

Yes, Socialists Should Support Industrial Policy and a Green New Deal

BY

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The capitalist system may be turbulent, inequitable, and antisocial. But there is no “iron law” of capital standing in the way of a program of economic planning for sake of the climate.

A few days ago, Dylan Riley wrote a post on *New Left Review's Sidecar* blog that provoked a furious response on left-economics twitter. I largely agree with the criticism made by Alex Williams, Nathan Tankus, Doug Henwood, and others. But I want to try to clarify the larger stakes in this debate.

Riley's piece starts from the suggestion that the failure of Silicon Valley Bank reflects a larger crisis of overcapacity and lack of investment opportunities. SVB, he writes,

had parked a huge quantity of its deposits in low-yield — but supposedly safe — government-backed securities and low-interest bonds. . . . The bank was overwhelmed by the massive growth in deposits from its tech clients — and neither it nor they could find anything worthwhile to invest in. . . . The SVB collapse is a beautiful, almost paradigmatic, demonstration of the fundamental structural problem of contemporary capitalism: a hyper-competitive system, clogged with excess capacity and savings, with no obvious outlets to soak them up.

This is an elegant framing, but it runs into a problem immediately, involving the ambiguous meaning of “invest.” The depositors in SVB were not venture capitalists, but the firms that they had stakes in. The reason SVB had such big deposits was not because finance was unable to find profitable outlets even in the tech world, but precisely because it had done so. The fact that SVB's assets consisted of Treasury bonds rather than loans to its depositors reflects the shift in business financing, especially in tech, away from banks toward specialized venture capital funds — an interesting development, certainly, but one that doesn't tell us anything about the overall population of businesses looking for financing.

Lurking behind Riley’s formulation here seems to be a crude version of commodity money theory, in which money is either out in the world being useful or being left idle in the bank. But money in the real world is always in the form of bank deposits — that’s what money *is* — regardless of how actively it is circulating.

A Green New Dead End?

To be fair, Silicon Valley Bank is just the hook here. The real argument of the post — the one that provoked such a reaction — is that the ongoing crisis of overcapacity means that Green New Deal–type programs of public investment in decarbonization are a self-defeating dead end. “Imagine,” writes Riley,

that Bidenomics in its most ambitious form were successful. What exactly would this mean? Above all it would lead to the onshoring of industrial capacity in both chip manufacturing and green tech. But that process would unfold in a global context in which all the other capitalist powers were vigorously attempting to do more or less the same thing. The consequence of this simultaneous industrialization drive would be a massive exacerbation of the problems of overcapacity on a world scale, putting sharp pressure on the returns of the same private capital that was “crowded-in” by “market-making” industrialization policies.

There are a number of distinct arguments in, or at least in the vicinity of, Riley’s post. We can of course debate the specific content of the Inflation Reduction Act (IRA). Where does it fall on Daniela Gabor’s spectrum from “de-risking” to the “big green state”? There’s a larger political question about the extent to which activists and intellectuals on the Left should attach themselves to programs carried out by the established political actors through the state, as opposed to popular movements outside of it. And then there is the specific question of overcapacity — is it reasonable to think that any boost to investment via public spending will just diminish opportunities for profitable accumulation elsewhere?

I’m not unsympathetic to the first two of these arguments, even if I don’t agree with them in this particular case.

In my opinion, the IRA model passes two key tests: the public money goes to productive enterprises, not to holders of financial assets; and there is affirmative direction of spending toward specific activities. To me, there is an important difference between “for each new solar panel you install with union labor, you will get x dollars of subsidies” and “if you hold a bond that fits these broad criteria, the interest is taxed at a lower rate” — even though, at a sufficiently high level of abstraction, both involve subsidizing private capital. But there’s a lot of room for debate here about how to describe specific measures and where to draw the line; a different read of its provisions might plausibly put the IRA on the other side of it.

Similarly, it’s important to remember that winning some specific legislation does not mean that you control the state — there’s a real danger in imagining ourselves “in the room where it happens” when in

reality we are very far from it. When Riley writes that “no socialist should advocate an ‘industrial policy’ of any sort, nor have any truck with self-defeating New Deals,” I, obviously, do not agree. But if you wrote a parallel sentence about the humanitarian activities of the US military in various parts of the globe, I would agree wholeheartedly. Over the years I’ve had many disagreements with people with broadly similar political commitments, who thought this *particular* intervention was worth supporting. As far as I am concerned, when the instruments of the state are marines and cruise missiles, the only possible engagement from the Left is protest and obstruction.

War is different from industrial policy. But one can imagine an argument along these lines that would be worth taking seriously. If you wanted to write a stronger critique of the Green New Deal from the Left, you might stress the tight links between industrial policy and nationalism, and the frightening anti-China rhetoric that’s a ubiquitous part of the case for public investment.

Here, though, I want to talk about the specifically economic argument, about overproduction.

Overproduction and Excess Capacity

Riley’s post draws on a long-standing argument among writers for the *New Left Review*, that the fundamental challenge for contemporary capitalism is overproduction or excess capacity. In this story, the end of the postwar Golden Age was due to the end of US dominance in world trade. Starting in the 1970s, stable oligopolies in manufacturing gave way to cutthroat competition as producers from an increasing number of countries competed for a limited market. Because manufacturing is so dependent on long-lived, specialized capital goods, producers are unwilling to exit even in the face of falling prices, giving rise to chronic depressed profits and excess capacity, and a turn to financial predation — what Robert Brenner calls neofeudalism — as an alternative outlet for investment. Even when profits recover, there’s little incentive to add to accumulate new means of production, given that there’s already capacity to produce more than markets can absorb.

The most influential version of this story is probably Brenner’s book-length *New Left Review* article from 1998. It is clearly compelling on some level — a lot of people seem to believe something like it. It draws on a long tradition of theories of overproduction and destructive competition, going back at least to the underconsumption theories of John Hobson, Vladimir Lenin, and Rosa Luxemburg on the one side and, on the other, the first generation of the US economics profession, shaped by the pathological effects of competition between railways. Richard Ely, founder of the American Economics Association, described the problem clearly: “Whenever the principle of increasing returns works with any high degree of intensity, competition can never regulate private business satisfactorily.” His contemporary Arthur Hadley described destructive competition in capital-intensive industries in very much the same terms as Brenner: at prices

far below the point where it pays to do your own business, it pays to steal business from another man. The influx of new capital will cease; but the fight will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged.

(The quotes are from Michael Perelman's excellent *The End of Economics*.)

There's an important truth to the idea that, in a world of long-lived specialized capital goods and constant or falling marginal costs, there is no tendency for market prices to reflect costs of production. Too much competition, and firms will sell at prices that don't recoup their fixed costs and drive each other to bankruptcy. Too little competition, and firms will recover their full costs and then some, while limiting socially useful output. No market process ensures that competition ends up at the Goldilocks level in the middle.

But while this problem is real, there's something very strange about the way Riley deploys it as an argument against the Green New Deal. Rather than a story about competition, he — following Brenner — talks as if there was a fixed amount of demand out there that producers must compete for. In a world of overproduction, he says, any public investment will just create more excess capacity, driving down profits and accumulation somewhere else.

In a funny way, this is the exact mirror image of the Treasury view of the 1930s — which said that any increase in public employment would just mean an equal fall in private employment — or of its modern-day successors like the view of Jason Furman and Lawrence Summers. The Furman-Summers line is that the world has only a certain amount of productive capacity; any public spending above that level will just result in inflation, or else crowding out of private investment. The Brenner-Riley line is that the world has only a certain amount of demand, both in general and for carbon-reducing technology specifically. Try to produce any more than that, and you'll just have excess capacity and falling profits. Both sides agree that the economy is like a bathtub — try to overfill it and the excess will just run over the sides. The difference is that for first side, demand is the water and productive capacity is the tub, while for the other, it's the other way round.

Riley invokes Oskar Lange's 1930s discussions of electoral socialism in support of his contention that "half-measures are self-contradictory absurdities" — which very much includes any "blather about New Deals." But the situation facing socialist governments in the 1930s was quite different. Their problem was that any serious discussion of nationalization would terrify capital and discourage investment, sending the economy into a deeper slump and dooming socialists' prospects for extending their initial electoral gains. This meant that nationalization had to be carried out all at once or not at all — which in practice, of course, meant the latter. (There is a good discussion of this in Przeworski's *Paper Stones*.) Keynesian fiscal policy was precisely what offered the way out of this trap, by allowing an expansion of the public sector on terms consistent with continued private accumulation. Riley here is rejecting exactly the solution to the problem Lange identified.

But there's a deeper problem with the Riley-Brenner vision. In Jim Crotty's review of Brenner's long article, he argues that Brenner, in response to what he saw as an excessive focus on labor-capital conflict in accounts of the end of the postwar boom, created an equally one-sided story focused exclusively on intercapitalist competition. I think this gets to the crux of the matter.

Let's take a step back.

The Nature of System Constraints

The development of a capitalist economy is a complex process, which can go wrong at many points. Production on an increased scale requires the expansion of the physical and organizational means of production, with whatever technical and material requirements that entails. Additional labor must be enlisted and supervised. New raw materials must be acquired, and the production process itself has to be carried out on an increased scale. The resulting products have to be sold at a price that covers the cost of production — in other words, there must be sufficient demand. The resulting surplus has to be channeled back to investment.

All of this has to take place without excessive changes in relative prices, and in particular without politically destabilizing changes in wages or the distribution of income. The reinvestment stage normally happens via the financial system; the ongoing payment commitments this generates have to be consistently met. And it all must take place without generating unsustainable cross-border payment flows or commitments.

All these steps have to happen in sync, across a wide range of sectors and enterprises. A business expanding production has to be confident that the market for its products is also growing, as well as the supply of the inputs it uses, the financing it depends on, and the labor it exploits. An interruption in any of these will halt the whole process. When growth is steady and incremental, this can be mostly taken for granted, but not in the case of more rapid or qualitative change, as in industrialization.

This problem was clearly recognized by earlier development economists. It's the idea behind the "two-gap" and "three-gap" models of Hollis Chenery and his school, the "big push" of Paul Rosenstein-Rodan, or Alexander Gerschenkron's famous essay on late industrialization. Everything has to move forward together. Industrialization requires not only factories, but ports, railroads, water, electricity, schools. All of these depend on the others. You need savings (or at least credit) *and* you need demand *and* you need labor *and* you need foreign exchange.

At the same time, an essential feature of the capitalist mode of production is that the various steps each involve different decision makers, acting with an eye only to their own monetary returns. From the point of view of each decision maker, the choices of all the others look like fixed, objective constraints. (Given the importance of specialized long-lived capital goods, so do their own past decisions.) From the point of

view of a particular producer, the question of whether there is sufficient demand to justify additional output is an objective fact. For the producers collectively, it is their decisions that determine the level of demand just as much as — in fact simultaneously with — the level of current output. But for each individually, it's a given, an external constraint.

The problem comes when in thinking about the system as a whole we treat something like destructive competition not as what it is — a coordination problem — but from the perspective of the individual producer, as an objectively given constraint, as if there were only so much demand to go around. The mainstream, of course, makes the same kind of error when they treat the productive capacity of the system as prior to and independent of the actual level of activity. (This is the point of Arjun Jayadev's and my recent paper on supply constraints.) The fact that when one part of the system moves ahead faster it encounters friction from parts that are lagging imposes genuine limits on the pace of expansion — both supply and demand constraints are real — but we should not treat them as absolute or externally given.

The faster and farther-reaching the changes in production, the harder it is for a decentralized market system to maintain coherence, and the more necessary conscious, more or less centralized coordination becomes. This was one of the main lessons of the economic mobilization for World War II and is a critical consideration for decarbonization. Planning is ubiquitous in real-world capitalism, and more rapid transformations in activity require planning at a higher level.

Breaking Through

At the same time, we shouldn't underestimate the capacity of our system of anarchic production for profit to eventually break through the barriers it encounters — something Karl Marx understood better than anyone. That is why it's become the world-encompassing system it is. Sustained demand will itself call forth the new labor and improved production techniques required to meet it. Conversely, while Say's law may not hold in the short run, or as a matter of logic, it is very much the case that improvements in production create new markets and expand demand qualitatively as well as quantitatively.

Overproduction and excess capacity are not new phenomena. They have been a recurring feature of the great crises that capitalist economies have experienced for the past two hundred years. Here is Jules Michelet's beautiful contemporary description of the 1842 commercial crisis in France:

The cotton mills were at the last gasp, choking to death. The warehouses were stuffed, and there were no sales. The terrified manufacturer dared neither work nor stop working with those devouring machines. Yet usury is not laid off, so he worked half-time, and the glut grew worse. Prices fell, but in vain; they went on falling until cotton cloth stood at six sous.

We should never forget about the misery and chaos of crises like this. But we should also not forget how this story ends. It is *not* “and then eventually enough mills were shut down and things went back to how they were before.” Not at all.

Michelet continues:

Then something completely unexpected happened. The words six sous aroused the people. Millions of purchasers — poor people who had never bought anything — began to stir. Then we saw what an immense and powerful consumer the people is when engaged. The warehouses were emptied in a moment. The machines began to work furiously again, and chimneys began to smoke. That was a revolution in France, little noted but a great revolution nonetheless. It was a revolution in cleanliness and the embellishments of the homes of the poor; underwear, bedding, table linen, and window curtains were now being used by whole classes who had not used them since the beginning of the world.

An openness to the possibility of this sort of transformational change is what’s fundamentally missing from both the Summers-Furman and Brenner-Riley views. This is not a system in homeostasis, which if disturbed returns to its old position. It is a system lurching from one unstable equilibrium to another. And this is very relevant, I think, to decarbonization.

Not so very long ago, it was conventional wisdom that photovoltaic energy was never going to be more than a niche power source — useful when you can’t connect to the grid, but way too expensive to ever be used at utility scale. And now look — solar accounted for nearly half of new electricity generation installed last year. There’s an almost endless scope for further growth in renewable energy, as more of the economy is electrified. The fact that Silicon Valley Bank was holding a bunch of Treasury bonds does not mean that the field of productive investment has been exhausted.

The tremendous growth of renewable energy over the past generation wouldn’t have happened without public subsidies and regulation. At the same time, most of the actual work has been carried out by employees of private, profit-seeking businesses. Riley is absolutely right that no one should be counting on private investment in education or in care work. Explaining why those activities depend critically on the autonomy and intrinsic motivation of the workers carrying them out, and are therefore inherently unsuited to for-profit businesses, is something we need to keep doing. (The same goes for many public functions that have been turned over to contractors.) But there are many other areas where it is still possible to harness the profit motive to meet human needs.

(I am not, to be clear, saying anything about the virtues of markets or the profit motive in the abstract. I would like to progressively eliminate them from human life. I am simply stating the fact that my house was put up by a private builder, for profit, and yet the roof does keep out the rain.)

There is plenty of scope to criticize the specific content of the IRA and other climate legislation, and the strategic choices of the groups that support them. (Although a bit of humility is called for with the latter.) But we need to categorically reject the idea that there is some hard constraint such that any program to

increase private spending on decarbonization will be canceled out by a reduction in spending somewhere else.

The Real Challenges

The bottom line, both for the politics and the economics, is that we need to resist thinking in terms of a change in one area while everything else stays the same. “Ceteris paribus” may be a useful analytic tool, but it’s fundamentally inapplicable to historical processes where one change creates the pressure, and the possibility, for another.

Yes, given the existing productive technology, given existing markets, one country’s support for renewable energy might compete with another’s. But these things are not given. Economies of scale exist at the level of the industry as well as the firm; technological progress in one place quickly spills over to others. As, say, hydrogen becomes practical for large-scale energy storage, it will become practical to produce green energy in areas where it isn’t today. This is as far as you can get from the Brenner paradigm of a zero-sum competition for shares of a fixed market.

The real problem for the Green New Deal and broader industrial policy program is not scarcity, whether of material or of markets. It is twofold. First, it requires a capacity for public planning that is currently lacking, in the United States and elsewhere. Industrial policy means building up and legitimating the state’s direct role in a wider range of activity — a challenge when the biggest existing form of direct public provision, the public schools, are under ferocious attack from the Right. Second, to the extent that a rush of public and private spending leads to a sustained boom, that will create profound challenges for a system that is used to managing distributional conflicts through unemployment. We’ve gotten a sense of what the political reaction to full employment might look like from recent inflation discourse, with its fears of “labor scarcity.” It’s reasonable, for now, to respond that it’s silly to worry about a wage-price spiral while labor is so weak. But what happens when labor gets stronger?

These are real challenges. But we shouldn’t see them as arguments against this program, only as markers for where the next conflicts are likely to be. That’s always how it is. “Gradualism cannot work,” declares Riley, but all politics is incremental. Socialism is only a direction of travel. Even if the “commanding heights of the economy” could “be seized at once” — Riley’s rather ambitious alternative to the Green New Deal — that would only be a step toward the next struggle.

A program to mobilize the existing bourgeois state to push private spending in the direction of meeting human needs, and the need for a habitable planet in particular, faces many obstacles — that is true. Whatever successes the Left has had under Joe Biden’s administration have been limited and compromised. Some of the most important, like the expansion of unemployment and family benefits, have already been rolled back — that is also true.

But the same could be said for all the socialist programs of the past. We have to just keep going, with one eye on the long run direction of travel and the other on the contingencies of the present. The one thing we can say for certain about the future is that it hasn't happened yet. If we keep going, we will see things that haven't been seen since the beginning of the world.

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