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America Has Central Planners. We Just Call Them 'Venture Capitalists.'

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In 2009, the U.S. government extended a $535 million dollar loan guarantee to a manufacturer of solar panels named Solyndra. The aim of this subsidy was to expedite the development of renewable energy technology, as the global economy's reliance on carbon energy was threatening the long-term survival of human civilization. Shortly after Uncle Sam bankrolled the solar firm, the price of a material called polysilicon plummeted by 89 percent. Solyndra's competitors used polysilicon in their solar panels, and thus, enjoyed a rapid collapse in their costs of production. Solyndra did not. The firm abruptly failed, taking $528 million in federal funds down with it.

And conservatives rejoiced.

Barack Obama had just provided America with a "teachable moment" on the evils of public investment. Pointy-headed bureaucrats — high on their godless hubris and corrupted by their coalition's cronies — had decided they could outsmart the market. But as the sun melted the wings of Icarus, so the Invisible Hand sent Solyndra crashing down to earth.

As David Boaz, vice-president of the libertarian Cato Institute, explained, the Solyndra failure had "all the hallmarks of government decision making." Among them, "officials spending other people's money with little incentive to spend it prudently," "political pressure to make decisions without proper vetting," "the enthusiastic embrace of fads like 'green energy,'" the substitution of a small number of politicians' judgements for "the judgments of millions of investors," officials "ignoring warnings" from impartial experts, and "promiscuous spending."

Private investors "make plenty of mistakes, too," Boaz allowed, and "companies fail, sometimes through no fault of their own." But according to Boaz, Charles Koch, and the broader conservative intelligentsia, Solyndra was emblematic of pathologies *unique* to public investment. After all, private investors and the firms they bankroll are subject to market discipline. In the free-enterprise system, shareholders only succeed if their companies turn a profit, and their companies only turn a profit if they meet the demands of consumers more efficiently than their competitors.

When politicians make investments, by contrast, they can succeed even if the companies they subsidize are corrupt, wasteful, and rejected by consumers. The politician's incentive is not to allocate capital to its most efficient economic use, but rather, its most efficient political one. If bailing out inefficient car companies in key swing states will increase one's odds of reelection, the long-term sustainability of those firms' business models scarcely matters. Meanwhile, left unchecked, government subsidies can enable politically favored firms to survive indefinitely: A company that is less efficient than its rivals — but that can afford to sell its products at a loss

thanks to Uncle Sam's largesse — can eventually drive its competitors out of business. At that point, a Solyndra-esque firm can actually become profitable by extracting monopoly rents.

While some socialists will insist that public investment is more democratic than free enterprise, any economic conservative knows that the latter comes closer to achieving the ideal of rational self-government: Citizens are much better at expressing their preferences at the shopping mall than they are at the ballot box, where their decisions are driven less by policy views than identity and emotion. In the marketplace, citizens empower those who meet their revealed preferences; in politics, they empower those who enchant them with oratory. The more economic power is left to the private sector, the more it will be directed to efficient enterprises; the more such power is commandeered by the electorate, the more it will be directed to charismatic liars.

There are many problems with this theory of political economy. For one, it is hard to argue that Solyndra was representative of all public investment when it wasn't even representative of the Obama Energy Department's broader loan program. Like any shrewd capitalist, the DOE assembled a portfolio of green investments that was sufficiently diverse to yield the federal government a nifty profit, even as it assumed a large loss on Solyndra. More broadly, the right's insistence that large-scale public investment leads inexorably to stagnation elides the fact that (1) the United States saw the highest rates of growth and innovation in its history during World War II, when its economy was more centrally planned than at any time in its history, and (2) Scandinavia exists.

But the libertarian theory of political economy is at least as wrong in its account of how private investment works as it is about why state investment doesn't.

Libertarians' nightmare future is already here. They just don't know it.

Of course, right-wing libertarians are willfully blind to the existence of market failures, externalities (such as the carbon emissions fueling ecological collapse), and, in its celebration of consumer rationality, the advertising industry. Less obviously, Koch & Co. ignore how pervasive top-down economic planning is in the actually existing private sector — and how much their horror stories about a "big government" future resemble American capitalism's present.

If you want to see a close-knit cabal of self-styled experts picking our economy's winners and losers by subsidizing their favorite unprofitable firms, which then drive more efficient competitors out of business by selling products at a loss — all while substituting their judgement for the judgments of millions of investors, making decisions without proper vetting, embracing fads, spending promiscuously, ignoring warnings from impartial experts, and handing economic power to charismatic liars — don't look to Washington, D.C., in the age of Obama, but to Silicon Valley in the age of Adam Neumann.

Or, more simply, to see how privatized central planning works, consider WeWork.

The company's business model was never especially innovative nor sound. It aimed to lease office space from landlords at low rates by signing long-term contracts, and then rent that space to tenants at a higher rate via short-term contracts. The firm's founder, the aforementioned Adam Neumann, dressed up his commercial-real-estate middleman in tech disrupter's clothing: WeWork didn't rent any old office space, but rather, ecofriendly, co-working spaces that would facilitate innovation by providing start-ups with cheap work environments on flexible terms, and fancy amenities.

The perils of this proposition were straightforward. Commercial real-estate is a highly cyclical business; when the economy slows down or enters recession, demand plummets. Commercial landlords can weather such storms by drawing on (or selling off) their assets. But WeWork did not aim to own rental space. Virtually all of the workplaces it rented out weren't assets for the company but liabilities. WeWork was locked into long-term rental contracts with landlords, while its tenants enjoyed the flexibility of short-term leases. Thus, if demand for flexible workspace fell as those short-term leases expired, WeWork would rapidly accumulate large losses.

Perhaps, through sober, thrifty leadership, WeWork could have stabilized its risky business. But Neumann earned a reputation for distractibility and self-indulgence. He smoked weed in an office tricked out with a cold-plunge pool and infrared sauna. He diverted energy into side ventures that sold artificial wave pools and "performance mushrooms." He spent $60 million on a corporate jet, then used it for surfing getaways.

And through it all, private capital markets kept showering him in cash. By the time WeWork was forced to cancel its IPO in 2019, the firm had raised $12.8 billion — and was losing $5.25 million a day, at the peak of an economic expansion.

Venture capitalists are playing a lottery that no one else can win.

In a recent exposé on WeWork's funders, *The New Yorker*'s Charles Duhigg offers insight into how and why this was possible. In simple, slightly reductive terms, there is a small group of (predominantly male, Ivy League–educated) people in Silicon Valley who collectively command an enormous reservoir of capital. The vast wealth of these individuals enables them to sustain great losses in pursuit of windfall returns. And the past two decades have taught them that windfalls are the only returns worth pursuing: Getting in on the ground floor of the next Amazon (or, failing that, Uber) is orders of magnitude more valuable than seeding a dozen profitable, midsize businesses. An executive at SoftBank, the investment firm of Japanese billionaire Masayoshi Son, summarized the ethos to Duhigg, saying, "Venture capital has become a lottery … Masa is not a particularly deep thinker, but he has one strength: he's devoted to buying more lottery tickets than anyone else."

In this context, a "lottery ticket" often means "a stake in an aspiring monopoly." The route to 1,000 percent returns tends to run through a cornered market. Sometimes, the pursuit of market dominance is abetted by network effects inherent in the product. Often, it is aided by capital-rich VCs rallying behind a prospective titan, and enabling it to ruin its rivals by offering products and/or services at below break-even prices.

As WeWork grew, other co-working firms with more modest ambitions were crushed under the weight of its capital. Duhigg relays the story of an entrepreneur named Jeremy Neuner, who struggled to find investors for his (actually profitable) flexible workplace start-up NextSpace, because Silicon Valley's central committee had already settled on its co-working company. Even VCs who hadn't already invested in WeWork began telling Neuner that "if they funded NextSpace, they might be excluded from buying into WeWork someday."

WeWork proceeded to undercut NextSpace in every market it occupied. The disfavored firm quickly died.

Closed eyes, deep pockets, can't lose.

Despite its unprofitability, WeWork's market share and valuation kept climbing. Its early VC patrons hadn't been rubes; their investments had massively appreciated. WeWork didn't deliver for its investors by supplying a product more efficiently than its competitors (who had somehow managed to supply short-term office rentals *without* sinking capital into in-office saunas); it did so because its backers wielded extraordinary economic power, and its leader was an exceptionally charismatic liar. In a world full of superrich people with more money than they know what to do with, and an undying lust for multiplying their fortunes, this is sufficient to win a multibillion-dollar valuation.

By 2018, WeWork's board knew the firm's true product was Neumann's snake-oil salesmanship. As Duhigg reports:

A former high-ranking WeWork executive told me that, by 2018, "our job had basically become to make sure Adam didn't do anything really stupid or really illegal—the board knew Adam was the key to raising money, and, as long as their valuations kept going up, they weren't going to risk upsetting him."

That WeWork's board *knew* their company's actual operations were indefensible is established by their unanimous refusal to defend the firm's CEO — despite pleas from the company's executives — when the *Wall Street Journal* reached out for comment in advance of a 2019 report on Neumann's self-dealing.

Still, the board did not resign. Instead, they opted to hold on until WeWork went public, at which point they could "sell their shares, pocket hundreds of millions of dollars, and be done with the company altogether."

Things didn't work out as planned. WeWork's finances could not survive the scrutiny an IPO entailed. But for the company's VCs, the gamble on WeWork still paid off in spades. The prestigious venture-capital firm Benchmark, whose deep pockets had facilitated WeWork's rise, secured a return on investment of more than 1,000 percent. Neumann walked away with hundreds of millions of dollars. WeWork's employees were less fortunate; when financial realities overtook the founder's well-funded fictions, thousands of workers lost their jobs.

Meanwhile, under SoftBank's ownership, WeWork lives on in smaller form. And, thanks to a pandemic that's liquidated much of its competition, it may be the largest co-working company in America when offices reopen.

The question isn't *whether* large swathes of the economy will be planned, but who will do the planning.

It would be silly to say that the WeWork fiasco has "all the hallmarks of private-sector decision-making." But it does embody just about all of the pathologies the American right attributes to public investment. A small group of extremely powerful people — whose incentives are fundamentally misaligned with the interests of consumers, workers, and the public writ large — rained subsidies on a favored, faddish firm, allowing it to dominate a market on the basis of its connections rather than its efficiency. Private investors, like the irrational electorates libertarians disdain, awarded economic power to a charismatic charlatan. The corporation's governing board ignored warnings from financial analysts and enabled promiscuous spending. In the process, it ruined less-connected competitors, wasted capital, hurt workers, and still managed to feather its own bed. Crucially, it accomplished all of this without drawing on any state subsidies. This is not

a story of government intervention distorting free-market competition; it's a story of concentrated private power doing so.

If Solyndra is emblematic of public misinvestment, and WeWork of the private variety, then "big government" comes out looking pretty good. Uncle Sam wasted $528 million trying to develop a breakthrough energy technology that would help avert catastrophic climate change; the capitalist class's superstar investors wasted billions trying to develop a new middleman between landlords and tenants.

WeWork may have been exceptional in its dysfunction. But it is hardly unique in becoming a multibillion-dollar company through de facto, top-down economic planning. Uber is now the world's largest taxi company — not because its founders discovered an exceptionally efficient or profitable way to run a ride service, but because a lot of wealthy people decided to subsidize its losses in pursuit of future monopoly rents.

In mainstream discourse, wasteful government investments get framed as scandalous betrayals of the public trust. When private investors misallocate far larger quantities of our planet's limited resources, meanwhile, it is typically treated either as a nonevent, or as a matter of public *curiosity* but not concern. After all, the $528 million wasted on Solyndra was *ours* as taxpayers, while the billions that VCs wasted on WeWork was *theirs* to squander.

Yet, once one scrutinizes how "their" money is earned and invested, the legitimacy of their claim to that capital comes into question. If we acknowledge that VCs can reap windfall returns by investing in what amount to legal scams; or that virtually all tech companies built their products on publicly funded technologies and infrastructure, while many owe their profits to government-granted patent monopolies; or that a home-health aide who helps a beloved grandmother go to the bathroom contributes more to society than a tax attorney who helps a corporation hide its profits (even if the market awards the former minimum wage and the latter a seven-figure income), then the notion that superrich investors are *entitled* to whatever capital they happen to acquire — irrespective of whether they allocate it in a socially beneficial way — becomes as ludicrous as a medieval monarch's purported entitlement to absolute rule.

The U.S. economy is going to be governed, in part, by top-down industrial planning. This is true in a conventional sense; even as conservatives rail against statist economics, they clamor to give the Pentagon evermore authority over what America's private manufacturing industry produces. But planning is by no means limited to the public sector. Our nation's top-heavy wealth distribution awards superrich individuals the power to direct significant portions of industrial development, unconstrained by the imperative of profitability, at least in the medium term.

No one in the U.S. Congress is a proponent of abolishing all private markets and establishing a communist economy. The debate between Green New Dealers and "small government" conservatives isn't about whether economic development should be wholly planned or exclusively shaped by market competition. It is about which aspects of our nation's economic life should be planned — and above all, who should be allowed to do the planning.

We can trust unaccountable, unrepresentative cliques of the superrich to lead us to ecologically sustainable prosperity, one "unicorn" at a time. Or we can demand a greater say over our own economic future, by putting a bit more planning power into the hands of people who need our

votes to keep their jobs. The latter is no safe bet. But in my view, American democracy remains a worthy venture.