Throwing Money Down the Well: The Financialization of American Industrial Policy

written by Jack Lifton | November 26, 2026

In the 1972 Woody Allen film *Play It Again, Sam*, Allen's character explains to a friend how he defended his date against a gang of toughs. Having decided that he had to teach them a lesson, he describes his heroism as follows: "I snapped my chin onto a guy's fist and hit one in the knee with my nose."

It seems to me that the irony in that remark describes well the approach of the contemporary American Wall Street–Washington axis to the suddenly recognized problem of deteriorating domestic industrial supply chains necessary to support both the civilian and military requirements of our technology-dependent society.

One might paraphrase the Allen character's description of his triumph to describe the accomplishments to date of the beneficiaries of America's new industrial policy: "I was stuck deep in the well of industrial inability, but I managed to get society to throw enough money down the well so that I could climb to the top."

Unfortunately, getting the financiers and promoters out of the well is not the same thing as getting American industry out of it.

What we are witnessing today, in my opinion, is the financialization of American industrial policy, a logical, if unfortunate, extension of the financialization of the American economy that has been taking place for much of the last half-

century. It is ironic that we are now trying to use many of the same financial incentives that contributed to America's deindustrialization to achieve its reindustrialization.

When I began my working career in 1962, America was the preeminent industrial nation in the world. I grew up in Detroit, the center of what was then arguably the most complex mass-production industry in human history. Detroit's wealth came from its ability to manufacture enormous quantities of sophisticated products at prices an increasingly prosperous population could afford. Financial wealth was, to a considerable extent, the consequence of industrial accomplishment rather than its principal objective.

One of the principal functions of the financial industry was to provide the capital needed to establish, expand, and operate productive industrial enterprises. Over the intervening decades, however, we have increasingly come to regard the creation of financial wealth as being synonymous with the creation of economic wealth.

I believe this confusion is now one of the principal obstacles to formulating an effective American industrial policy.

An increase in the market capitalization of a corporation does not, in and of itself, increase the productive capacity of the nation in which that corporation is domiciled. Nor does an increase in an industrial enterprise's owners' personal wealth necessarily increase that enterprise's industrial capabilities. A billion-dollar increase in the valuation of a company proposing to manufacture a product does not add a single unit of that product to the nation's industrial output.

These distinctions once seemed so obvious that they did not require discussion.

The American government’s response to our increasing dependence on foreign sources of critical raw materials, processed materials, manufactured components, and finished goods has been to undertake a program of financial intervention on an extraordinary scale. Grants, subsidized loans, loan guarantees, government equity investments, guaranteed minimum prices, purchasing commitments, tariffs, tax incentives, and strategic stockpiling have all become instruments of what is now described as American industrial policy.

Wall Street has recognized, quite correctly, that the government’s willingness to commit enormous amounts of public money to restoring domestic industrial capabilities has created substantial opportunities to create private financial wealth.

I do not fault Wall Street for recognizing these opportunities. It is doing precisely what it has evolved to do. I fault Washington for apparently not understanding the difference between creating opportunities for financial gain and creating industrial capabilities.

Washington’s political requirements and Wall Street’s financial requirements have become remarkably compatible. Politicians require announcements of accomplishments within electoral cycles, and financiers require events that translate into higher valuations of their investments. Announcing several billion dollars of government assistance to build an industrial facility can satisfy both requirements without the facility having produced anything whatsoever.

The political and financial benefits of such an announcement are immediate. The industrial benefits, if any, may not be realized for years. By that time, many of the politicians responsible for the expenditure may no longer be in office, and many of the original investors may no longer own their investments.

Who, then, has a continuing interest in the venture's industrial success comparable to the American taxpayer's continuing financial interest?

Unfortunately, manufacturing requirements are not so easily satisfied. Industrial development follows timetables set by chemistry, physics, engineering, and economics. None of these disciplines is particularly sensitive to election cycles or the quarterly reporting requirements of publicly traded corporations.

More money can sometimes accelerate industrial development. It cannot eliminate the necessity for industrial development.

One of the principal misconceptions underlying contemporary American industrial policy appears to be that industrial capability is a commodity that can be purchased if enough money is made available.

Industrial equipment can certainly be purchased, as can land, buildings, intellectual property, and the services of engineering firms. But integrating all of these things into an economically viable and consistently productive operation is itself a highly specialized form of knowledge.

Much of that knowledge is experiential. It lives in the people who have spent their working lives solving the innumerable problems of commercial goods production. It is transmitted from one generation of industrial workers, technicians, engineers, and managers to the next. Once the industries that hold that knowledge disappear, much of it disappears with them.

We did not simply export American manufacturing jobs. By transferring much of our manufacturing to other nations, we also transferred opportunities to acquire, accumulate, and transmit industrial knowledge. We allowed other nations to develop the

industrial experience that would have been accumulated in America had those industries remained here.

This was, in effect, a transfer of a form of national wealth that does not appear on conventional financial balance sheets.

We are now attempting to reverse in a few years a process that took several decades to accomplish.

The question to ask before committing public money to restoring any American industrial supply chain is not simply how much money is required to build its individual components. It is whether we have, or can reasonably acquire, the ability to make those components function together as an economically sustainable industrial system.

An industrial supply chain exists to serve a customer. Therefore, its construction must begin with an understanding of the ultimate customer’s requirements and proceed backward from those requirements to identify the necessary raw materials, processing technologies, manufacturing capabilities, and economics of each stage of production.

Instead, we are presented with inventories of natural resources, proposed production capacities, estimates of future demand, and, above all, the dollar values of financial commitments being made by government and private capital.

These measure resources, intentions, expectations, and expenditures. They are not measures of industrial accomplishment.

Industrial capacity and industrial capability also differ fundamentally. Capacity is a theoretical or demonstrated measure of how much a facility can produce. Capability is the ability to produce what a customer requires, in the quantities and at the

quality required, at an economically acceptable price, and on a predictable and continuing basis.

A nation can spend enormous sums of money creating industrial capacity without acquiring the industrial capabilities that were the justification for the expenditure in the first place.

The appropriate measures of the success of an industrial policy are the quantities and economic value of useful goods that can be produced consistently and sustainably as a consequence of that policy. In the case of goods intended for use by other manufacturers, it is the quantity and value of goods that have been qualified for such use and that are actually being purchased by those manufacturers.

I would like to see the American government regularly publish an accounting of the additional industrial production attributable to its industrial policies, the cost to the taxpayer of achieving that production, and the probability that such production can ultimately be sustained without continuing government assistance.

I suspect such an accounting would be far less impressive than announcements of billions of dollars committed to reconstructing American industrial supply chains.

An important distinction must be made between industrial self-sufficiency for national security and industrial competitiveness for maintaining and improving the American standard of living.

It may be entirely reasonable for a government to subsidize indefinitely the production of certain materials and manufactured goods required for national defense. The economic justification is the value to society of the security it provides. It is, in effect, paying an insurance premium.

But the economic justification for reconstructing the much larger civilian manufacturing economy must ultimately be wealth creation through productive activity.

A nation cannot indefinitely subsidize its entire manufacturing economy without imposing the cost of those subsidies on the very population the manufacturing economy is meant to improve.

Consider the economics of guaranteeing a minimum price for a domestically produced industrial raw material at a level substantially above its internationally available price. This may well make the domestic production of that material financially attractive. But it does not necessarily make the domestic manufacture of products incorporating that material economically competitive.

Unless the government absorbs the additional cost or greater productivity elsewhere in the supply chain offsets it, the American manufacturer is at a competitive disadvantage. The apparent solution to the economic problem of one stage of the supply chain may simply transfer that problem to the next stage.

Are we then to subsidize every stage of the supply chain, including, ultimately, the American consumer’s purchase of the finished product? And are we to do so in perpetuity?

Nor should industrial self-sufficiency be confused with economic autarky. The United States need not, and should not, produce everything it consumes. What is necessary is a rational understanding of which industrial capabilities we must possess domestically, which we can reliably access through international trade, and which are necessary to maintain our ability to compete in the global economy.

Such determinations require industrial knowledge, economic analysis, and historical understanding.

The financialization of American industrial policy may also be contributing to a fundamental misallocation of scarce industrial resources. Capital is not the only scarce resource in rebuilding an industrial economy. Experienced personnel, engineering capabilities, commercially demonstrated technologies, and competent industrial management are all in limited supply.

By directing money toward ventures that attract the most political and financial attention, we may divert these scarce resources from less glamorous but far more important industrial activities.

The opportunity cost of an ill-conceived industrial investment is not simply the money lost. It is also the industrial development that might otherwise have taken place utilizing the resources consumed by that investment. Most importantly, it is the time lost. Money can be replaced. Time cannot.

Economists have long recognized the problem of rent-seeking: pursuing economic gain by manipulating the political and regulatory environment rather than creating additional economic value.

I believe that we are in danger of institutionalizing rent-seeking as a principal mechanism of American industrial policy. We are creating an economic environment in which the ability to obtain government assistance may be more immediately financially valuable than the ability to manufacture a commercially competitive product.

If this is the case, why should we be surprised when the most successful participants in our new industrial economy are those with the greatest expertise in obtaining government assistance rather than those with the greatest expertise in manufacturing?

A rational industrial policy would identify the deficiencies in

our existing industrial capabilities, assign priorities to their resolution, and provide financial assistance where it can be demonstrated that such assistance is necessary and likely to achieve the desired industrial result. It would reward demonstrated accomplishments rather than promises. It would recognize the importance of maintaining and expanding existing industrial capabilities rather than assuming that entirely new enterprises must be created to solve every industrial problem.

Most importantly, it would establish the industrial objectives before designing the financial instruments intended to achieve them.

I am not arguing against government participation in developing the American industrial economy. Our own industrial history provides ample evidence of the importance of such participation. Nor am I arguing against the creation of private wealth by those who successfully develop productive industrial enterprises. That is one of capitalism’s great virtues.

I am arguing against substituting the creation of financial wealth for the creation of productive wealth as the objective of American industrial policy.

If the reconstruction of American industry results in the creation of substantial private fortunes, I have no objection whatsoever, provided those fortunes result from industrial accomplishment rather than merely from the government’s announcement of its intention to subsidize industrial accomplishment.

The distinction is not ideological. It is economic.

We need to begin a national discussion of what constitutes industrial success, how it is to be measured, and who should be entrusted with determining whether the policies being pursued

are likely to achieve it. I suggest that the opinions of those who have actually produced goods on a commercial scale should carry considerably more weight in that discussion than they do today.

The ultimate test of America’s new industrial policy will not be the number of billionaires it creates, the number of companies listed on American stock exchanges, or the amount of money Congress appropriates. It will be whether Americans, a generation from now, possess the knowledge, the facilities, and the economic ability to manufacture the products upon which their prosperity and national security depend.

Finance should be an instrument of industrial policy, not its objective.

Until Washington and Wall Street understand this distinction, I suspect the American taxpayer will keep throwing money down the well, and a surprising number of people will emerge from it considerably wealthier.

American manufacturing, however, may still be at the bottom.