



AMERICAN
COMPASS
READER

Rebooting the American System

MAY 2020

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AMERICAN COMPASS

Our Mission

To restore an economic consensus that emphasizes the importance of family, community, and industry to the nation's liberty and prosperity—

REORIENTING POLITICAL FOCUS from growth for its own sake to widely shared economic development that sustains vital social institutions.

SETTING A COURSE for a country in which families can achieve self-sufficiency, contribute productively to their communities, and prepare the next generation for the same

HELPING POLICYMAKERS NAVIGATE the limitations that markets and government each face in promoting the general welfare and the nation's security.

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Rebooting the American System

MAY 2020

For nearly two centuries, the United States pursued a robust national economic agenda that supported the nation's extraordinary progress, prosperity, and security. It built canals and railroads and highways.

It fostered industries that would make revolvers, airplanes, and semiconductors. It buttressed the American Dream. The agenda went by many names, but one of its earliest champions and one of America's greatest statesmen called it, simply, the American System.

This essay series explores the American System through the lenses of tradition, theory, and practice—how the United States once pursued its economic policy, why fundamentalist free-market logic fails as a guide, and where policymakers might act to shape the nation's economy once more. Senators Marco Rubio and Tom Cotton situate these ideas in our present context: a once-in-a-century pandemic and a generation-defining contest with China.

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Coverage & Impact

American Compass launched with the release of *Rebooting the American System*, featuring essays from leading conservatives and earning feature coverage in the *New York Times*, *Washington Post*, *The Economist*, *Bloomberg*, and *National Review*, among others.

National Affairs editor **Yuval Levin** wrote in *National Review* that these essays clarify the issues that our nation faces and treat them with the gravity they deserve.

NR

“I find these pieces very valuable not because I agree with them—I certainly agree with some of what they say, but also disagree with quite a bit. I think they’re useful because they elevate the substance and the form of the right’s internal arguments and make it easier to understand what we are disagreeing about. They can’t be answered with snide ad hominem dismissals, and so they stand a chance of inviting responses that further refine and elevate our thinking about the future.”

DAILY CALLER

“Economic stability, national security, widely shared prosperity, strong families, a pluralistic society—in short, the American way of life—are achievements plainly worth conserving. So is the only approach to economic policy that has ever proved capable of producing them.”

The Daily Caller published an adaptation of **Wells King’s** introductory essay, highlighting how conservatives can go back to their roots and embrace a robust national economic policy.

The New York Times

"Senators Tom Cotton of Arkansas and Marco Rubio of Florida ... argue in essays in a new online journal that the coronavirus has exposed the nation's need to be more aggressive and innovative with its laws so it can better protect itself from adversarial powers like China."

In a story about how the COVID-19 crisis is forcing some Republicans to rethink their party's embrace of free-market fundamentalism, the *New York Times* highlighted the forewords by **Senators Cotton and Rubio** as examples of fresh thinking among the GOP coalition.

The Washington Post

In the *Washington Post*, **Henry Olsen** celebrated American Compass's launch by comparing it to Martin Luther's 95 Theses.

"Martin Luther started the Protestant Reformation by reportedly nailing 95 theological theses to the door of Wittenberg's church. The website of Oren Cass's new think tank, American Compass, could be the start of a similar, long-overdue Conservative Reformation. ... American Compass aspires to be the tool with which future conservative leaders can guide the American ship of state. Those men and women ignore it at their peril."

The Economist

"Led by some of the most interesting conservative thinkers, including Yuval Levin and Oren Cass, plus a handful of senators, it rejects Mr Massie's market fundamentalism and takes a more flexible and positive view of government than most Republicans have since the 1970s. ... An impressive organisation of this dissident faction, called American Compass, would go further. ... Politics does seem to be moving towards the dissidents."

The Economist's Lexington column praised American Compass as impressive, suggesting that politics seems to be moving in its direction.

*America's ability to meet the
challenges of tomorrow rests on our
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page today.*





Foreword: On Resilience

MARCO RUBIO

The coronavirus pandemic is a generation-defining moment for the American people. Facing tremendous suffering, we have seen heroic stories of self-sacrifice and bravery and communities overcoming tectonic disruptions by pulling together in mutual support.

These classic virtues of the American character normally go unnoticed, but they are indispensable during a crisis. Similarly, businesses and jobs we treated as mundane, even dispensable, before the pandemic are now deemed essential to our nation's survival.

Before the coronavirus, few Americans gave thought to where medical equipment like ventilators, protective gear, and basic pharmaceutical ingredients were made. Now, they wonder why we have had to buy our protective equipment from China, which has threatened to cut us off.

But insofar as the coronavirus has changed things, it has also revealed long-standing truths about the pre-pandemic economy. America hemorrhaged manufacturing capacity because conventional wisdom held that economic resources were better allocated based on maximizing efficiency, as opposed to ensuring resilience. Offshoring the bulk of our manufacturing base might have been “efficient,” but it also meant sending millions of dignified jobs with it, leaving communities across the country with shattered families and soaring addiction rates.

Those same communities—and many more—are now suffering because America's service-oriented economy is bearing the brunt of crushing public-health

lockdowns. No economy can escape a global pandemic unharmed, but decades of shortsighted lawmaking and corporate leadership made America unacceptably vulnerable.

But a pandemic is only one of the emergencies that any society can expect to encounter. War is another. Our dependence on China now extends to high-technology national security industries, like rare-earth minerals and integrated circuits.

Imagine the leverage that Beijing would command over us in the event of armed conflict. Lacking the ability to make them ourselves, America would be deprived of goods like the drugs needed to keep our military healthy or the materials that power our defense systems.

These vulnerabilities are obvious and intuitive. Only an economist could argue that we should make F-35 fighter jets in China because it's cheaper. But, as Julius Krein writes in "Planning for When the Market Cannot," the logic of economic efficiency denies that government should play any role in deciding what is necessary.

The logic of economic efficiency holds that politics either cannot decide what is necessary or will make the wrong decision, so determining the allocation of resources is better left to unregulated market forces. In many cases, American capitalism has proved remarkably adept at doing exactly that. It has cured diseases and led to incredible technological advances. And there is no other way for an economy to grow and innovate, especially in a country as large and diverse as ours.

However, there are obvious exceptions. The capacity to meet medical needs in a pandemic is not efficient, but it is necessary. A robust, secure, domestic food chain

sacrifices some efficiency for the assurance that we can feed our population.

As Beijing uses its newfound industrial capacities to strengthen the Chinese Communist Party, the American public will face new decisions about what is necessary. After China botched its response to the initial outbreak of the coronavirus in Wuhan, it turned all production of masks inward. American companies operating in China couldn't get supplies to Americans. It may be efficient to pool our economic resources with China, but it is not good.



The great casualty of prioritizing efficiency is a lost focus on the political common good. It is an inability to identify what is necessary and to enact in law and practice the means to achieve it.

The great casualty of prioritizing efficiency is a lost focus on the political common good. It is an inability to identify what is necessary and to enact in law and practice the means to achieve it. Losing that focus has only served to separate the components that compose a functional civil society: family, work, faith, community, and the mutual obligations of citizenship.

For conservatives, this failure is not a natural consequence of a belief in limited government. Elected officials playing a role in deciding what is integral to the national interest is not authoritarianism, and marshaling the resources to achieve that is not socialism. As Wells King writes in "Rediscovering a Genuine American

System,” the prudent pursuit of the common good is the great tradition of American political conservatives. Like that of Washington, Lincoln, and Reagan, our task is to address challenges in a way consistent with American principles of government.

These principles are not the absence of choosing and pursuing what is good, but themselves guides to what is good. For example, self-sufficiency in medical supplies is good. American corporations producing pharmaceutical ingredients should have the duty to identify to the government where the domestic supply chain is deficient, and public finances should be leveraged to make them sufficient.

But it cannot stop there. Any serious effort to grapple with our vulnerabilities must place a pro-American industrial policy at its center. This means identifying economic sectors vital to the national interest and helping them thrive in the United States. The federal government can accomplish this by encouraging investment via tax incentives and robust federal guarantees, as well as implementing full expensing, reshoring some supply chains, and spurring the development of others through federally guided cooperatives.

Reshoring jobs in critical manufacturing sectors is right not only because they’re instrumental to our national defense; the loss of dignified, productive work poses an existential threat to the common good of our nation. Ensuring that these jobs exist acknowledges the profound, inseparable connections in our society between work, family, community, and country.

Historians will look back on the coronavirus pandemic as a point of national inflection and, hopefully, as a corrective to the policy choices of the last few decades. America’s economic policy must match the strength and spirit of our people, and our ability to meet the

national security challenges of tomorrow rests on our conviction to turn a new economic page today. I am optimistic that the winds are changing, with organizations like American Compass already proving essential in the process of charting the right course. ■

*The American system of innovation,
combining strategic investment
and private enterprise, made our
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world. It can pave the way for
widespread prosperity and security
again today.*





Foreword: On Security

TOM COTTON

This essay series by American Compass ventures to recover the “American System” associated with such statesmen as Henry Clay, Alexander Hamilton, and Abraham Lincoln. It also considers how to update their insights for our times. I’d like to offer my own reflection on what motivated these great men to advocate the American System: namely, their struggle for independence from hostile foreign powers.

The Founding generation won independence on the battlefield, but the road to national self-sufficiency was much longer and fraught with peril. Early American industry wasn’t strong enough to equip the nation with essential supplies, as General Washington knew. There wasn’t enough homespun cloth to cover his “naked, and distressed” troops at Valley Forge; there were even fewer homegrown muskets to arm them. The American Revolutionaries fought mainly with weapons from France and even Britain, great powers that spent lavishly on their own arsenals.

President Washington thus stated during his First Inaugural Address in 1790 that a “free people” ought to promote manufacturing “to render them independent of others for essential, particularly military, supplies. Alexander Hamilton repeated this theme in his report to Congress on manufactures a year later, warning that it was foolish to leave “essential instruments of national defence to the casual speculations of individual adventure.” The message was clear: sovereign nations must be prepared to defend themselves and aggressively pursue their interests, or else rely on the uncertain

support of others. To remain free, America would have to arm itself.

Clay's three-part American System of support for domestic manufacturing, a strong central bank, and commercial infrastructure investment built on this theme. America had come a long way by the 1830s, but it was still dependent on its old colonial master for many manufactured goods, a fact that rankled decades after Britain had put a torch to the White House during the War of 1812. "Have we forgotten, so soon," Clay asked, "the privations to which not merely our brave soldiers and our gallant tars were subjected, but the whole community, during the last war, for the want of absolute necessities?" Widespread support for the American System shows that his question was rhetorical. Americans had not forgotten the indignity of dependence on a hostile power. Have we?

The Wuhan virus pandemic has laid bare a new dependence on a hostile power, Communist China, for even basic supplies like respirator masks and basic medicine. The Chinese Communist Party has exploited this dependence by preventing supplies made by American companies in China from being shipped to the United States. Just as our troops at Valley Forge shivered for want of American cloth, our doctors and nurses are forced to reuse protective equipment to treat patients sickened by a plague that the CCP unleashed on the world.

China's ambitions aren't limited to basic manufactures. Beijing seeks nothing less than "the great rejuvenation of the Chinese nation," with the technological and economic mastery that that term implies. It's clear from China's actions and rhetoric that it views the American-built world order as the chief impediment to its dream becoming reality.

China has embarked on a long march to catch up and surpass the United States in advanced technology, especially dual-use technology. The CCP is expected to invest hundreds of billions of dollars in key technologies through its “Made in China 2025” technology strategy. These expenditures are supplemented by a brazen campaign of intellectual property theft, as well as \$236 billion in funding from American investors since the turn of the century—most of it greenfield investment in new factories and capital goods.

The CCP’s strategy is already yielding results. Today, China is an industrial behemoth sitting at the center of the world’s supply chains like an octopus. It is the world’s leading producer and consumer of machine tools, and it installs one in every three of the world’s industrial robots each year. Massive Chinese firms like Huawei threaten to dominate the world market for advanced telecommunications, while serving as agents for Chinese intelligence.

China is increasingly a leader even in frontier technologies. China launched the world’s first quantum-communications satellite in 2016. This could have been a “Sputnik moment” for Washington. Instead, it took a presidential election, a trade war, and a pandemic to awaken many to the reality that we are no longer in a 1990s-vintage “strategic partnership” with Beijing, but a new Cold War.

The United States must prepare for a strategic competition with Communist China as protracted and difficult as our contest with the Soviet Union. But the contest with China may be even more challenging than the Cold War. China is already wealthier than the Soviet Union at its peak, relative to the United States. It is also far more entangled with us economically. Cold War One could be thought of as an arms race, featuring two contestants running in separate lanes, striving for the

finish line. Cold War Two will be more akin to a wrestling match, its contestants tangled up, seeking to exploit their leverage over each other, and straining, ultimately, to force the other to the mat.



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While aspects of this competition are new, the strategy that America needs to win is not: we must secure our independence by building our military.

The federal government will have to make strategic investments in advanced technology and critical infrastructure, just as we did during the Cold War with breakthrough scientific research at the national and corporate laboratories that laid the groundwork for the digital revolution. We can begin by increasing the federal research and development budgets for agencies like DARPA, so that our scientists and engineers can get to work on the technology that our military will field decades hence. We must also begin the laborious process of pulling our supply chains out of China for medicine, semiconductors, and other essential goods and making them here at home, using all the tools available to policymakers. Such investments pave the way for widespread prosperity and security, when combined with the dynamic capitalism that our communist adversaries cannot hope to emulate.

This strategy, combining strategic investment and private enterprise, is not an innovation of technocracy or the Cold War. Rather, it has always been the American system of innovation, which, in its earliest years, funded national arsenals that made innovators like Colt and Remington household names—and led to breakthroughs that made American manufacturing the envy of the world.

Our country built its way to preeminence despite being encircled and ensnared by hostile foreign powers. We can take solace in the fact that our situation is far less dire than it was back then. But there is still a great deal of work to be done to strengthen our nation.

Essays like the ones in this series can help us better understand our nation, shorn of the self-serving myths and pieties so common in Washington. More important, groups like American Compass can equip us with the policy to win our independence in a dangerous world, a task that cannot be outsourced to anyone else. We must do it for ourselves. ■

*From the Founding to the Cold War,
America's leading statesmen and
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Rediscovering a Genuine American System

WELLS KING

On February 2, 1832, Henry Clay rose on the Senate floor to defend a bold national economic agenda that he had christened eight years earlier “a genuine AMERICAN SYSTEM” (emphasis in original). He had already advanced a number of measures critical to his vision: the Second Bank of the United States, protective tariffs for burgeoning industries, and infrastructure to connect commercial centers to the expansive frontier. But the political revolution in 1828 that had driven Clay’s National Republican party from power and installed a backcountry populist in the White House was threatening to undo these projects.

Speaking over the course of three days, Clay documented the “unparalleled prosperity” that the American System had produced. He explained how this “long established system” was “patiently and carefully built up, and sanctioned, ... by the nation and its highest and most revered authorities.” His opponents’ alternative, he alleged, was vacuous at best: “When gentlemen have succeeded in their design of an immediate or gradual destruction of the American System, what is their substitute?” Clay asked. “Free trade! Free trade! The call for free trade, is as unavailing as the cry of a spoiled child. ... It never has existed; it never will exist.”

Clay lost this particular round in the never-ending fight over America’s economic aspirations and the role of government in fulfilling them. President Andrew Jackson vetoed the re-chartering of the national bank in summer 1832 and then soundly defeated Clay’s challenge in the presidential election that fall. But

Clay was not the first great American statesman to champion a robust role for public policy in shaping the national economy. Nor would he be the last. The efforts of that coalition, from Hamilton to Lincoln to Eisenhower, kept alive the spirit of the American system from the nation's founding to the middle of the twentieth century. Through its various expressions, the System helped to deliver the "unparalleled prosperity" that Clay once heralded and made American industry the envy of the world.



"When gentlemen have succeeded in their design of an immediate or gradual destruction of the American System, what is their substitute?" Clay asked. "Free trade! Free trade! The call for free trade, is as unavailing as the cry of a spoiled child. ... It never has existed; it never will exist."

Conservatives abandoned that tradition in recent decades and then forgot its existence altogether, concocting the myth of a laissez-faire America and conceiving of capitalism as little more than "economic freedom." The ensuing political struggle between a left committed to globalization and redistribution and a right that would do nothing at all has ignored the actual needs of the nation's citizenry and its economy. We need more Henry Clays. Conservatives could provide them, if they recognized that the history of American political economy furnishes a rich tradition worthy of conserving.

Hamilton's Triumph

The very framing of the Constitution emphasized the limited but positive role for government in the American economy. Indeed, the inadequacy of the Articles of Confederation for dealing with essential matters of political economy—international trade, interstate commerce, and public finance—spurred the formation of the Constitutional Convention in the first place. As Article 1, Section 8 makes clear, the Framers understood not only the importance of these economic powers but also that each one—to lay and collect taxes, to borrow money, and to regulate commerce—was distinct and deserving of enumeration. Such powers were reportedly not a matter of controversy at the convention.

Still, the proper scope and ends of federal power were open questions. The ensuing public debate was shaped—and still is shaped—by an overarching conflict of visions about the ideal American republic: between the Hamiltonian vision of a commercial republic driven by industrialization and a robust financial system and the Jeffersonian vision of an agrarian democracy of small, freeholding yeoman farmers.

Alexander Hamilton proposed an aggressive economic agenda to President Washington and the First United States Congress. In his first act as the nation's first Treasury secretary, he advised Congress to pass a general tariff to fund the government's debt and operations. He later devised a plan to establish the creditworthiness of the United States by assuming the states' debts and paying creditors at face value. Against the objections of Secretary of State Thomas Jefferson, Hamilton also persuaded Washington in 1791 to sign a 20-year charter for the Bank of the United States, a national bank for which "public utility [was] more truly the object ... than private profit."

Later the same year, Hamilton submitted the Report on Manufactures to Congress, outlining a plan to support industrialization through federal “bounties” (subsidies). He argued that the “independence and security” of the United States were “materially connected with the prosperity of manufactures” but that private capital would not be sufficient to support its development. The national interest would “therefore require the incitement and patronage of government.” To modern ears, such state-sponsored industrialization may sound like a response to market failure, but Hamilton’s case was broader: that investment was an affirmative obligation of the federal government. “In a community situated like that of the United States,” he maintained, “the public purse must supply the deficiency of private resource. In what can it be so useful, as in prompting and improving the efforts of industry?”

Though not fully implemented in his tenure as Treasury secretary, Hamilton’s vision of political economy ultimately triumphed. Following its humiliating experience in the War of 1812, the country pursued a number of Hamiltonian reforms. Congress had failed to renew the charter of the First Bank of the United States in 1811, but chartered the Second Bank in 1816. A series of tariffs, beginning in 1816, were also instated with the express purpose of protecting infant domestic industries. In 1817, Congress passed the Navigation Act, requiring that interstate trade be conducted with American-owned ships.

Hamilton did not live to see his vindication, but he would especially have appreciated the concessions of his erstwhile opponents. Thomas Jefferson later admitted that “experience” had demonstrated that manufacturing was “as necessary to our independence as to our comfort.” He was emphatic. The person “who is now against domestic manufactures,” he wrote after the war, “must be for reducing either to dependence

on that foreign nation [Britain], or to be clothed in skins, and to live like wild beasts in dens and caverns. I am proud to say, *I am not one of these*” (emphasis in original). James Madison likewise came to defend state-sponsored industrialization through protective tariffs. “Unless aided in its nascent and infant state by public encouragement and a confidence in public protection,” he wrote, entire industries “might remain ... for a long time unattempted, or attempted without success.”

“There is no Hamilton memorial,” George F. Will has noted. “But if you seek his monument, look around. This is Hamilton’s America.” This was already true when Henry Clay spoke in 1832. Only the Hamiltonian project went by a new name: the American System.

The American System and Its School

The American System emerged from crisis and the young nation’s sudden awareness of its own mortality. As the United States entered the War of 1812, Henry Clay emerged as a leading war hawk in Congress. Economic nationalism was a natural outgrowth of his anti-British posture and would become a common lesson from the experience of war. Its primary aim was self-sufficiency. “We should thus have our wants supplied, when foreign resources are cut off,” Clay advised his fellow lawmakers, “and we should also lay the basis of a system of taxation, to be resorted to when the revenue from imports is stopped by war.”

Clay’s American System integrated three mutually supporting priorities: tariff-based protection of infant industries, a national financial system, and “internal improvements,” which we would today call infrastructure. In 1816, Clay led the passage of an expressly protective tariff for the nation’s burgeoning manufacturing industry, averaging 40 percent on all

imported manufactured goods. He also advocated the creation of the Second Bank of the United States and federal funding of canal and railroad projects with revenue generated from land sales.

The American System's development was supported by political economists whose thinking came to be known as the American School. Like Clay, the thinkers behind the American School were engaged not only in a battle of ideas but a contest between nations. They were contemporaries of the great British classical economists like David Ricardo and John Stuart Mill and took part in a transatlantic debate over the laws of economics and the role of government. They rebutted the arguments of these "British School" advocates for free trade and laissez-faire and outlined policies to protect America's interests from what they deemed to be hostile British policy.

Daniel Raymond (1786–1849), for example, established his reputation after publishing criticism of Adam Smith's *Wealth of Nations*. Raymond objected to Smith's very definition of national wealth as the sum of all private wealth, arguing that its distribution mattered and that national wealth ought to reflect "the condition of the whole nation" such that "general prosperity and happiness" would be maximized. Another leading light of the American School was Friedrich List (1789–1846), a German émigré who developed and systematized a "national system" of economics that stressed the importance of industrialization in the emerging global economy. "To attain the highest degree of independence, culture and material prosperity," List argued, a country "should adopt every measure within its power to defend its economic security." For the still-developing United States, this meant tariff-based protection and import substitution for the nation's infant industries. Once the nation had industrialized, however, List's system advised switching to a reciprocal trade strategy

with other industrialized nations, cautiously opening American markets in exchange for access to others.

These were common themes of the American School: treating the nation—rather than the individual—as the principal unit of economic analysis and incorporating social and geopolitical factors that today might seem beyond the scope of economics. The British “dismal science” could not satisfy the optimism and liberality of the still-young American republic.

The American School struck its mid-century crescendo in the work of Henry Charles Carey (1793–1879). He warned that the purpose of British free-trade policy was to “secur[e for] the people of England the ... monopoly of machinery” and argued for an aggressive policy of support for infant industries to “break down this monopoly” and “restore the natural tendency” of balancing manufacturing with agriculture to support “stabler self-sufficient communities.” “The Americans, and few more so than Henry Carey,” writes historian Gabor S. Boritt, “made political economy the beautiful science.”

Yet Carey’s greatest contribution to the American tradition may not have been his writing, but his service as an advisor to an ambitious young statesman from the frontier—an admirer of Henry Clay and a student of the American School named Abraham Lincoln.



As the Civil War raged, Lincoln pursued an American-System agenda on an epic scale.

From his very first campaign manifesto in 1832, Lincoln confessed that “my politics are short and sweet. ... I am in favor of national bank ... in favor of the internal improvements system and a high protective tariff.” By the

time he occupied the White House, his economic policy seemed to have changed little: “I have always been an old-line Henry Clay Whig,” he proclaimed in 1861.

As the Civil War raged, Lincoln pursued an American-System agenda on an epic scale. Having long advocated for protective tariffs, he raised them two times in the course of just three years. From Lincoln’s presidency through World War II, the American home market was the most protected in the world. Lincoln also re-created a federal financial system. With the Legal Tender Act, he granted the Treasury the ability to issue “greenbacks,” paper money backed by federal debt. With the National Currency Acts, he taxed state banknotes out of existence and established a network of nationally chartered banks approved to issue U.S. Treasury banknotes. As with protective tariffs, Lincoln had supported ambitious infrastructure projects throughout his political career, and in 1862 he signed legislation to spend millions on what would become the First Transcontinental Railroad.

But Lincoln also expanded the American System’s scope—in both concept and deed. Less than three months after the Battle of Fort Sumter, Lincoln addressed a special session of Congress commemorating the 85th anniversary of the Declaration of Independence. At the close of his remarks, the president departed from his stated purpose of securing adequate troops and funding to wage the Civil War and elaborate on the nation’s founding ideals. “The leading object” of the federal government, he said, was “to elevate the condition of men; to lift artificial weights from all shoulders; to clear the paths of laudable pursuit for all; to afford all an unfettered start and a fair chance in the race of life.”

The following year Lincoln signed legislation that committed federal land to this purpose: the Homestead Act, offering settlers 160 acres of public land to encourage

westward migration; and the Morrill Land-Grant Act, which funded the creation of more than 60 colleges, including Cornell University and the Massachusetts Institute of Technology.

“The Hamiltonian tradition,” historian Michael Lind has observed, “could not have found a better spokesman than Lincoln.”

Unfinished Work

At Gettysburg, Lincoln tasked the American people with the “unfinished work” of safeguarding and improving the American experiment. In the century after his death, the federal government advanced an economic agenda to support it. The United States built a modern industrial economy that supported national security, economic independence, and widely shared prosperity, becoming the envy and leader of the world. The tradition of the American System and its School played a central role.

To foster and guide economic development, the U.S. government supported strategic industries through protection and investment and established the foundations for a functioning labor market that could serve American workers and businesses alike. Through World War II, the federal government maintained a robust set of tariffs designed not only to generate revenue but to buttress American industries. It also created a comprehensive structure for union representation and collective bargaining. As reciprocal trade expanded, policymakers intervened with farm bills to support the agricultural sector, preserving sectoral diversification critical for economic self-sufficiency and the vitality of many communities. Taxpayers funded ambitious research and development projects through dedicated agencies, such as DARPA and NASA, that laid the groundwork for the computer revolution of the late twentieth century.

Buttressing this development was a financial system that used public credit and regulatory oversight to ensure that capital was not only efficiently and productively deployed but safe from corruption and complete destruction by the business cycle. With the creation of the Federal Reserve in 1913, the United States had a central bank for the first time since the dissolution of the Second Bank of the United States in 1836. The New Deal brought a suite of reforms, including the Glass-Steagall Act, that transformed the nation's financial system from a speculative market into something more akin to a public utility. New institutions like the FDIC and the SEC provided greater security for American's financial assets and necessary oversight of financial markets, while institutions like Fannie Mae, Freddie Mac, and the Small Business Administration provided targeted, subsidized financing to American home and small-business owners.



The nation assumed an obligation to create opportunity and draw people to it, rather than lecture those who could not find it themselves.

The tradition of “internal improvements” lived on as well, as American policymakers recognized that the nation's size was one of its great advantages and that prosperity ought to reach every corner rather than concentrating in a few cities. The United States invested in ambitious infrastructure programs to provide transportation, energy, and communications to the public. With the creation and maintenance of postal, telegraph, and radio networks as well as railroads and, eventually, interstate highways, the federal government enabled the spread of the population and its economic dynamism across the

continent. Projects like the Hoover Dam and agencies like the Tennessee Valley Authority brought electricity to underdeveloped regions.

From every angle available, the United States invested in the prosperity and opportunity of American citizens, recognizing that both a healthy democratic republic and a vibrant economy depended upon prosperity that was widely shared and available to all. The nation assumed an obligation to create opportunity and draw people to it, rather than lecture those who could not find it themselves. The Homestead Acts expanded the availability of land, first opened by President Lincoln, to once-excluded populations and made property ownership available to most Americans. Investments in the American education system—first universal public high school and then universities—fostered skills to the benefit of both workers and their employers. Land-grant colleges formed a geographically dispersed network of institutions designed for underserved populations, and programs like the G.I. Bill made traditional institutions more accessible.

Restoring Economic Policy

Economic history is filled with policy successes and policy failures, and the American System is no exception. A tradition is not worthy of celebration based solely on its lineage. Nor do its occasional failures invalidate its overarching successes—much less justify a disavowal of the entire project. As Daniel Raymond observed, “The question, therefore, is not, and never will be, between law and no law, regulation and no regulation, but it must always be between the wisdom of different laws and different regulations.”

Yet the modern American right-of-center, rather than balance a worthy skepticism of government overreach with respect for an inherited approach to public policy,

has forsaken that tradition—indeed, written it out of existence—in favor of free-market fundamentalism. That is neither conservative nor wise.

Leading “conservatives” now label any departure from laissez-faire as socialism or, at the very least, as a “hyphenated capitalism” that leads down the “road to socialism.” They misunderstand not only the proper role of government in a functioning capitalist system but the very traditions of American statecraft. If today’s critics are right about the role of government in a capitalist economy, then many of America’s greatest statesmen—even the nation’s and the Republican Party’s very founders—were “hyphenated capitalists” themselves. How, with such a heritage, did the United States get anywhere?

Conservative policymakers ought to study the American history of political economy. They should rediscover principles of public policy that are well suited to contemporary challenges: that effective government is not only achievable with limited, constitutional powers but can work alongside private industry to achieve national goals.

Economic stability, national security, widely shared prosperity, strong families, a pluralistic society—in short, the American way of life—are achievements plainly worth conserving. So is the only approach to economic policy that has ever proved capable of producing them. ■

*The “knowledge problem” is real,
but a more practical approach
is needed for navigating the
challenges of government planning.*





Planning for When the Market Cannot

JULIUS KREIN

The ardent anticommunist intellectual Raymond Aron, when asked to describe the excesses of “liberal [libertarian] economic orthodoxy,” pointed to its reflexive hostility toward any kind of government planning. In this worldview, observed Aron, planning is seen as “the beginning of servitude, if not misery. Planning becomes inherently evil, just like Marxists view capitalism as evil.”

Indeed, for Friedrich Hayek and his followers, government planning was the root of all tyranny. Twentieth-century fascism, for instance, was not the contingent result of economic collapse, war, historical circumstances, or specific ideological developments; it was the inevitable outcome of government planning. And those who advocate for government planning, said Hayek, “can think of nothing better than to imitate Hitler.” Not only is the quality of any particular plan irrelevant, in this vision, but the planning of Hitler or Stalin differed from the planning of the Roosevelt administration only in degree.

Since the end of the Cold War, this anti-planning orthodoxy has, in some ways, hardened further. Not only Soviet-style efforts to ration resources and micromanage firms by centralized diktat but also the traditional efforts of liberal democracies to ensure investment in long-term economic and social priorities are now gathered under the “planning” heading and treated as indistinguishably awful. At least savvier neoliberals such as Milton Friedman were once able

to admit that the U.S. government's direction of the economy during World War II was beneficial (and that government planning for such an overriding strategic purpose generally could be). Hayek himself famously allowed for basic social insurance and specifically defended "planning for competition"—using the state to create or reinforce market mechanisms. Today's market fundamentalists, however, brook no such concessions. Ambassador Nikki Haley recently argued in the *Wall Street Journal* that policies like "more tax credits here, more subsidies there, more mandates for this, more regulations for that" represent a "watered-down or hyphenated capitalism, which is the slow path to socialism."

The critics do not understand their critique. The theoretical basis for their objections is Hayek's "knowledge problem," which has become widely accepted, even by many who do not share Hayek's or Haley's politics. But the knowledge problem is not generically applicable to all forms of planning, and its indiscriminate use reduces the complex issues surrounding planning to a misleading binary of planning versus liberty that sets every policy discussion on the slippery slope toward tyranny.



The fact that government planners are not omniscient is obvious, but it does not automatically follow that planning is always ineffective. Perfect information is simply not a precondition of successful planning in either the private or the public sectors.

The essence of Hayek's argument is that no central planner could possibly aggregate, process, or act upon information as efficiently as decentralized participants respond to the information and incentives conveyed by the price system in competitive markets. Not only will a central planner allocate resources poorly, but the mere attempt to do so will impede the progress and utilization of social knowledge. Government planning, seen in this light, is not simply inefficient but inherently arbitrary and oppressive.

On the surface, the argument that government cannot plan effectively because it cannot possess all the knowledge dispersed across society seems at once philosophically elegant and a matter of common sense. But this argument is based upon a non sequitur, and the categorical rejection of planning that results from it is ideological overreach. The fact that government planners are not omniscient is obvious, but it does not automatically follow that planning is always ineffective. Perfect information is simply not a precondition of successful planning in either the private or the public sector.

The information that is conveyed by market prices is also severely limited. Price signals, even when perfectly undistorted, are not sufficient for either businesses or government to allocate resources effectively, much less to engender a "spontaneous order" that is the best of all possible worlds. The fact that government is not subject to market competition does introduce unique perils, but it also creates unique opportunities and even duties. Unfortunately, metaphysical speculation about the "knowledge problem" cannot help us to understand either. A more practical approach is needed for navigating the problems and limitations of government planning, as well as the circumstances in which it is necessary and beneficial.

The Problem with the Knowledge Problem

The most common modern objection to government planning begins from the premise that, in Hayek's own words, "the 'data' from which the economic calculus start are never for the whole society 'given' to a single mind which could work out the implications and can never be so given." The assertion that no central planner can possess all available knowledge is hardly controversial. What too often escapes scrutiny, however, is the assumption that such knowledge is necessary to plan effectively in the first place. The historical record makes clear that it is not.

Nonetheless, several generations of libertarian writers have continued to repeat derivative "knowledge problem" arguments. Consider, for example, a recent essay by Richard Reinsch in *National Affairs*:

In a 2006 paper, economists Howard Pack and Kamal Saggi laid out a list of suggested questions that federal bureaucrats would have to be able to answer in order to successfully implement the sort of industrial policy many economic nationalists now seek. For example, they would have to identify which sectors have a long-term comparative advantage, which benefit from dynamic scale economies, which firms and industries generate knowledge spillovers, and what the magnitude and direction of inter-industry spillovers would be.

This is just a tiny sampling of the types of questions federal agencies would need to confront, the answer to each of which is time-sensitive, detailed, and discoverable only in pieces by certain actors with deep and regular experience in very particular sectors. Uniting all the answers into some coherent,

communicable whole is virtually impossible. This leaves us with the question of how best to approach such questions: via individuals and firms working for their own self-interest, who are heavily dependent on prices and the desire for profits to guide their decisions; or via state actors imposing blunt general directives on industry?

All this may be part of the catechism in the cloisters of libertarian nonprofits, but it is completely at odds with practical experience. Indeed, it is possible to argue that these very questions have been ignored by every successful implementation of industrial policy, which is surely planning insofar as it requires the setting of goals and the development of policy in their pursuit, but which includes no Party functionaries deciding how many pounds of screws to send where.

It certainly would not have been possible to identify any “comparative advantage” in Taiwan’s semiconductor industry before, the Taiwanese government essentially created it, or in South Korea’s semiconductor, shipbuilding, or auto industries before its government undertook ambitious industrial policies. Likewise, it is possible that the Chinese Communist Party perfectly calculated “inter-industry spillovers” before directing billions of dollars in state subsidies to Huawei, but even if it did, that calculation probably has little to do with the company’s present dominance of 5G components. And the same is true for Israel’s defense technology sector, America’s biotech sector, and countless other examples past and present. Whatever knowledge is necessary to conduct an effective industrial policy, “uniting all the answers into some coherent, communicable whole” is simply not part of it.

If anything, government intervention—and thus planning—becomes more necessary when less market

and industry knowledge is available. If a project's commercial prospects (dependent on factors such as comparative advantage and potential commercialization across different or new industries) are easily known, then risk is low and investor capital is cheaper and easier to raise. But if a project's commercial prospects are only dimly perceivable, then it may simply be impossible to raise capital from economically motivated investors, no matter how important the effort. Thus governments typically must take a leading role in critical areas like basic research and the development of infant industries, among many others.



If anything, government intervention—and thus planning—becomes more necessary when less market and industry knowledge is available.

Perhaps, as Reinsch implies, any enterprise unable to raise profit-driven investor capital should not exist. But then it is hard to imagine how thriving U.S. industries built on everything from radar to the space program to the internet would have materialized, or how so many of the companies built via the Asian development model have come to be world leaders. The reality is that many technologies and even entire industries now recognized as foundational or world-leading—including ones that ultimately generated massive commercial profits—required government support at some stage. Had the vast profit opportunities of all these technologies and industries been known prior to their creation, no government involvement would likely have been needed to produce them. It is precisely because indicators like the potential for commercialization across industries are often unknown and

unknowable, however, that government funding and planning can sometimes prove valuable.

Planning also plays a vital role when knowledge, even if available, is of no interest to the private sector. Nations have a wide range of goals beyond the maximization of profit, which the most perfectly free and efficient market will make no effort to achieve. In such situations, it is absurd to reject the planner's imperfect efforts for lack of knowledge and opt instead to rely upon private actors behaving like perfect imbeciles.

None of this is to say that government intervention is always necessary or desirable—only that the extent of “knowledge” possessed by the planner is not a helpful guide in deciding whether it is or not. What differentiates governments (at least those that borrow in their own currency) from the private sector is that they are not constrained by internal profits or external market forces. They can, therefore, take on much greater economic risk than any private-sector actor, which allows them to fund important but highly prospective endeavors. Of course, the danger inherent in such freedom from market discipline is that governments may fund counterproductive activities—maintaining corrupt patronage networks, attempting to realize ideological fantasies, and so on—indefinitely. That danger is real, but it has very little to do with a lack of market knowledge among the planners. One might raise precisely the same concerns of corrupt patronage networks and ideological fanaticism, and indeed find them realized right here in America, among a governing cadre that has forsworn planning entirely. The availability of “knowledge” is simply not a useful metric for evaluating the soundness or unsoundness of any particular government plan.

The Price Is Wrong

In fairness to Hayek, his own critiques of government planning were more subtle than those of his epigones today. Hayek's principal argument was not that central planners would fail to achieve their goals because they could not properly identify comparative advantage or calculate the magnitude and direction of inter-industry spillovers. He largely rejected the pretensions and presuppositions of neoclassical and marginalist economics and recognized that a lack of perfect knowledge did not make planning impossible in either the public or the private sector. Instead, the main problem with government planning, he argued, was that it prevented the spontaneous coordination of individual plans via market competition.

The crucial function of the price system, as imagined by Hayek, is that it enables the unconscious coordination of many decentralized individual plans, despite the imperfect knowledge and intentions of each actor. Thus, market competition allows for the maximum utilization of knowledge and best allocation of resources for society as a whole. Government planning, regardless of whether any particular project succeeds or fails, undermines this unconscious coordination.

But do market prices actually accomplish what Hayek claims they do? Tellingly, abstract theoretical discussions occupy much more of Hayek's attention than any actual, practical commercial activity. Consider one of the few practical examples given in his canonical work, "The Use of Knowledge in Society":

Assume that somewhere in the world a new opportunity for the use of some raw material, say, tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose—and it is very

significant that it does not matter—which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand, and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the effect will rapidly spread throughout the whole economic system. . . . The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all.

Central to Hayek's theory of the price system is his claim that the users of any given commodity do not need to know why its price has changed. They simply need to observe the price change in order to adjust, allowing the entire system to maintain its harmony without any conscious design. All the information necessary for the system to function, in other words, is communicated by the price change itself.

Only a lifelong academic like Hayek could possibly believe this. In fact, all but the most trivial buyers of a material need to know the reasons behind price fluctuations to allocate capital effectively in response. If, for instance, the price of tin in Hayek's example changed because of some temporary and random phenomenon, the buyer might simply seek to mitigate the effects of large price fluctuations by purchasing

hedges from a financial institution. If, on the other hand, the price change was related to the buyer's transport and warehousing costs, he might look for other distributors. If the cause was the exhaustion of the mineral resource, he might invest in switching to another input material. If it was due to the formation of a monopoly or cartel, he might lobby for antitrust action or attempt to develop another source of supply. Other tin producers, likewise, will need to know the causes of price movements and ascertain how long a new price level is likely to last before investing substantial capital in the development of new resources or curtailing existing production. Price signals alone simply do not communicate sufficient knowledge upon which to base the most important economic decisions. Even the arbitrageur—a figure who occupies a prominent place in both Hayek's writings and today's financialized economy—requires information about the reasons behind price differences to know whether an opportunity will persist long enough to execute



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Hayek's notion of knowledge discovery and market competition fundamentally confuses rationing and investing, but there is a difference between the two. Price competition often (though not always) works well for rationing, or deciding who gets what in the

present, which need not require a view of the future. The same is not true of investing capital, which requires taking (more or less) risk on a (more or less contrarian) view of the future. Long-term investment capital (and thus productive capacity) simply cannot be prudently allocated on the basis of price signals alone. Hayek's spontaneous order, in more than one sense, has no future.

Hayek also fails to consider the possibility that the price of tin may have changed because a foreign government banned exports. Or, to make the example timely, what if a foreign government begins subsidizing a strategic industry, resulting in lower returns on domestic investment in that industry? Following price signals and market incentives alone will ensure that domestic investment evaporates and leadership in the industry shifts to the foreign competitor. Perhaps this doesn't matter—consumers should just take advantage of these subsidies, according to one argument. But what if the foreign government subsequently threatens to cut off medical supplies in the midst of a global pandemic, supplies that can no longer be produced in one's own country as a result of the failure to counter the foreign subsidies?

In short, the price system offers no guarantee of optimal—or even adequate—social knowledge coordination or capital allocation. Market prices are just as likely to transmit the interventions of hostile foreign governments as the workings of some benevolent spontaneous order. Indeed, it is an act of blind faith to imagine that any such order exists at all.

Because slavishly following market signals does not always produce the best of all possible worlds, government planning does not always represent the first step on the road to serfdom. Indeed, a healthy market economy often depends upon sound

government planning, and sound government planning often intentionally strengthens the private sector—from Hamilton’s National Bank to the Homestead Act to various New Deal programs to Defense Department research funding. Contra Hayek, government planning does not automatically lead to tyranny; if it did, the American experiment would have failed long ago. But any political community that cannot plan for its own collective future is neither free nor self-governing in any meaningful sense—and probably cannot remain wealthy for long.

Overcoming Secular Dogma

Ultimately, Hayekian critiques of government planning are compelling only insofar as one is willing to ignore practical reality. His theories may have been adequate as anti-Soviet propaganda, but they are completely useless as a guide for policy. To be sure, attempting to maintain Gosplan-like control over the economy or to eliminate all market competition would be utterly foolish and, in practice, impossible. One does not need Hayekian theory to recognize that. The ideological antipathy toward all government planning that such theories inspire, however, has been devastating to America’s political economy and strategic position during the last few decades.

Yet no matter how many strategic industries are lost, or how obvious the deterioration of broad swaths of the country has become, another market theodicy is always being written. In this sense, as Aron suggested, Hayekian libertarianism—and much of the economic thinking dominant on the right for decades—is best understood as an ideological project akin to communism. As political movements, both rely more on secularized theology than any serious reading of history or intelligent analysis of policy. Both are, in the words of Karl Löwith, “essentially, though secretly, a history

of fulfillment and salvation in terms of social economy. What seems to be a scientific discovery . . . is, on the contrary, from the first to the last sentence inspired by an eschatological faith, which, in its turn, ‘determines’ the whole sweep and range of all particular statements.”

Thirty years after the Cold War, it is time to stop performing Hayekian morality plays. Instead of pretending to dwell in the spontaneous order imagined in theory, we should give ourselves permission to start planning and building a healthier political-economic order in reality. ■

*If we want the market to serve the
needs of the American people, we
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reductivism and recover the tools of
economic policy.*





Removing the Blinders from Economic Policy

OREN CASS

In unwitting homage to Congressman Barney Frank's line that "government is simply the name we give to the things we choose to do together," Senator Pat Toomey recently defined "the market" as "just the name that we assign to the sum total of all the voluntary exchanges that occur every day by free men and women participating in a marketplace."

These equal and opposite platitudes share more than a formulation and a woeful inadequacy. Each represents, for the ideologues who adopt it, a comfortably absolute view of the world. If government is nothing more than voluntary collaboration, who could object? What challenge couldn't benefit from choosing to do more together? Meanwhile, if the market is nothing more than the sum of voluntary exchanges, what cause might there be for concern? How could public policy improve upon choices freely made? Frank's statist utopianism has its adherents and may even be resurgent, but it has long been contested within the American left-of-center—at least since President Bill Clinton's declaration that "the era of big government is over." The same cannot be said, unfortunately, for Toomey's market reductivism.

The blinders that narrow Toomey's perception of the market are worn proudly across the American right-of-center, obscuring a proper view in one direction of *what the market is*, and, in the other, of *what the market is for*. Analysis of the market's voluntary exchanges begins and ends with the personal, immediate, and question-begging formulation that they occur always because each participant believes that it

will be beneficial. Assessment of the market's effect on society considers only the material living standards that it delivers.

This tunnel vision produces a truncated conception of economic policy's scope and goals—in the same way that seeing baseball as just people throwing and catching a ball, while often technically accurate, would preclude appreciation of the game and render pointless concepts like a team, league, or commissioner. With “the market” reduced to voluntary exchanges between individuals on a quest to maximize consumption, the role for policymakers shrivels to the task of avoiding interference.



It is impossible not to see the social, legal, historical, and institutional scaffolding that buttresses a growing economy and the role that public policy must play in its construction and maintenance.

In reality, the market is supported, shaped, and constrained by a variety of essential rules for intellectual property, employment relationships, monopolization, and so on. Its participants are guided in their behavior by vital institutions like schools, labor unions, and the military. Its exchanges, particularly when they operate as investment, proceed to support, shape, and constrain future exchanges. With blinders on, one might eagerly profess what Friedrich Hayek called “faith in the spontaneous forces of adjustment.” Take them off, and it is impossible not to see the social, legal, historical, and institutional scaffolding that buttresses a growing economy and the role that public policy must play in its construction and maintenance. A protective

instinct, and gratitude, for such structures should come naturally to conservatives.

Instead, guided by free-market dogma, policymakers have spent recent decades forsaking their obligations and celebrating a theoretical and oversimplified ideal. In parallel with an erosion of global leadership, declining productivity growth and dynamism, stagnating wages, and rising social dysfunction, the vital practice of economic policymaking has been lost. If we want the market to serve the needs of the American people, we must first recover the tools necessary to shape it.

What the Market Is

Begin with a simple economic transaction: a farmer offers a laborer a wage to perform a day's work, and the laborer accepts; both believe that the transaction will benefit them. This appears nearly the Platonic ideal of a "voluntary exchange," and so the sum total of all such exchanges should define the market. But which market? Is it the market in which the laborer is paid \$40 per hour to operate laser-guided machinery, or the one where he earns \$40 for an entire day spent picking by hand? The laborer may or may not have union representation. He may or may not even have legal permission to work in the country. He may be the only qualified laborer available, or he may be one of 20 loitering in a parking lot, hoping to find work that day. The farmer may be a sole proprietor, or the employee of a global conglomerate. He may hope to retain the laborer for permanent employment, or to find a better or cheaper option tomorrow. What year is this and what country are we in?

The content of the market's transactions are contingent on the conditions in which they occur. Each exchange occurs against the substantive backdrop of law, institutions, accumulated capital, culture, and

technology and is subject also to transitory conditions like the weather. Each exchange may be freely chosen, but none is inevitable because under different conditions, the parties might choose differently—or be different parties entirely. The farmer may not hire any laborers if a storm is passing through. But the rain does not deprive him of liberty, nor does it make his choice not to hire anyone less efficient than his choice on a sunny day to employ a team. The substantive backdrop shifts more gradually but far more consequentially, leading, for instance, to new configurations of the entire agricultural sector—what farms exist where in America, how they harvest, who does that work and why. No true result exists against which all others can be measured for distortion because no one set of “free market” conditions exists to provide a baseline.

This is not an indictment of the market. To the contrary, its capacity to mediate between so many forces while deferring to countless individual preferences in a way that generates prosperity is precisely what makes it invaluable—both in principle and in practice. By allowing individuals to exercise choice, it protects liberty and limits the scope of government. By creating and transmitting information about people’s preferences in the face of extant conditions and providing rewards for meeting people’s needs, the market spurs productive activity and allocates resources efficiently.

For public policy, however, the implications of this broader perspective are immense. With blinders on, so that only the market’s exchanges are visible, economic policy might logically entail only tax policy that adds to or subtracts from those exchanges and the regulation that constrains them. “As we are dealing with changes in our economy,” says Ambassador Nikki Haley, “tax cuts are always a good idea.” Conservatives looking beyond those bounds confuse her—they “seem embarrassed by the free market,” and she sees their “hyphenated

capitalism” as entailing “more tax credits here, more subsidies there, more mandates for this, more regulations for that.” Only those sites of policymaking seem relevant, and, if an exchange is either free or unfree, policymakers can only impinge.

If markets encompass both voluntary exchanges and the conditions that influence those exchanges, and if a market’s outcomes are dictated by interaction between the two, then the scope of economic policy expands and an unwavering preference for nonintervention becomes arbitrary. Consider the law, institutions, accumulated capital, culture, and technology that might influence market transactions. Are markets more or less free when communities operate public schools? Are markets more or less efficient when NASA works on sending a man to the moon? These questions are almost nonsensical.

The narrow perspective fosters a conviction that minimal economic policy yields maximum output. Holding the market’s underlying conditions constant, it may generally be the case that interventions by policymakers in the market’s exchanges will reduce efficiency and growth. The claim that government action could be constructive might rightly seem suspect.



Committing such acts of economic policy is not a crime against capitalism. It was a prerequisite for the emergence of capitalist systems; it is unavoidable in the task of governing them; and it will be vital to their continued success.

With blinders off, the picture changes. Because market outcomes are contingent on impermanent conditions, the most efficient outcome under one set may not be the best result available. Raising taxes to fund basic research, for instance, might simultaneously reduce the market's efficiency and improve its conditions such that the end result is higher growth. Requiring firms to manufacture domestically would obviously interfere with international transactions, but the policy would also influence domestic institutions, capital investments, the culture, and the trajectory of innovation. Whether the more constrained market operating under these new conditions would generate more growth than a less constrained one in the status quo has no easy answer.

As longtime Intel CEO Andy Grove warned about Silicon Valley's hunt for profit without regard for conditions: "Our pursuit of our individual businesses, which often involves transferring manufacturing and a great deal of engineering out of the country, has hindered our ability to bring innovations to scale at home. Without scaling, we don't just lose jobs—we lose our hold on new technologies. Losing the ability to scale will ultimately damage our capacity to innovate."

Policymakers most directly write the law, but their decisions also shape institutions, alter the flow of investments in both physical and human capital, and influence the directions in which culture and technology evolve. In all these ways, they affect the market's exchanges and thus its outcomes and its benefits to the nation. Committing such acts of economic policy is not a crime against capitalism. It was a prerequisite for the emergence of capitalist systems; it is unavoidable in the task of governing them; and it will be vital to their continued success.

What the Market Is For

At what should a capitalist system succeed? The standard logic holds that the one true goal for economic policy is to maximize material living standards, which is accomplished by maximizing economic growth, which is accomplished by minimizing the interference of policymakers in the market. Living standards are important, and economic policy should strive to improve them. But only with blinders snapped firmly in place do they appear the only, or primary, concern for policymakers. In a recent survey by the American Enterprise Institute, four in five Americans deemed having “freedom of choice in how to live one’s life” and “a good family life” as essential to “the American Dream.” Fewer than half said the same of “a successful career” or “a better quality of life than your parents”; fewer than one in five saw “become wealthy” as essential. Pew Research reports that Americans asked to choose between “financial stability” and “moving up the income ladder” prefer the former by more than ten to one.

There is no end to the range of concerns for which one might assert a national interest and require the market’s support. But just as the concept of a high and rising standard of living encapsulates countless specifics, other broad categories can help to summarize features of an economy that is serving the nation well, and thus establish the goals for economic policy. Defining and prioritizing among such categories is a critical task of the political process, though one that American politics, regrettably, has abdicated.

The list of top priorities should be among the axes that most starkly divide liberals and conservatives, explaining many of the differences in their respective agendas. For the conservative who sees established institutions and their practices as critical foundations for prosperity, prefers the private ordering of self-sufficient families



Why shouldn't we want our markets to produce a social order perceived as legitimate, to give people confidence in an expectation of equitable treatment, and thus to reinforce the social fabric?

and communities to the dependence of individuals on the state and its dictates, and perceives great risk in efforts to defy or reprogram human nature, these four outcomes would likely be important:

1. Security. A well-functioning economy supports the nation with the resources and capacity necessary to assert and defend its interests. This requires the tools for both the outward projection of force and the inward insulation from foreign coercion. To take a recent example, the country with perhaps the world's highest living standard can still find itself with insufficient medical supplies and no ability to produce needed pharmaceuticals in a public-health emergency. More generally, national security requires domestic capacity for a wide variety of materials and components if foreign supplies may be corrupted or subject to disruption in the event of a conflict. "Why can't the greatest economy in the history of the world produce swabs, face masks and ventilators in adequate supply?" asked Larry Summers, former director of President Obama's National Economic Council. The answer comes in part from his former colleague Christina Romer, who chaired Obama's Council of Economic Advisers and dismissed the idea of a "manufacturing policy" as a relic of "sentiment and history." Romer argued that "American consumers value health care and haircuts as much as washing machines and hair dryers. And our earnings from

exporting architectural plans for a building in Shanghai are as real as those from exporting cars to Canada.” Whether piles of money can be stitched into effective personal protective equipment is another matter.

2. Resilience. A well-functioning economy maintains buffers like spare capacity, reserves, and stabilizers so that unpredictable events and temporary trends do not transform into unmanageable crises or trigger the collapse of entire industries or regions. It enables families to do the same, so that their savings allow them to make long-term plans, smooth rough patches for the household budget, launch a new venture, and prepare their children for success. Capitalism anticipates total failure for individual firms and makes owners accountable for their fates—indeed, the process of “creative destruction” requires such failure. But for that process to be one that accrues to the nation’s benefit, it must operate alongside others that preserve stability and opportunity in the market so that disruption for customers, suppliers, and, especially, workers is temporary. Innovation always disrupts economically, but in a well-functioning economy it also yields tools and systems that insulate communities and protect people’s livelihoods.

3. Pluralism. A well-functioning economy generates broad-based and widespread prosperity that allows people of varied abilities in varied locations to both preserve their ways of life and pursue new opportunities and raise children able to do the same. Many people are deeply rooted and value living in the communities where they grew up, often close to extended family. But the market’s preference for agglomeration tends to concentrate economic activity in narrow geographies, while its preference for scale and specialization favors the distant conglomerate over the local provider. Fewer than one in five mothers with children under four say that full-time work is their preference. But the market’s

commodification of relationships places enormous economic pressure on households to outsource care of children and the elderly. If the market is to serve the nation's citizens, and not the other way around, its quest for efficiency must be balanced by the assertion of more humane values.

4. Justice. The market's performance at its core task of resource allocation must also be evaluated for its accordance with justice. While acknowledging that "the term has been hijacked by the left," Senator Josh Hawley once observed in *National Affairs*:

The West's greatest thinkers, no less than its major religious traditions, have insisted again and again on the centrality of justice. "Justice is the end of government," James Madison wrote in Federalist No. 51. "It is the end of civil society." Madison was echoing Aristotle, who argued that justice is the purpose of political community. Though today we often think of justice only in reference to crime and punishment, Aristotle understood that there is far more to justice than that: He contended that justice means arranging society in the right way, in accord with how humans are made and meant to live.

This requires a labor market in which workers can find good jobs. People enjoy consumption, but they also place great importance on their roles as providers for their families and productive contributions to their communities. A key mechanism for ensuring rising material living standards has been the aggressive expansion of government transfer programs that send more than \$1 trillion annually in cash and benefits to lower-income households. But a government check is not a replacement for a paycheck.

Likewise, while people do care about the size of their own houses, they care also about their status relative to others and whether all have received their just deserts. This is not only true as a description of human nature but also eminently rational and reasonable as a set of concerns. Why shouldn't we want our markets to produce a social order perceived as legitimate, to give people confidence in an expectation of equitable treatment, and thus to reinforce the social fabric?

These categories are not mutually exclusive. Resilience contributes to security and justice, pluralism to resilience, and so on. Often they are compatible with, or even reinforced by, rising material living standards. But in other cases they are not, and it is in managing the tensions and trade-offs that politics and policymakers are indispensable. No evidence or theory suggests that the market will attempt to do this on its own, let alone arrive at a result we should want.



*To deem any market outcome happening
at any moment as sacrosanct and inevitable
is a dereliction of duty.*

Making Markets Work

When the market fails to deliver on the nation's goals, and especially when it undermines them, policymakers ought to examine how their choices influence the conditions in which the market is operating and to ask what different choices might be better. To do otherwise, and to deem any market outcome happening at any moment as sacrosanct and inevitable, is a dereliction of duty.

Historically, as Wells King observes in “Rediscovering a Genuine American System,” American policymakers understood this. With blinders on, the “economic policy” of the past can look backward and bizarre—aggressive tariffs and immigration restrictions, an income tax with punishingly high marginal rates, and regulation ensuring that industries would serve unprofitable regions and prohibiting banks from operating multiple branches—surely a recipe for stagnation. But the nation’s major economic policies included the Louisiana Purchase and westward expansion, the American System with its protection of domestic industries and its investments in internal improvements, the land-grant colleges and the Homestead Acts, trust-busting and electrification, the New Deal’s social insurance and the Wagner Act’s organizing rights, the G.I. Bill, the interstate highway system, and the Space Race. Leaders asked and answered the question of what *could* be, and used economic policy to pursue their vision, creating the conditions for a market that produced unprecedented prosperity, material and otherwise.

Today, we “nudge.” Instead of pouring new foundations, we add new trim. The exception that proves the rule is the “Green New Deal,” a vague Democratic proposal so obscenely impractical and misaligned with American priorities that Nancy Pelosi, the Democratic Speaker of the House, dismissed it as “the green dream, or whatever they call it, nobody knows what it is.” The Senate voted it down 57–0, with 43 Democrats voting “present.” More commonly, the left-of-center seeks expansions of the safety net to cover more of what the market already offers, while the right-of-center pounds the table for “occupational licensing reform.” But most of the time, we tweak the tax code.

Tax policy has gradually colonized the entire right-of-center domestic portfolio, offering broad-based cuts alongside targeted ones (dubbed “credits”) aimed at

inducing whatever behavior might be desired. President George W. Bush called his 2001 tax cut “the first major achievement of a new era.” The only major bill passed in President Donald Trump’s first term, with Republicans holding both houses of Congress, was a tax cut. The leading health-care proposal is a tax credit. The leading education proposal is a tax credit; proposals to spur innovation, or manufacturing, or energy production are tax credits; family policy and antipoverty policy both emphasize tax credits.

Technocratic progressives are not far behind. It was President Clinton who divided the White House Office of Policy Development into separate Economic and Domestic Policy Councils, the former invariably headed by an economist and focused on tax and budget issues, as if that were what “economic policy” meant. When President Barack Obama released his own “Plan for Jobs and Middle-Class Security” in 2012, the first proposal was a tax cut, and the second combined elimination of a deduction with creation of a credit. Six of the next 12 were tax cuts or credits as well, all coming before the section on tax policy.

Reflecting on America’s inability to respond effectively to the 2020 coronavirus pandemic, entrepreneur and investor Marc Andreessen declared, “It’s time to build.”

We could have these things but we chose not to—specifically we chose not to have the mechanisms, the factories, the systems to make these things. We chose not to build. You don’t just see this smug complacency, this satisfaction with the status quo and the unwillingness to build, in the pandemic, or in healthcare generally. You see it throughout Western life, and specifically throughout American life. ... We need to demand more of our political

leaders, of our CEOs, our entrepreneurs, our investors. We need to demand more of our culture, of our society. And we need to demand more from one another.

Perhaps Andreessen's vision is not the right one. But as he concludes, "Here's a modest proposal to my critics. Instead of attacking my ideas of what to build, conceive your own!" The American people should at least have visions like his to choose from.

Whatever the vision, the tools for the job will not be yet more rounds of tax reform. The future of American economic policy lies in the creation of a modern American System, establishing the market conditions for an economy that supports our shared national goals. That system will require economic policy operating through four channels:

1. Institutions. Economic policy can shape the structure and foster the growth of institutions critical to the market's operation. These include systems of public education and organized labor, the military, the safety net, and the family. Policy plays more central a role in some than in others, but all represent locations where public action has the potential to move the nation toward conditions in which the market will generate better outcomes. For example, an education system with the primary mission of connecting young people at the outset of adulthood to productive employment would make college just one of several pathways—and neither the most popular nor best funded among them.

2. Investments. Economic policy can direct public resources toward socially valuable ends and induce private actors to dedicate their resources to the same. Important targets for public spending include infrastructure, public health, and basic research. Direct subsidies, prizes, and commitments to purchase can all make private

investment more attractive. Public-private partnerships represent a hybrid approach that presents private actors with the opportunity to collaborate on public projects. As Julius Krein observes in “Planning for When the Market Cannot,” when private actors lack the information or incentive to invest wisely on behalf of the nation’s interests, policymakers complement, rather than impede, the market’s operation by stepping forward.

3. Rules. Government regulations can strengthen the market by altering its conditions and directly mitigating socially harmful effects. Beyond basic legal structures like property and contract rights, patent law creates new rights that induce investment in innovation. Standard regulatory fields like environmental and employment law address externalities where the market outcome is not the efficient one and also intervene where economically efficient activities may have consequences that frustrate equally valid but noneconomic goals. Network and utility regulation enable natural monopolies to operate well, while antitrust enforcement disables counterproductive market concentration. Trade restrictions prevent foreign markets from transmitting their distortions and abuses into our own.

4. Public Finances. Fiscal and monetary policy affect the context in which consumers and investors make their decisions, and policymakers must approach them with blinders off and proper objectives in focus. The design of any tax system entails choices that affect the relative attractiveness of different economic activities. Likewise, setting monetary policy, as well as managing its trade-offs, is unavoidable. And government spending, wherever it occurs, by definition diverts resources from where the market might otherwise allocate them. What policymakers must *not* do is obsess over these questions to the exclusion of all others, or perceive every economic challenge as a nail awaiting the hammer of taxing and spending.

A question remains as to whether policymakers are capable of drawing on these robust fields to pursue ambitious goals. They may not be capable of setting useful goals, identifying appropriate policies, or implementing them. The political process might frustrate the translation of even the best ideas into tangible action. Unintended consequences abound.

Unfortunately, these concerns are often raised as an obstruction tactic. Without question, the concerns themselves are real, and a policymaker should always proceed with caution and humility. But many of the voices loudest in raising the alarm fall silent when focus turns to their preferred topic of tax reform. It would be hard to conceive of a policy initiative more perfectly vulnerable to political manipulation, industry capture, simple error, unintended consequences, and all the rest than rewriting the tax code. Yet those most certain that any government action is doomed to failure tend also to be the most eager to tolerate the risk if a tax cut may be in the offing.

In weighing concerns of policy misfire, the critical question is: *Compared with what?* If the status quo were an idyllic, well-functioning system, the risks of tampering would indeed be high. But the baseline against which any new policy must be judged is an environment that emerged under these same constraints, except that it did so with the wrong understanding of the market, using the wrong tools, and aiming for the wrong target. Even in areas where government is purportedly not acting already, the nonaction was itself chosen by policymakers and is often beset with exceptions; it, too, triggers unintended consequences. When an opportunity exists to apply better assumptions to better goals, we should take it.

Read My Lips: No New Tax Plans

Grover Norquist's infamous "Taxpayer Protection Pledge" asks candidates to promise that they will oppose all efforts to raise taxes. Perhaps the first step toward effective economic policy should be a new, simpler pledge: "I will not talk about taxes until 2030." No increases, no cuts, no credits, no deductions. No simplifications, no fair shares paid, no filing on a postcard. An exception could be permitted for any broad-based increases necessary to fund new spending.

As the old joke goes, ask a roomful of economists how to expand access to books and they will develop all manner of means-tested book-buying subsidies. Those on the right-of-center might suggest accelerated expensing of commercial book-shelving, or a licensing waiver to help bookbinders move across state lines. None would consider the idea of a public library.

What would we talk about, if forced to think about the levers of public power available to shape economic outcomes? Once upon a time, American statesmen had those debates, as well as the confidence to set national goals, make demands of the nation's economy, and establish public policies that led to their fulfillment. The American System and its progeny and unparalleled prosperity were the happy result. If we allow ourselves to set goals and to orient our institutions, investments, and rules toward meeting them, we can carry that tradition forward. ■



Required Reading



Foundations for American Renewal

Does the neoliberal orthodoxy of globalization, agglomeration, and redistribution weaken a nation, and, if so, what is the alternative? Recent political developments, from the election of Donald Trump and the rise of Democratic Socialism in America to Brexit in the United Kingdom, have represented stark rejections of what once seemed an inevitable “End of History” trajectory for Western democracies. The rejections, however, are only earthquakes leveling unsound structures. They do not themselves offer coherent plans for alternatives, much less the tools with which to build them.

Fortunately, a long-standing intellectual tradition offers not only a comprehensive critique of market fundamentalism and consumerism but also a constructive path forward. Stretching back over a century, and vibrant as ever today, this work returns repeatedly to several key themes: the unavoidable tension between market dynamism and social stability; the necessity of production for national and individual well-being; the importance of an economy’s diversified productive capacity; and the need for national solidarity, which depends upon a common culture that reinforces reciprocal obligations.

While these ideas do not themselves constitute a particular political agenda, they provide the foundation, the tools, and the materials. They also suggest the potential for a realignment of political interests and a new, working political majority. And they are the impetus for the American Compass mission: to restore an economic consensus that emphasizes the importance of family, community, and industry to the nation’s liberty and prosperity. The readings below have been selected through input from American Compass’s membership; together they trace the evolution of this school of thought and can hopefully help to clarify contemporary political debates and trends.

PRELUDE

Great works of political economy tend to be long and dense, and these are no exception. Readers may want to sample from them selectively, or seek out commentary on their central arguments. It is important, regardless, to be aware of their presence alongside the standard canon of Smith and Marx, Keynes and Hayek, and of their influence on subsequent writers.

Friedrich List, *The National System of Political Economy*.

List, a German émigré, was a leading member of the “American School” of political economy and a critic of Adam Smith and classical economics. His analysis emphasized a nation’s “power of production” as more important than its stock of accumulated wealth and so argued for policies that would place a nation on a trajectory toward a robust and diversified economy rather than those that maximized the immediate value of exchange.

Liberty Fund, 1841. 366 pages.

Karl Polanyi, *The Great Transformation*. Examining the changes wrought by the industrial revolution, Polanyi argues that the emergence of market economies was historically contingent, not a natural outgrowth of a human instinct to “truck, barter, and trade,” as Adam Smith had said. Polanyi distinguishes earlier economic systems in which markets were discrete mechanisms of exchange embedded within a textured social fabric, from the modern “self-regulating market,” in which all features of society must operate within the commoditized logic of a market mechanism. This new “Market Society,” he argues, is incompatible with human nature and ultimately unsustainable, devouring all other facets of life unless forcefully checked.

Beacon Press, 1994. 360 pages.

Robert Nisbet, *The Quest for Community*. In what Ross Douthat has dubbed “arguably the 20th century’s most important work of conservative sociology,” Nisbet traces the vicious cycle of centralizing state power and individualism. He argues that the erosion of traditional mediating institutions, such as families, churches, neighborhoods, labor unions, and voluntary associations, creates a widespread sense of alienation that fuels the centralization of government. Though written in an era considered notable for its social cohesion, it has become a foundational text for studies of the social fabric and its fraying in the twenty-first century.

Intercollegiate Studies Institute, 1953. 330 pages.

Daniel Bell, *The Cultural Contradictions of Capitalism*. Bell argues that modern society faces strong and mounting tensions between economic, political, and cultural realms characterized by capitalism, liberal democracy, and modernism. The economy depends upon hardworking, productive individuals, while the culture promotes consumerism and instant gratification and the politics demands an ever-larger welfare state. Bell perceived these tensions as manifest in the upheavals of the 1970s, but they may have grown only stronger and less sustainable in the decades since.

Basic Books, 1976. 301 pages.

—Part I: The Failed Consensus—

THE FALLIBLE MARKET

Market capitalism is at once the greatest economic system ever devised and also one deeply flawed and in need of constant tending and channeling. This was the distinctive view of the original neoconservatives and one that careful analysts of rapid globalization sought to impress upon a generation of economists and politicians eager to accelerate the movement of goods, people, and capital as quickly as possible. More recently, the basic questions of value and investment have come to the forefront, as the financialization of the American economy has led the private sector to pursue profits in ways that failed to benefit workers and the nation.

Irving Kristol, *Two Cheers for Capitalism*. This anthology of Kristol's columns in the *Wall Street Journal* and essays in *The Public Interest* harkens back to a time when "neoconservative" referred to a strain of conservative thought that rejected Milton Friedman's market fundamentalism and looked with skepticism upon the idea that free markets would of themselves deliver optimal outcomes. "The idea of bourgeois virtue has been eliminated from Friedman's conception of bourgeois society," Kristol laments, "and has been replaced by the idea of individual liberty. The assumption is that, 'in the nature of things,' the latter will certainly lead to the former. There is much hidden metaphysics here, and of a dubious kind."

Basic Books, 1978. 274 pages.
Excerpt: "On Corporate Capitalism in America,"
***The Public Interest*, Fall 1975.**

Edward Luttwak, “Will Success Spoil America?” Luttwak is best known for his work on grand strategy and military history, but his thinking on political economy has proved prescient. “I believe that one ought to have only as much market efficiency as one needs,” he once observed. “Because everything that we value in human life is within the realm of inefficiency—love, family, attachment, community, culture, old habits, comfortable old shoes.” This essay, published just after the Gingrich GOP won control of Congress, is a striking and succinct analysis of “the blatant contradiction at the very core of what has become mainstream Republican ideology (‘family values’ and dynamic economic growth).”

***The Washington Post*, November 1994. 3,000 words.**

See also *Turbo Capitalism: Winners and Losers in the Global Economy*, HarperCollins, 2000. 308 pages.

Clyde Prestowitz, *The Betrayal of American Prosperity*. Prestowitz has spent the past four decades in the arena, serving in a variety of high-ranking roles responsible for advancing globalization of the economy. He has also spent much of that time warning of the process’s dangers and downsides. In *Trading Places* (1988), Prestowitz provided the definitive account of Japan’s economic strategy and its effect on America. In *Betrayal*, he focuses on America’s disastrous choice to abandon the formula that drove its own economic success and the massive but unacknowledged dangers of the simplistic orthodoxy that has taken hold.

Free Press, 2010. 352 pages.

See also *Trading Places: How We Allowed Japan to Take the Lead*, Basic Books, 1988. 365 pages.

Mariana Mazzucato, *The Value of Everything*. Economic analysis requires a “theory of value” for determining what something is “worth.” While modern economics takes for granted that market price determines value, this was not always the case, nor does it always work well. Mazzucato looks through this lens at the history of political economy and then focuses it on the financialization of the modern economy. Which of the activities that command high prices and deliver lavish rewards in the marketplace are, in fact, value-creating, as opposed to value-extracting? If society were to tell itself a different story of where value resided, it might also be able to reorient its economy toward serving the common good.

PublicAffairs, 2018. 384 pages.

**Excerpt: “Yes, Government Creates Wealth,”
Democracy, Fall 2018. 6,000 words.**

Oren Cass, “Putting Dynamism in Its Place.” Cass challenges the standard narrative that celebrates “disruption” and “creative destruction” as the drivers of prosperity. They are necessary, to be sure, but not sufficient—for dynamism to be healthy, these forces must be accompanied by equally strong ones creating new and better opportunities for workers. No law of economics guarantees that the market will deliver this, and the evidence from recent decades suggests that it has not.

National Affairs, Spring 2019. 5,000 words.

Marco Rubio, “American Investment in the 21st Century.” This report from the Small Business Committee’s clunkily named Project for Strong Labor Markets and National Development is the seminal study on the bizarre inversion of American capitalism, in which the private sector has become a net lender rather than borrower and investor. In the course of documenting the trend, teasing out its causes, and describing its implications, Rubio and his team provide a tour of the twentieth century’s forgotten wisdom about the necessary prerequisites for successful market capitalism.

U.S. Senate Small Business Committee, May 2019. 42 pages.



THE FRAYING FABRIC

A healthy democratic polity requires a degree of cross-class partnership that has notably vanished from American life as the elite has reshaped society’s institutions for its own purposes—a trend identified and extrapolated with remarkable prescience by Christopher Lasch in the 1990s. Recent years have seen a variety of writers expand importantly on the dimensions of this problem: Patrick Deneen on the abandonment of reciprocal obligations, J. D. Vance on the narrative of “economic opportunity” that renounces collective responsibility, Senator Josh Hawley on a self-serving meritocratic and individualist culture, and Sam Long on the myth that doing well must surely mean doing good.

Christopher Lasch, *The Revolt of the Elites*. Lasch provides a wide-ranging sociological account of the elite's simultaneous withdrawal from common life and the assertion of political, economic, and cultural dominance. "To an alarming extent the privileged classes have made themselves independent not only of crumbling industrial cities but of public services in general," he writes. "Many of them have ceased to think of themselves as Americans in any important sense, implicated in America's destiny for better or worse."

W. W. Norton & Co., 1995. 276 pages.

Patrick Deneen, "The Ignoble Lie." Deneen uses Plato's "noble lie" as the starting point for a discussion of the reciprocal obligations between classes in a just and well-functioning society. The elite's unilateral abandonment of the arrangement, he argues, has rent asunder America's social fabric and placed the nation on an unsustainable course.

***First Things*, April 2018. 4,000 words.**

J. D. Vance, "Towards a Pro-Worker, Pro-Family Conservatism." Vance grapples with the question of how to reconcile the emphasis on personal responsibility that came to dominate the American right-of-center's rhetoric with the equally important and conservative insight that people are products of their families and communities, which, in turn, are influenced by culture and politics.

**Remarks at *The American Conservative* annual gala,
May 2019. 4,000 words.**

Josh Hawley, “The Age of Pelagius.” Hawley takes aim at contemporary society’s obsession with individual autonomy and a definition of liberty that concerns itself only with self-determination. That formula, he argues, “has made American society more hierarchical, and it has made it more elitist,” and “at the end of the day, this hierarchy and this elitism threaten our common liberty.”

Christianity Today, June 2019. 2,000 words.

Sam Long, “The Financialization of the American Elite.” A Harvard Business School graduate working in finance, Long filets his alma mater and industry’s hypocrisy and self-deception in claiming to advance the common good as they pursue profit and reshape the economy in ways that benefit only themselves. He shows how the “Church of Market Primacy” has indoctrinated a generation of leaders who now strive to ensure that “democracy” respects the Church’s prerogatives and insulates it from any meddling by the democratic state.

American Affairs, Fall 2019. 7,000 words.

THE HUMAN COST

Why now? In retrospect, and as the most perceptive writers of previous decades make clear, the globalization-plus-redistribution consensus was failing for a long time. The Great Recession exposed problems that the financial system's precrisis excesses had obscured, but seminal research also emerged that challenged the consensus directly and on its own terms: for many people, quality of life clearly was declining; despite incredible health breakthroughs, life expectancy was falling; the losers from trade were not being compensated or otherwise recovering. And the problems weren't cyclical—the trends were continuing and compounding across booms and busts.

Charles Murray, *Coming Apart*. The fictional towns of “Belmont” and “Fishtown” serve as statistical proxies for America's white upper class and white working class, diverging dramatically over the half-century from 1960 to 2010 across measures of work, family, faith, and community. By 2000, in Fishtown, “the percentage of children living with both biological parents when the mother was 40 was sinking below the 30 percent level, compared to 90 percent of Belmont children who were still living with both biological parents. The divergence is so large that it puts the women of Belmont and Fishtown into different family cultures. The absolute level in Fishtown is so low that it calls into question the viability of white working-class communities as a place for socializing the next generation.” Murray then shows that these trends apply across races.

Crown Forum, 2012. 416 pages.

Anne Case and Angus Deaton, “Rising Morbidity and Mortality in Midlife Among White Non-Hispanic Americans in the 21st Century.” Case and Deaton’s research highlights “deaths of despair”—an epidemic of substance abuse and suicide among less educated, middle-aged white Americans that reduced life expectancy and produced hundreds of thousands of excess deaths nationwide, a trend observed nowhere else in the developed world.

Proceedings of the National Academy of Science,
December 2015. 6 pages.

David Autor et al., “The China Shock.” The economic narrative of trade has always acknowledged both winners and losers, but the latter tended to receive less attention, and standard assumptions held that a dynamic labor market would provide new opportunities for those dislocated. Autor and his colleagues demonstrate the limits of this model, especially in the face of the unprecedented flood of cheap imports unleashed by China’s entry into the World Trade Organization. In fact, millions of jobs were lost, and hard-hit regions were not rebounding.

Annual Review of Economics, August 2016. 38 pages.

Nicholas Eberstadt, “Our Miserable 21st Century.” Eberstadt weaves together the many threads of evidence that together depict a nation in dire straits, with outcomes stagnating or regressing for large swaths of the population. While most analysts focused on the Great Recession’s aftermath, Eberstadt shows that these trends had, in fact, begun much earlier—at the turn of the millennium—and that America was now well into its second decade of struggle.

Commentary, March 2017. 5,000 words.

—Interlude—

THE AMERICAN TRADITION

An unfortunate recency bias pervades economic debates, with many participants unaware that the assumptions and frameworks they take for granted are of recent vintage, lack empirical support, and seem, in fact, to be reversing the extraordinary progress of previous generations. It can be helpful, then, to step outside the present frame, appreciate the American tradition of economic policy that amassed such an extraordinary track record, and observe the many ways in which it differs from modern defaults.

Hamilton's Republic: Readings in the American Democratic Nationalist Tradition, ed. **Michael Lind**. As George Will famously wrote, “if you seek Hamilton’s monument, look around. You are living in it. We honor Jefferson, but live in Hamilton’s country, a mighty industrial nation with a strong central government.” Lind curates writings from statesmen and political economists in the Hamiltonian tradition—from Hamilton through Henry Clay and Abraham Lincoln to Theodore Roosevelt and George C. Marshall to James Fallows and Walter Russell Mead.

Free Press, 1997. 345 pages.

Wells King, Julius Krein, and Oren Cass, “Rebooting the American System.” The inaugural essay series from American Compass, with forewords by Senators Marco Rubio and Tom Cotton, makes the comprehensive, conservative case for a robust national economic policy. From the perspective of tradition, Wells King describes how the “American System” brought the nation from a scattered collection of colonies to a continent-spanning industrial colossus. Through the lens of theory, Julius Krein critiques the American right’s turn toward Hayekian fundamentalism and explains the vital role that public policy must place in a well-functioning market economy. With an eye toward practice, Oren Cass describes the goals that policymakers must set and the tools at their disposal.

American Compass, May 2020. 10,000 words.

—Part 2: The Realignment—

A POINT OF DEPARTURE

The rise of China, the success of its mercantilist development strategy, and the failure of the Western strategy to co-opt and assimilate it into the liberal democratic system have proved a uniquely powerful touchstone for economic debates because it tests assumptions so directly and forces choices between values that might otherwise be compatible. Both “free trade” and “free markets” may be appealing in theory, but what should be done when “free trade” means incorporating an authoritarian regime that dominates its economy into the “free market”? Even before the debates sparked by Trump, Sanders, and Brexit over free trade and national sovereignty, conservatives were grappling with these questions in the pages of *National Review*, foreshadowing the dynamics a wider schism in right-of-center policy thinking.

Oren Cass, “Fight the Dragon.” Cass begins: “The standard economic model treats free trade as obviously positive, creating prosperity for all participants. Conservatives, and most neoliberals, have embraced that view and consistently press for further liberalization while condemning as backward and reactionary ‘protectionism’ any proposed obstacles to the free flow of goods and services. But the model is incomplete, and blind allegiance to it only weakens the U.S. economy and the health of the international trading system as a whole.”

National Review, June 2014. 5,000 words.

Ramesh Ponnuru and Michael Strain, “Fight Not the Dragon.” Ponnuru and Strain respond: “[Cass] does not understand the model he is criticizing. That model does not ignore the possibility of a prisoner’s dilemma but rather denies that it exists. After all, the classical case for free trade was developed in a mercantilist world, and it argued that free trade almost always benefits the country adopting it, regardless of the trade policies of other nations.”

National Review, July 2014. 2,000 words.



A NEW COALITION

Real-world conditions produce alignments of interests that form political coalitions and accompanying policy agendas. When conditions change, interests once aligned come into conflict, different alliances become more plausible, and new agendas emerge. That may be happening to the right-of-center’s “fusionism” of economic libertarians, social conservatives, and Cold War hawks as well as the left-of-center’s partnership between liberal elites and working-class labor. But what comes next?

Ross Douthat and Reihan Salam, *Grand New Party*. As the George W. Bush presidency limped to its conclusion, the once-dominant Reagan coalition and agenda appeared to be reaching their expiration dates. Douthat and Salam—then junior editors at *The Atlantic*—describe the transformation of the GOP from the “party of the country club” to the “party of Sam’s Club” and imagine a conservative “agenda for a working-class majority.”

Doubleday, 2008. 256 pages.

Gladden Pappin, “The Anxieties of Conservatism.” In the inaugural issue of *American Affairs*, Pappin analyzes the collapse of “fusionism”—“the linking of market liberals with traditional conservatives”—in an age when “the basic integrity of the American polity has been put under stress by economic policies justified in the name of global markets but unjustifiable in their effects on many local communities.” The “mainstream conservative platform,” he writes, “has devolved into a checklist of incongruent planks now that the underlying conditions which afforded it some coherence as a political strategy no longer apply.”

American Affairs, Spring 2017. 7,000 words.

Julius Krein, “The Three Fusions.” Krein argues that “America suffers under three false fusions: the imagined convergence of globalism and nationalism; the fusion of free-market economics and cultural conservatism; and the fusion of expansive individual rights and economic socialism. All three have conspired to make any effective government, along with any sense of collective interest or responsibility, seem further and further out of reach.” The compromises required to maintain these coalitions leave the parties drifting further from their ideals and ever more frustrated. “Everyone would probably be better served,” he writes, “by a general realignment around one party favoring economic and political solidarity, and an opposing party dedicated to all forms of individual rights.”

American Affairs, Fall 2018. 6,000 words.

Michael Lind, *The New Class War*. The classes exist in perpetual conflict, argues Lind, and it is through the negotiated peace between them that a nation can flourish. The problem facing contemporary America is not class war but the overwhelming victory of the new managerial overclass, which has accumulated such economic, political, and cultural power that it no longer needs to negotiate. Only by restoring power to the working class in all three realms can the nation return to a healthy equilibrium.

Portfolio, 2020. 224 pages. Excerpt: “The New Class War,”
American Affairs, Summer 2017. 10,000 words.



A NEW AGENDA

America has barely begun rebuilding from its political earthquake—arguably, we are still surveying damage and clearing rubble. But the intellectual tradition reflected here offers a possible path forward, and initial efforts have been made to translate it into at least some of the foundational blocks upon which American political economy, and the nation, might be renewed.

Yuval Levin, “Putting Parents First.” Perhaps inaugurating the “reformocon” movement, Levin observes that while “the family and the market ... are mutually reinforcing to an extent,” they “are also in tension with one another. The market values risk-taking and creative destruction that can be very bad for family life, and rewards the lowest common cultural denominator in ways that can undermine traditional morality.” This tension “is a source of unease for American families, and has often been a source of friction in the conservative movement,” he writes. “But the present moment offers an opportunity to turn that tension into a font of energy for conservatives, and to turn the conservative movement into the long-term home of the parenting class.”

The Weekly Standard, December 2006. 3,000 words.

Josh Hawley, “Rediscovering Justice.” While teaching law at the University of Missouri, six years before his election to the U.S. Senate, Hawley writes that “conservatives must do more than promise to downsize government and let each individual go his own way. They must offer a better vision of a better society, a vision of political justice, with an agenda to match.” He argues for reclaiming the concept of “justice” from the left and, in the realm of economic justice, aiming “not merely to cut spending, but to reform the American economy to include more citizens in meaningful work. Getting to that more inclusive economy will require conservatives to think beyond austerity, and also to think beyond mere economic growth.”

National Affairs, Winter 2012. 5,000 words.

Oren Cass, *The Once and Future Worker*. Cass introduces what he calls “the working hypothesis: that a labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy.” While economic policy and analysis have conventionally focused only on consumer welfare, he argues, it is people’s role as productive contributors that is most important to their own well-being and that of the broader society. A change of emphasis from consumption to production casts trade-offs in a new light and opens the door to a new agenda.

Encounter Books, 2018. 272 pages. Excerpt: “The Working Hypothesis,” *The American Interest*, October 2018. 8,000 words.

Marco Rubio, “Common-Good Capitalism.” Rubio links the “the right of businesses to make a profit” to “the rights of workers to share in the benefits they create for their employer” and “the obligation people have to work” to “the obligation of businesses to act in the best interest of the workers and the country that have made their success possible.” The abandonment of these reciprocal relationships, he argues, has yielded “an economic order that is bad for America: bad economically because it is leaving too many people behind; and bad because it is inflicting tremendous damage on our families, our communities, and our society. Agreeing on the problem is something we should be able to achieve across the political spectrum. Deciding what government should do about it must be the core question of our national politics.”

Remarks at Catholic University, November 2019. 4,000 words.



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