid, transparent international market with universally accepted exchange prices. China has domestic quotations, export quotations, prices reported by specialist agencies, negotiated contract prices, and increasingly government supported Western pricing arrangements. These are not necessarily interchangeable. A kilogram of dysprosium oxide offered in China is not economically identical to a kilogram of qualified dysprosium metal delivered under a long term contract to an American alloy manufacturer. The difference includes processing costs, logistics, financing, specifications, supply security, and the risk that a shipment may not be licensed for export. Consequently, it is entirely reasonable that an American manufacturer might pay a premium for a dependable non-Chinese supply, but that premium must be understood and justified.

Is the buyer paying for an actual improvement in reliability, quality, and delivery security, or is the buyer being asked to subsidize an inefficient production system that cannot otherwise survive? These are very different propositions. The first represents the commercial value of supply chain security, while

the second represents a transfer of wealth from the customer or taxpayer to the producer. The distinction becomes particularly important when governments begin treating prices in their own financial support agreements as evidence of an entire industry's market value. A government guaranteed price is not proof of an independently sustainable commercial market, and a price established for national security reasons should never be confused with a price discovered through competitive commercial transactions.

I believe that the world is moving toward two increasingly distinct rare earth pricing systems. The first is the China centered industrial market, where the overwhelming concentration of separation, metal making, alloy production, and magnet manufacturing gives China enormous influence over prices and availability. The second is an emerging Western strategic market, where governments and manufacturers will pay premiums for materials produced outside Chinese control. These two markets are not inherently irrational. A secure supply has an economic value that may not be reflected in the lowest available spot quotation. The danger arises when the strategic premium detaches from the actual cost and performance of the alternative supply chain, creating an artificial pricing structure that encourages investment in capacity without showing the capacity can operate competitively.

In a hypothetical example, consider an American producer that requires US\$110 per kilogram for a specified NdPr product to cover its costs, while a competing Chinese producer can deliver the same specification on comparable terms for US\$70. The illustrative US\$40 difference might represent the legitimate cost of maintaining a strategically independent source. It might also represent poor recovery rates, inefficient processing, excessive capital expenditure, inadequate plant utilization, or an uncompetitive business model. The price difference alone

cannot tell us which explanation is correct. That requires industrial due diligence, not political enthusiasm. The same question matters even more for dysprosium and terbium, where limited non-Chinese separation capacity, restricted export availability, and relatively small market volumes can drive enormous price volatility. A government supported Western price for a heavy rare earth oxide may provide the revenue certainty needed to finance a separation plant, but it cannot guarantee the purity, recovery, throughput, operating cost, or customer qualification needed for commercial success. Nor does the ability to produce a commercial sample demonstrate the ability to produce commercial quantities profitably.

The United States is trying to rebuild a rare earth supply chain from mining to magnet manufacturing. This is often described as mine-to-magnet integration, as though owning or financing all stages automatically creates a functioning industrial system. It does not. Mining, mineral beneficiation, chemical separation, oxide refining, metal reduction, alloy production, powder metallurgy, magnet manufacturing, and final component qualification are distinct industrial operations. Each has its own capital requirements, technological risks, production economics, and specialized workforce. A company may be exceptionally competent in one stage and entirely inexperienced in another, and the government's current approach risks confusing financial integration with industrial integration. The real test is whether each operation can consistently produce a material that meets the next operation's specifications, at the required volume, and at a cost that keeps the finished product competitive.

The ultimate customer is not the mine or the separation plant. It is the manufacturer of an automobile, aircraft, industrial motor, electronic device, or defense system. The supply chain should therefore be designed backward from that customer's

requirements. A manufacturer does not purchase a rare earth deposit. It purchases a component with specified performance, reliability, cost, and delivery characteristics. If the finished component cannot compete in the market, raising the price of the rare earth material used to manufacture it will not solve the problem. It may make the problem worse, especially if the price increase is accompanied by tariffs, domestic content requirements, higher energy costs, and the cost of financing new industrial facilities.

Government directed strategic pricing also raises the question of who bears the cost when domestic mineral prices exceed comparable international quotations. Grants and price support payments can create direct budgetary costs, while loans and equity investments carry financial risks and may also generate repayments or returns. The face value of a loan or investment is therefore not automatically a taxpayer cost; its [fiscal consequences](#) depend on financing terms and performance. Manufacturers may instead pay a premium directly, making it part of the finished product's cost. For a sophisticated industrial component, rare earth content may represent only a small fraction of the selling price, so a substantial rise in an oxide price does not necessarily produce a similarly large rise in the finished product's price. The potential cost pressure is real, but its effect on manufacturers, consumers, and public budgets depends on how the support is structured and how costs are absorbed.

The economic consequences become more serious if tariffs, domestic content requirements, higher energy costs, higher financing costs, and strategic mineral premiums are imposed simultaneously. The government may then subsidize the production of expensive domestic materials while also increasing the cost of the American manufactured products that would consume them. That would be an extraordinary unintended consequence of a

policy intended to restore American manufacturing. It is also important to recognize that the United States no longer manufactures many finished products that Americans purchase and that contain rare earth permanent magnets. Producing additional magnets domestically does not automatically restore the manufacturing of the motors, compressors, generators, actuators, and other components that use them. High domestic magnet prices may discourage those downstream industries from returning if foreign competitors keep buying lower cost magnets and components. Thus, a poorly structured policy to build an American rare earth magnet industry could make it harder to restore the American industries that consume those magnets. This is the central industrial contradiction that Washington must resolve.

[Project Vault](#), announced on February 2, 2026, introduces another dimension to this problem. It is an independently governed public-private partnership establishing a U.S. Strategic Critical Minerals Reserve, with EXIM approving a direct loan of up to US\$10 billion to support a structure involving original equipment manufacturers and private capital providers. Its [demand-driven design](#) uses manufacturers' purchase commitments to guide stockpiling, rather than relying solely on discretionary government purchases. That commercial participation matters, but financing an emergency inventory does not by itself establish that every supplier's proposed expansion will be economically sustainable. More generally, a stockpiling program can encourage excess capacity if producers mistake initial inventory purchases for a permanent increase in industrial consumption. I believe the industrial test is whether reserve procurement and subsequent replenishment support productive capacity that can also serve customers at commercially acceptable prices.

Government intervention has another consequence that investors should examine carefully. When a company receives government

investment, a price guarantee, a loan, or a purchase commitment, the market may interpret that support as evidence that the company has been selected as a future industry leader, and its share price may rise dramatically. But a government financing decision is not equivalent to a successful technical evaluation, a completed production qualification, or proof of long term profitability. A company can become extremely valuable in the stock market before it has demonstrated that it can manufacture its intended products commercially. The distinction between the value of a company's securities and the value of its productive industrial assets is becoming increasingly important in the critical minerals sector. Indeed, government intervention may create financial opportunities far more attractive than the underlying industrial development opportunities.

This is not a theoretical concern. When government support raises a commodity's expected selling price, junior mining companies can incorporate that higher price into their projections of future revenue, discounted cash flow, and theoretical project value. The resulting increase in estimated net present value may occur without any improvement in the deposit, metallurgy, recovery, capital cost, operating cost, or probability of actually reaching production. An increase in an assumed selling price is not a technological achievement. Investors must therefore distinguish between a project that becomes viable because its operating economics have improved and one that appears viable only because its financial model assumes a government supported price. They must also ask whether the support is legally committed to the company in question or merely inferred from a government agreement with somebody else. A contractual floor of US\$110 per NdPr kilogram equivalent for one producer does not entitle every prospective producer to the same protection.

El-Erian's discussion of government intervention in currency and

bond markets offers a useful framework for understanding the risks now developing in critical minerals. Intervention is most likely to succeed when it addresses a clearly identified market failure, has sufficient resources behind it, and remains consistent with the market's underlying economics. It is less likely to succeed when it attempts to impose a politically desirable outcome upon economic conditions that cannot sustain it. Applied to rare earths, this means government assistance may be justified to overcome the enormous initial costs of rebuilding an industrial capability with strategic value that cannot attract sufficient private investment under current market conditions. There is a legitimate argument for financing separation plants, metal making facilities, alloy production, and magnet manufacturing when the private market undervalues their national security benefit. There is also a legitimate argument for temporary price protection against predatory pricing or deliberate supply manipulation. But such assistance must have an industrial objective and a measurable standard of success.

The objective should be to establish competitive productive capability, not to maintain the market capitalization of a politically favored company. The government should ask how much qualified material a facility can produce, what it costs to manufacture, who will buy it, and how quickly the facility can reduce its dependence on public support. Those are industrial questions, and announcing another multibillion dollar financing program cannot answer them. Nor can they be answered by assuming that every mineral deposit containing a strategically important element must be developed into a vertically integrated industrial enterprise. Such an approach ignores the historical development of successful manufacturing industries, which have depended upon specialization, economies of scale, technical competence, and reliable commercial relationships among

suppliers and customers.

I believe American critical minerals policy should begin by identifying the specific industrial capabilities whose absence creates unacceptable national security risks. For rare earth permanent magnets, these include reliable separation of the required rare earths, production of metals and alloys to specification, magnet manufacturing, and qualification by the industries that use the magnets. The government should then determine which capabilities commercial demand can support and which require a continuing strategic premium. Where a premium is necessary, it should be explicit, measurable, and justified by the value of the security being purchased. Government assistance should favor demonstrated technical competence, realistic capital budgets, independently verified operating costs, and credible customers. It should not be distributed primarily based on a mineral resource's size, the promotional appeal of a business plan, or the political influence of a company's sponsors.

I would particularly favor supporting specialized processing companies that can serve multiple customers rather than requiring every mining venture to build its own complete processing and manufacturing system. The historical success of industrial economies has depended upon specialization, scale, and the accumulation of technical expertise, and there is no reason to assume that rare earths are exempt from these principles. The United States should also recognize that an economically viable supply chain need not be entirely domestic. Reliable production in allied countries can support American industrial security, provided contractual obligations, export policies, and industrial capabilities are sufficiently dependable. The goal should be supply security and competitive manufacturing, not the political symbolism of locating every operation within American borders.

I return to the question that I believe should govern every investment in critical minerals: Who is the customer? I do not mean the government agency providing a grant, the investment bank arranging financing, the brokerage firm promoting the shares, or the investors hoping for a higher stock price. I mean the industrial customer that needs the material, in what form, at what specification, in what quantity, and at what price. If that customer does not exist, or if the customer can purchase an equivalent qualified product elsewhere at a substantially lower total cost, then the proposed investment requires a very careful explanation. National security may justify paying more for an assured supply, but it does not justify ignoring the difference between a commercially useful product and an expensive demonstration of technical possibility.

Domestic separation alone does not establish a complete rare earth magnet supply chain, although some oxides already have [direct industrial uses](#), such as cerium oxide in glass polishing. For magnet rare earths, strategic value also depends on dependable downstream conversion into metals, alloys, and qualified magnets that manufacturers can use. The broader principle applies to lithium, cobalt, nickel, graphite, tungsten, gallium, germanium, and every other material on the government's expanding lists of critical minerals. Those lists identify potential vulnerabilities. They do not establish viable markets or commercially acceptable prices, and they certainly do not guarantee that a company with a mineral resource can turn it into a profitable industrial business.

Mohamed El-Erian is warning that repeated government intervention in financial markets can undermine the credibility of the institutions conducting those interventions when political objectives conflict with economic reality. I believe the same warning applies, even more strongly, to the American critical minerals industry. The United States has legitimate

reasons to reduce its dependence on China for strategically important materials, and those reasons may justify expenditures that ordinary commercial calculations alone would not warrant. But the nation must understand what it is purchasing. Is it purchasing a temporary supply of materials, financing a permanent industrial capability, compensating a producer for the additional cost of supply chain security, or simply transferring public money to investors in enterprises that may never become commercially competitive? These objectives are not interchangeable, and confusing them will lead to costly mistakes.

If government intervention is to succeed, the financial structure must serve the industrial objective, not the other way around. A price guarantee can support a factory, but it cannot make an inefficient factory efficient. A government loan can finance equipment, but it cannot make that equipment operate successfully. A tariff can raise the cost of imports, but it cannot create a qualified domestic alternative where none exists. A government investment can increase a company's share price without increasing its ability to produce anything. The restoration of American critical minerals production is an industrial undertaking, not a financial market exercise, and its success will ultimately be measured not by the amount of public money committed or the valuations assigned to favored companies, but by the quantity, quality, reliability, and competitiveness of the materials that American industry can actually obtain.

The government can establish the price it is willing to pay for strategic independence. Only a functioning industrial economy can determine what that independence actually costs. Policymakers, financiers, and investors ignore this distinction at their peril, because governments and financial markets cannot suspend economic reality. Industrial policy should restore the capacity to create economic value, not manufacture financial

valuations through political decisions. If the United States succeeds in rebuilding a competitive critical minerals industry, it will be because it has restored the industrial skills, technologies, production facilities, and customer relationships that make such an industry possible, not because Washington has decreed what rare earths ought to be worth.

And the final lesson, as always, is to follow where value is added.