Review Article:

Rebuilding America: A Blueprint for the New Economy

by Gar Alperovitz and Jeff Faux, New York: Pantheon, 1984

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Rebuilding America is the book that Walter Mondale said provides an alternative to Reaganomics and that Jesse M. Jackson called "the economic handbook for the Rainbow Coalition." It is not the sort of book most self-respecting scholars in comparative systems are likely to read, much less review. Like so many of the sort of books that politicians praise, it is filled with moral indignation over the real hardships of many people, or should we say, voting blocks. Unlike many such books, however, it tries to offer a radical alternative to what it calls the "Broker State" approach to politics. As such it addresses key issues in public policy about which comparative economists have had much to say. Although the book, and the whole "industrial policy" literature of which it is typical, is admittedly of a distressingly low quality in its economic reasoning, there may be good reasons nevertheless for the academic community to pay close attention to the industrial policy debates.

Alperovitz and Faux's book is another in a series of similar books and articles by writers such as Carnoy, Shearer, Bluestone, Harrison, Hayden, and Bowles, making a case for a "democratic" form of national planning.* These "economic democracy" advocates, in turn, represent the

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*The chapters of such books as Bluestone and Harrison's **The Deindustrialization of America** (1982), or Carnoy and Shearer's **Economic** "left wing" of the "reindustrialization" or industrial policy movement, led by such writers as Rohatyn, Reich, and Etzioni. The descriptions of and arguments for national economic planning provided by Alperovitz and Faux are virtually identical, except in emphasis and order of exposition, to those of the rest of the industrial policy literature. A single agency, modelled in part after the Reconstruction Finance Corporation of the 1930s, is to be assigned responsibility for maintaining the overall health of the economy, and is to "explicitly" decide upon its future course. The new RFC, an investment-guiding agency, will channel funds to the "structural" or "basic" industries. Although many of the recent proponents of a new RFC prefer the phrase "industrial policy" to the word "planning," Alperovitz and Faux openly acknowledge that national economic planning by the federal government is what industrial policy entails.

The argument industrial policy advocates make for national planning goes something like this:

1) The American economy of the 1980s has serious problems, or is in actual decline, and losing to its foreign competitors. Therefore, **something** must be done.

2) "Planning" is nothing more than the rational regulation of human activity. All of us, unions, corporations, households, already do planning.

3) "Planning" of a significantly more comprehensive kind than now employed is what we need in order to improve our economy. The decline is due to the fact that our increasingly complex economy's overall performance is not the responsibility of any one agency. Mere Keynesian aggregative planning is not a comprehensive enough method for so complex a task as industrial policy involves. What is needed to bring the economy under control is a new RFC.

4) "Planning" need not imply centralized control over the economy and all the political dangers thereof. Indeed democratic

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Democracy or Bowles, Gordon and Weisskopf's **Beyond the Waste Land** (1983) could have been interchanged with those of Alperovitz and Faux's book and nobody would have noticed. Although this review will confine itself to one sample of this industrial policy literature, I believe the arguments are applicable to the whole of it. More examples of this literature are included in the bibliography.

industrial policy is the only way to keep the big corporations from achieving centralized control over the economy.

5) "Planning" in any case is inevitable. The dominant trend of this century is clearly for greater government involvement in the economy. Even corporate leaders and investment bankers like Felix Rohatyn admit the need for planning.

Like most of the books in this genre, this one is filled, or rather cluttered, with a wide variety of hastily interpreted statistics mostly in support of the first thesis: that things are bad. Their arguments in theses 2-5 on behalf of planning as a corrective policy direction, however, are not very convicingly supported by either facts or arguments. While some of these arguments may be valid under certain specific meanings of the word "planning," they cannot all be, unless fundamentally different meanings of this word are used. Alperovitz and Faux are only able to defelct criticisms of planning by switching the meaning of the term depending on which critique of planning they are trying to answer.

Not much needs to be said about thesis 1. Readers of this journal need not be reminded why merely citing evidence of the "bad performance" of an economy (in terms of a nonrandom sampling of relevant-sounding statistics) has no policy significance apart from a comparative perspective. The relevant question is not how the American economy does relative to some imaginary and unrealistic standard (whether of utter chaos or of perfect equilibrium), but rather how it has performed compared to other real or at least plausibly realizable economic systems.* How bad an economy's performance is depends on what is expected of it. Since Alperovitz and Faux start out their book by explaining what high standards of economic performance they are using as a benchmark, it is easy to see why they keep giving the economy failing

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*In those places where Alperovitz and Faux attempt to make comparative arguments by relating American performance to those of other countries, the comparison is the kind of quick and dirty statistical argument which, without further interpretation, is never very convincing. For example, because Swedish living standards by some measures surpass those of Americans, therefore the authors conclude that the excessive size of our welfare state cannot be the cause of our problems.

grades.*

In thesis 2, critics of planning are dismissed as being opposed to rationality itself. Here the meaning of plannig that is employed is that it is nothing but rational action. Anyone so foolish as to insist that government cease trying to shape its activities by the use of deliberate reasoning need not be taken too seriously. Alperovitz and Faux, like all the proponents of industrial policy, resort to this specious argument throughout their book, posing such question-begging challenges to the critics of national planning as "Will government management be rational or irrational--that is, planned or unplanned?" (p. 271) The issue, of course, is whether the actions taken by a new RFC agency would increase or decrease the rationality of the economy with which it intervenes. This cannot be answered with an appeal to reason.

Thesis 3 is of more relevance. Alperovitz and Faux believe that a lack of "planning" is responsible for the bad performance of the American economy. When they make this charge they point out the need for a single agency to attain a comprehensive view of the technological and organizational changes the US economy will need to undergo in order to compete effectively in the world economy. They point out that "The government is the only institution with the legitimacy and authority to address system-wide problems" (p. 55). Thus in thesis 3 planning demands a significantly more comprehensive view of and presumably command over the industrial structure of the entire US economy than now exists. Keynesian and monetarist tools of macroeconomic fine-tuning are insufficiently disaggregated and detailed to steer a modern, technologically changing American economy.

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*If you "examine the American economy from the outside, without preconceptions" the authors assert on the opening page, "There would be little doubt in your mind that America possesses the intelligence to develop integrated circuitry, semiconductors, fibre optics, lasers, and other modern technologies to provide an opportunity for every citizen to secure the material basis for a fulfilling and balanced life." I happen to be inclined toward a very optimistic outlook about our economy's potential as well, but the notion that such high expectations represent some sort of presuppositionless viewpoint is highly dubious.

The growing complexity of modern economies is indeed a crucial and significant factor for any policy analyst to bear in mind, and the failure of macroeconomic fine tuning policy is widely admitted today. But no persuasive case has yet been made that the best way to cope with the increasing complexity of our economy is to engage in industrial policy and increase the scope of attempts by government to influence the economy. It was, after all, the main point of the critics of planning during the classic debate of the 1930s that the modern economy is too coplex to be rationally guided by a planning agency. It is not obvious without further argument why we should expect Alperovitz and Faux's policy recommendations to enable us to better cope with complexity.

More will be said later about this important issue; however, Alperovitz and Faux, like most industrial policy advocates, do not directly address this issue of which organizational mechanism, markets or planning, is better equipped to handle the complexity of a technologically advanced economy. Instead they deflect criticisms of planning by resorting to arguments 2, 4, and 5 each of which contradicts some aspect of the idea of planning implied in argument 3, and none of which confronts the real issue of how to best cope with complexity.

The critics of industrial policy have often pointed to the political and economic difficulties of centralizing so much power into a single RFC agency. If, as thesis 3 asserts, the problems with contemporary policy making can beattributed to the lack of responsibility of any single agency for the ongoing health of our industrial sysem, then how is any single agency to become powerful and informed enough to shape so vast and complex a thing as a modern economy? Will this not pose a dire threat to freedom, democracy, and prosperity?

But as soon as any such problems with centralization of control are raised advocates of industrial policy, especially those of its "democratic" left wing, resort to denials that they want to centralize, as in thesis 4. The critiques of central planning are irrelevant to their proposals, they insist, because what they want is democratic or decentralized planning. They insist that such locally-based planning is the only alternative to a genuinely centralized control we are likely to get if the big corporations get their way. Instead of corporate planning we should have planning "from the bottom up." Communities will devise local plans which are, however, ultimately "integrated" together by the national planning agency. How this national integration is supposed to work without either squelching the local desires of communities or failing to coordinate them with one another is never explained. It is difficult to resist the conclusion that the proponents of "democratic planning" quite simply want to have their cake and eat it too. They want to make a strident condemnation of the haphazard clash of plans that occurs in our present economy, implicitly favoring increased centralization in order to rationalize the economy, thesis 3, wile at the same time insisting that all crucial decisionmaking will be carried out at the local level, thesis 4.

Lastly the case is made that planning is not merely desirable but inevitable. The dominant trends of our century, they point out, have been toward more government involvement in the economies of the world. Thesis 5 asserts that this fact makes any criticism of planning historically obsolete. "Even" investment bankers like Felix Rohatyn and corporate executives like Lee Iacocca now admit the need for planning. The contemporary riht and left agree that some government planning is needed, and the relevant question is only who will plan for whose benefit.

> The inevitable expansion of government responsibility for the economy brings with it an inevitable transformation of our perception of how the economic world works. Despite its rhetoric, even the Reagan administration protected a variety of industries--autos, steel, agriculture, nuclear energy--from the free market (p. 273).

Anyone familiar with the history of planning policies will not be surprised that the political right can often be found endorsing it. The RFC itself was designed by Herbert Hoover and modeled after investment banker Bernard Baruch's War Industries Board of the First World War.* But the relevance of the fact that established figures across the

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*For two fascinating accounts of the War Industries Board from opposite ideological points of view, see Bernard Baruch's **American Industry in the War** (1941) and Cuff's **The War Industries Board** (1973). I have argued elsewhere (1985b) that the World War I experience with war planning on the part of both sides of the conflict served directly or indirectly as a practical model for most of this century's experiments with national economic planning.

contemporary political spectrum endorse planning to the case for this policy is unclear. Indeed there is a spectacular contradiction between thesis 3 which blames the ongoing failure of current policy making on the lack of planning, and thesis 5, which calls on the authority of conventional wisdom to dismiss those so out of touch with reality as to resist the nearly universal endorsemnt of planning. Is planning some sort of radical alternative to the status quo or already a plank in the Republican platform?

By the meaning of planning used in theses 2, 3, 4, and 5, the opponents of planning would have to constitute four separate groups: a few absurd enemies of reason as such, the whole contemporary establishment, opponents of localized control over our own lives, and a small number of consistent proponents of laissez-faire capitalism. The economic confusion in the contemporary industrial policy debates runs so deep that it is not surprising that so few economists have joined the controversy. It is hard to tell exactly what is being advocated when the phrase industrial policy is invoked so long as such arguments as these are deployed.

Moreover the book makes some rather feeble attempts at undermining basic economic principles, attempts which are bound to irritate many economists. It refers, for example, to a study (Blair 1975) that found that "during the 1974-75 recession, when auto sales plunged 27 percent, new-car prices jumped an average of a thousand dollars" as being what Alperovitz and Faux call "an obvious indication that the classical law of supply and demand had been substantially amended if not repealed" (p. 35). Now of course one might question the usefulness of assuming that supply and demand are equal in all markets, as in general equilibrium theory, but Alperovitz and Faux seem to want to deny even the simple idea of the effects of changes in supply and demand on prices. Does the case for planning really have to resort to overturning the most widely accepted principles of economics?

But the worst problem with this book, in my view, and with the whole industrial policy literature, is not so much this admittedly disturbing degree of confusion over what planning is supposed to mean. One might reasonably hope that debates over industrial pojlicy will force advocates to clarify their views. Rather more serious is this literature's failure even to address what I would call the issue of complexity. Why should we expect the new RFC agency to be knowledgeable enough to intelligently select the industries that need to be supported in order to enhance the productivit of the economy? One might well expect such an issue to come up in a book subtitled "A Blueprint for the New Economy." How are all the complex bits of knowledge to be gathered up in the RFC offices and employed to effectively steer investment toward more productive avenues? How, in short, will the makers of industrial policy know what they're doing?

On this most crucial question this book, and this whole literature, is distressingly silent. We in comparative systems, in particular, may do well to recall that famous anecdote from the debates of the 1930s when Oskar Lange ironically proposed that socialists build a statue to that arch-critic of socialism, Ludwig von Mises. Mises is to be praised for having once and for all jolted Marxian socialists, who had often denied the need for money and prices under planning, out of their irresponsible neglect of the economics of planning. Yet here we have a polemic for planning written almost fifty years after Lange's contribution, which in its 300 plus pages never manages to raise the issue of how some degree of economic efficiency is to be attained by planning. Like the Marxists Mises had criticized in the twenties these contemporary socialists are avoiding the issue of how planning can improve economic performance. It is no answer to this question to simply insist that planning is nothing but rationality, or really local, or inevitable. It is not very satisfactory to say that the task of devising procedures for how to make planning work can await the learning process of implementation. To ask for anything more specific than that, the authors tell us, echoing precisely the pre-1920 socialist literature, is to try to create a Utopia.

> To the extent that we build the spirit of democracy and cooperation into our economic institutions, in the neighborhood, workplace, and community, we get **practice** on how to be democratic and cooperative. And we desperately need the practice (p. 279).

Of course nobody should expect the authors to detail everything that national economic planning would do under every imaginable contingency. Indeed in many ways Alperovitz and Faux are being **too** detailed. Which technologies they think are the wave of the future (they like high tech things such as fibre optics and semiconductors) is not something they should even be addressing in a polemic for public policy debates. Such issues, surely, could only be responsibly analyzedby a planning agency **after** it (somehow) attains a more comprehensive picture of the economic structure than any government agency now has. But what **should** be discussed and is not is the question of how (or whether) a sufficiently comprehensive knowledge of so complex a thing as a modern economy can be gathered. This isthe question with which Mises was trying to jolt socialists into examining the economics of planning. It seems clear, when we review Alperovitz and Faux's case for industrial policy, that Lange's statue of Mises would have been a bit premature.

The authors join the rest of the industrial policy advocates in assuming that a shift from services to manufacturing industries is a problem demanding bold policy measures to correct. Service,s they assert, "do not contribute to broad economic growth in the way that manufacturing industries do." Their supporting argument for this claim is a study that "shows that business services and medical services buy relatively little outside the services sector" whereas "manufacturing industries buy a large proportion of their purchases from other manufacturing industries, stimulating sales and therefore productivity improvements in a wider swath of the economy" (p. 89). So we are to understand that service industries are bad because they only buy from other service industries whereas manufacturing industries are good because they buy from other manufacturing industries.*

The real issue is not whether we would like to have a healthy manufacturing industry in this country but rather how can we know what industries we have a comparative advantage in, apart from the workings of a competitive market process. How can we expect the new RFC to perform better in selecting industries to invest in than a competitive capital market does?

Alperovitz and Faux begin their chapter 15 entitled "Toward Democratic Planning" with the following statements:

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*The logic of their other arguments against services are not much more informed by careful economic reasoning than this one is. The fact that productivity measures show slower increases in service industries than in manufacturing is taken to imply that industrial policy ought to channel more money into decliing manufacturing industries. The fact that measuring the mostly qualitative improvements in services is a problem is mentioned and then forgotten (p. 88).

> Democratic planning means making hidden choices open and explicit. It is a reasonable assumption that this will make for better decisions. But democratic planning cannot guarantee that we will do well, **only that we will know what we are doing** (emphasis in original, p. 257).

It is by no means evident from reading this book, or any of the industrial policy literature, exactly how planning can guarantee that we will know what we are doing. As Hayek's classic work on "The Use of Knowledge in Society" (1945) shows, market institutions make use of knowledge that is contained in decentralized and often tacit form, and does so in a way that explicit planning cannot. This book never gets beyond condemning market institutions for the fact that they work by implicit processes which, for political reasons, the authors would like to see resolved explicitly. But **can** explicit choices be made over the whole complex of alternatives that modern technology makes possible?

The authors are fond of accusing proponents of market institutions with naivete about the virtues of the unregulated market. They do not seem to realie that they are exhibiting their own naivete about the possibilities of deliberate planning.

> The planners' job is to draw up several multiyear scenarios that provide different ways of achieving specific economic goals. The scenarios must, of course, be translated into multiyear budgets, but their content is not simply dollars. They should spell out priority areas in considerable detail--how many new homes will be built over the next four years, how much solar energy capacity will be in place, what will be the proposed ratio between doctors and population, how much military capability will we need and for what specific purposes (p. 261).

Such scenarios cannot, of course, be confined to goals in terms of final outputs of housing, medical, and military goods desired but would have to include an account of the horizontal and vertical implications throughout the structure of investment for the achievement of the desired output of final goods.

> If infrastructure, low- and moderate-income housing, energy conservation, new technologies and health maintenance are taken as some of the initial lead sectors in an overall growth plan, the implications for individual industries of the economy--conceived "vertically" (for example, steel, robotics, lumber,

pharmaceuticals)--need to be delineated. At the same time, considering the economy in its "horizontal" divisions, the scenarios should identify the impact of such investments on employment, prices, and wage levels (p. 261).

If tracing the intricate connections among producers and consumers in this way were feasible then so would have been the old socialist goal of complete comprehensive planning without the aid of prices. The **reason** socialists had to accept the need for prices is because Mises and Hayek had shown that a central planning agency cannot plausibly obtain a sufficiently comprehensive knowledge of anything so vast, complex, and changing as an economy.

The point is not that Alperovitz and Faux never provide a conclusive **answer** to the Mises/Hayek critique of planning. Very few issues in that classic debate were clearly resolved, in my view, even by the best minds in comparative systems.* But at the very least those in the public policy arena who make a case for planning in the mid-1980s ought to realize that there **is** a challenge to planning along these lines that has been well known by economists for a half century. Alperovitz and Faux seem to take it for granted that, given a wide enough scope and responsibility, an active planning agency can improve upon our present economic performance.

But what is most troublesome aout the neglect by industrial policy advocates of this issue is that many experts in comparative economic systems would actually endorse this neglect. It will not do for us to dismiss Alperovitz and Faux's book as just another politician's polemic woefully ignorant of the basic ideas found in undergraduate comparative texts. We comparative economists have ourselves to blame for having taken economics out of the public policy debates. The "lesson" many believe was learned from the Mises-Hayek/Lange-Lerner debatesis precisely that economic theory cannot decide between socialism and capitalism since under the appropriate assumptions either system can approximate a Pareto-optimum solution. The free market, it is said, could only achieve this ideal state under the unrealistic assumptions of perfect competition, whereas market socialism can only achieve the ideal

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*I have attempted to clear up some of the confusions of this famous debate in my recent book (1985a). The essential classics of the original literature are contained in Hayek (1935) and Lange (1964).

if one assumes away the difficulties of bureaucratic organization. The resolution of the debate over the relative efficacy of planning and competitive markets will have to be conducted by sociologists, psychologists, and political scientists but cannot be answered by economists. Many economists will not see it as a defect of Alperovitz and Faux's book that it fails to show why planning should be expected to improve upon the market's performance, since from their perspective the issues lie outside the proper domain of economics.

This, it seems to me, represents a tragic narrowing of the scope of comparative economic theory to the strictly formal aspects of scientific explanation, that is, essentially, to equilibrium theory. Increasingly evident since the mid-1930s has been a withering of what might be termed the interpretive dimension of economics involving what our discipline has to say about the real institutions and processes of economic life.* Yet the comparative study of the workings of institutions is--or at least should be--what the comparative systems field (and much of economics as a whole) is essentially about. Lange in the 1930s had accused Mises of being an institutionalist for his alleged failure to recognize the importance and universality of the formal elements of choice theory. Abba Lerner (1937, p. 270) and E.F.M. Durbin (1968, p. 143) explicitly insisted that economic theory should confine itself to stating the formal conditions that planners ought to take into consideration and should not "dogmatize" about whether planning or competitive markets would work better in practice. The chief historians of the debate such as Bergson (1948) and Schumpeter (1950), and hence mst of the comparative systems textbooks, have been all too willing to concede this withdrawal of economists from the public policy issues surrounding national economic planning. It has become commonplace to dismiss the "extremist" pre-Lange contenders in comparative systems, that is, the Marxians and Austrians, for their supposed dogmatism and "mere" polemics, and to praise the elegant mathematical results and more moderate, mixed economy policy conclusions of market socialist theories. It seems to me that what scholars in comparative systems ought to be doing is setting aside some of their theoretical models and taking up the difficult policy issues that concerned such great contributors to

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*On this idea of an interpretive dimension of economics, see Lavoie and High (1985).

our field as Marx and Mises. We should explicitly debate the pros and cons of real world proposals for planning, such as **Rebuilding America.** It may be hoped that we could thereby introduce into the industrial policy debate a deeper appreciation for the contributions of economics than it has heretofore exhibited.

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