

Hollow States - On the return of industrial policy

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The return of industrial policy is unmissable, catalyzed by the cumulative shocks of Covid-19 and the war in Ukraine as well as longer-term structural issues: the ecological crisis, faltering productivity and alarm at the dependence of Western states on China's productive apparatus. Together, these factors have steadily undermined governments' confidence in the ability of private enterprise to drive economic development.

Of course, the '[entrepreneurial state](#)' never disappeared, especially in the US. The deep pockets of the Defense Advanced Research Projects Agency and the National Institutes of Health have been crucial in maintaining the country's technological advantage - funding research and product development over the past few decades. Still, it is clear that a substantial shift is taking place. As a group of OECD economists [noted](#), 'So-called horizontal policies, i.e. interventions available to all firms and which include business framework conditions such as taxes, product or labour market regulations, are increasingly questioned'. Meanwhile, 'the case for governments to more actively direct the structure of the business sector is gaining traction'. Hundreds of billions of targeted funding is now flooding businesses in the military, high-tech and green sectors on both sides of the Atlantic.

This pivot is part of a broader macro-institutional reconfiguration of capitalism, in which a high-pressure post-pandemic economy has tightened [labour markets](#) while the centrality of finance continues to [wane](#). These phenomena are highly complementary: public funding stimulates the economy and may boost job creation, while the administrative allocation of credit serves as an admission that financial markets are unable to attract the investment necessary to meet major conjunctural challenges. At a very general level, this neo-industrial turn should be welcomed, since it implies that political deliberation may play a somewhat greater role in investment decisions. More concretely, though, there is much to worry about. At this stage, we can identify at least three problematic dimensions.

First is the extent of this turn itself. Though the sums are significant, they do not match the civilizational challenges we are facing - falling well short of the complete restructuring of the economy demanded by climate breakdown. This is particularly true in Europe, afflicted by chronic structural vulnerability due to self-inflicted austerity measures - currently rebranded '[fiscal adjustment paths](#)' - and deepening divisions between core and periphery. The geopolitics of industrial policy are especially fraught within the context of the EU single market. Hayek was a strong supporter of federalism precisely because he knew that a union of this sort would create serious obstacles to state intervention. Reaching an agreement at the federal level to support a particular sector is exceptionally difficult due to diverging national interests, themselves a result of productive specialization and uneven development. At the national level, conversely, the relaxation of state aid provisions tends to elicit resistance from weaker member states, who fear that countries

with larger fiscal space - Germany in particular - would be able to improve their competitive edge, further aggravating the Union's productive polarization.

Because the entire European edifice was built on the premise that competition is sufficient to guarantee economic efficiency, there is close to zero technical-administrative capability to enforce industrial policy. Meanwhile, across the Atlantic, austerity has had similarly damaging effects on state capacity. Asked about the viability of Biden's programme, Brian Deese, the former director of the National Economic Council, sounded a cautious note: 'A lot of that comes down to the professionalism of the civil service at the federal level and the state and local level - a lot of which has been hollowed out.'

Second, the substance of neo-industrialism is troubling. The choices currently being made about the direction of funding will shape the productive structure for decades to come. On the ecological front, the main issue is that they are almost exclusively conceived as subsidies for greening existing institutions and commodities, rather than reorienting the economy on the basis of sustainability. The car industry is a case in point. Ideally, green policies would develop multimodal transport solutions with a limited role for small, electrified vehicles. Yet this would imply a drastic downsizing of the car automotive sector - something unthinkable for profit-driven carmakers, who are instead pushing for fully electrified high-margin SUVs.

To reconcile increased productivity with environmental imperatives, industrial policy would need not only the resources to support structural change but also the means for state planners to discipline capitalists. The lessons of post WWII developmentalism [drawn](#) by Vivek Chibber remain valid: businesses understand industrial policy as 'the socialization of risk, while leaving the private appropriation of profit intact'. They therefore strongly resist 'measures which would give planners any real power over their investment decisions'.

Another qualitative issue is the global increase in military spending. In the absence of what Adam Tooze [calls](#) 'a new security order based on the accommodation of China's historic rise', we have entered a New Cold War with the frightening potential to spread beyond the Ukrainian theatre. While some businesses have a lot to lose from a confrontation with China, others may stand to benefit. Along with the industrial-military complex, Silicon Valley corporations are deliberately fuelling fears about Chinese capabilities in AI, in the hope of securing public support for their activities and locking in access to foreign allied markets. This has created a mutually reinforcing relationship between private profit-seeking and state power, in traditional imperialist fashion.

The third problem involves the balance between classes. In her recently published [book](#) *L'Etat droit dans le mur*, Anne-Laure Delatte interrogates the economic roots of declining state legitimacy. She argues that, in France as elsewhere, rising taxes on households - most of them regressive - were accompanied by increased public spending for the benefit of corporations. This created a vitiated state, oriented largely towards the financial sector, and a general population increasingly distrustful of public policymaking. Today, it is easy to see how an ambitious industrial policy could aggravate such pro-corporate biases. [Asset managers](#) are especially eager to take advantage of the new rentier opportunities arising from state-backed infrastructure investment. Without increasing taxes on corporations and capital income, or taking industries into direct public ownership, state subsidies imply a transfer of resources from labour and the public sector to capital, exacerbating inequalities and resentments.

The West's embrace of industrial policy is explicitly motivated by Chinese productive prowess. Yet one cannot overstate China's singularity. There, state capital is dominant thanks to public ownership in strategic, upstream sectors of the economy - the 'commanding heights' in Leninist terms. As well as enjoying formal property rights to key assets, a highly specific form of state-class organization

allows the CCP to exercise some control over the country's general developmental path. Its culture of internal discipline is crucial in assigning politicians [dual identities](#) as masters of capital and servants of the party-state. This provides a firm foundation for public planning, allowing private accumulation to coexist with market-shaping forces such as credit and procurement policies. The CCP's public-private network is also highly adaptable, enabling the government to implement major policy changes relatively quickly. Following the 2008 financial crisis, political instructions were immediately passed down to party members in anticipation of the huge state stimulus package, resulting in a much more rapid and effective fiscal response than in the US or EU.

In democratic societies, by contrast, effective discipline on corporations can only come from external popular pressure. Thus, for campaigning organizations and left parties, the neo-industrial turn is good news only to the extent that it gives new impetus to old concerns: Who decides where the money goes? What are its objectives? How is it used and misused? Perhaps, in helping us to formulate such questions, neo-industrialism will end up exposing the inadequacy of its own answers.

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P.S.

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