REBUILDING AMERICAN CAPITALISM

A Handbook

For Conservative Policymakers
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For a digital version of this handbook with links and further resources, visit americancompass.org/rebuilding-american-capitalism
What has happened to capitalism in America? Businesses still pursue profit, yes, but not in ways that advance the public interest. Over the past 50 years, corporate profits rose by 185%. Wages rose by 1%. American industry lost its technological edge, from semiconductors to commercial aerospace to robotics. Investment stalled, so much so that the entire corporate sector became a net lender, handing money back to financial markets faster than it tapped those markets for capital to invest. As American Affairs editor Julius Krein has observed, if $1 trillion in annual stock buybacks are to be taken at face value and “there are in fact no better investments to be made, ... it calls into question the viability of the free market capitalist system itself.”

Managers are supposed to be accountable to owners, but the latter’s identity is no longer discernible. Most shares are held by passive funds, often on behalf of pension plans on behalf of retirees and taxpayers, or else overseas, often in sovereign wealth funds. Comparative advantage is supposed to allow a developed economy like America’s to focus on the most advanced technologies, but the U.S. trade balance in advanced technology products has swung from a $60 billion surplus in 1992 to a $190 billion deficit in 2020. Innovation is supposed to drive productivity but, in the manufacturing sector, productivity growth has turned negative, with factories producing less per worker in the early 2020s than the early 2010s.

The economic system’s malfunction has dire human consequences. Whereas 40 weeks of the typical male worker’s income in 1985 could provide the middle-class essentials for a family of four, by 2022 he needed 62 weeks of income—a problem, there being only 52 weeks in a year. Nearly half of Americans report having fewer children than they want and, outside the most highly educated and compensated households, affordability is the most frequently cited obstacle. The average American can no longer expect to earn more than his father did at the same age. Poorer regions can no longer expect to catch up with wealthier ones. The bottom 50% of households had less wealth in 2019 than in 1989, though the top 10% added $29 trillion. Life expectancy is falling.

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In The Wealth of Nations, Adam Smith described conditions under which the private pursuit of profit advances the public interest. “By preferring the support of domestic to that of foreign industry” and “directing that industry in such a manner as its produce may be of the greatest value,” the capitalist “promote[s] an end which was no part of his intention.” That is, if capitalists see the expansion of domestic value creation as their best route to profit, then the nation will benefit.
The “invisible hand” is an explanation of how capitalism can work, not a promise that it will. If the hard, capital- and labor-intensive work of extracting natural resources, raising agriculture, building infrastructure, and manufacturing products consistently offers a less attractive investment profile than developing a cloud-based application that might scale to millions of users in just a few years with just a few employees, capitalism does not work. If firms facing pressure to raise wages or improve conditions or otherwise invest in American workers can instead offshore production to foreign labor or bring that labor into America for “jobs Americans won’t do,” capitalism does not work. If top business talent finds it can earn more money trading piles of assets in circles than making productive investments in the real economy, capitalism will not work. The market will deliver the profits, as America has learned, but also national decay.

Rebuilding American capitalism is a quintessentially conservative task. Libertarians cannot understand the many supports that capitalism requires or countenance a role for government in supplying them. Progressives are disdainful of a system that leaves so much to private ordering and are eager to use public programs to provide whatever the market does not. Only conservatives have the necessary gratitude for what has worked before, preference for a free enterprise system that both grants liberty and imposes obligations, and comprehension of the need for institutions to shape market actors and constraints to channel productively their ambition.

Conservatives value the unique ability of the free market to allocate resources efficiently and empower people to meet one another’s needs, to limit the power of a central government and place it instead in the hands of those best positioned to take care of their own interests, and to evolve over time in response to real-world conditions rather than at a bureaucrat’s whim. Markets are themselves institutions through which people develop informal codes and formal rules for cooperating and transacting more effectively. But conservatives also recognize that markets have drawbacks and limitations. The free market can reduce people to consumers and relationships to transactions. It prioritizes efficiency over resilience, and individual self-interest over the common good.

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Unfortunately, conservative economics was supplanted on the American right-of-center for the past 40 years by a market fundamentalism that saw capitalism as “just another word for economic freedom,” in former Senator Pat Toomey’s words. The task for policymakers, then, was simple. To quote Jack Spencer, vice president of the Heritage Foundation’s Institute for Economic Freedom and Opportunity, “Why don’t we look at a policy and just ask, does it expand economic freedom?”
Conservatives relinquished any right to advance a positive vision beyond free individuals exercising free choice in the market, each presumably able to optimize his own life. The failure of families to form reflected merely a preference for other pastimes. “Americans have voted with their wallets,” according to Scott Winship, director of the American Enterprise Institute’s Center on Opportunity and Social Mobility, “for more stuff, smaller families, and less time devoted to housework, raising kids, and investing in communities.”

Underlying this blind faith in the market was an assumption stated most clearly by Professor Glenn Hubbard, chairman of President George W. Bush’s Council of Economic Advisors: “The goal of the economic system [is] optimizing consumption.” Thus, what Americans made, or whether America could make anything at all, did not matter. Michael Boskin, chairman of the elder Bush’s Council of Economic Advisors, famously quipped, “Computer chips, potato chips, what’s the difference?” Michael Strain, director of economic policy studies at the American Enterprise Institute, said of America becoming a manufacturing center again, “we cannot, and we should not want to be.”

These trends, actively cheered on the Right, contributed to the rising inequality, slowing innovation, narrowing of opportunity, and loss of middle-class security.

The accompanying agenda of tax cuts, deregulation, and free trade was well suited to an ideology of freedom disconnected from any conception of flourishing, but as economic policy it was a disaster for the nation. Globalization crushed domestic industry and employment, leaving collapsed communities in its wake. Financialization shifted the economy’s center of gravity from Main Street to Wall Street, fueling an explosion in corporate profits alongside stagnating wages and declining investment. The decline of unions cost workers power in the market, voice in the workplace, and access to a vital source of communal support. These trends, actively cheered on the Right, contributed to rising inequality, slowing innovation, narrowing of opportunity, and loss of middle-class security.

As with any fundamentalism, this reality was reframed to fit a happy and coherent narrative. Any market outcome, no matter how socially corrosive, was the right one: Broad regions of the country experiencing economic decline was natural and beneficial “creative destruction,” and a cue for left-behind residents to “move to opportunity” in a coastal city. Business talent flocking to hedge fund and private equity paydays was “efficient” and reflected the “enormous social value” created by financial engineering and trading assets in circles. If China’s state-owned enterprises dump cheap products into the American market, pulling investment and expertise and supply chains across the Pacific in the process, American consumers could enjoy the bounty at the Chinese Communist Party’s centrally planned expense.

The American Dream was not dead—cars, after all, now had seat warmers. Televisions were larger and cheaper than ever. And anyway, if economic freedom were the only goal, what else could be done? Watching a global pandemic bring the American economy to a standstill, former South Carolina Governor Nikki Haley remarked, “As we are dealing with changes in our economy, tax cuts are always a good idea.”
Conservative economics, unlike the fundamentalism that supplanted it for a time, begins with a confident assertion of what the market is for and then considers the public policies necessary for shaping markets toward that end. The conservative conception of the common good requires a free-market economy in which all people can choose their own life course and through their own efforts contribute productively to their communities, support their families, and raise children prepared for the same. This is a richer notion of freedom, attached to obligation, recognizing that with economic rights come economic responsibilities.

In this conception, the economy serves not only the family and community, but also the nation. Efforts to dissolve borders and construct a more efficient global market devalue the nation-state, weaken its sovereignty, and reduce the citizenry’s democratic control. And notwithstanding liberalism’s one-world ideals, leaders in many other countries remain firmly committed to operating on behalf of their own national interests. If America pursues global supply chains while China pursues national ones, the result will be Chinese supply chains.

The conservative vision thus requires that markets not only allocate capital to productive uses and serve consumers at the lowest possible price, but also create the range of secure and dignified jobs in which people of varying aptitudes, with varying interests, in varying places can build decent lives. Over time, the market must produce growth that is widely shared and sustainable—a term coopted by the environmental movement but applicable as well to other foundations of a free and prosperous nation that market forces will tend to erode. The industrial commons requires protection, to ensure that its capital base, talent pool, and centers of innovation fuel productivity gains and provide for the national defense. So does the labor market, to ensure that the nation’s workers are essential to economic success and prepared for contributing to it. So does the social fabric, to ensure a sense of place, caring relationships built on mutual obligation, and the solidarity to solve problems and counter threats.

Capitalism, properly buttressed and constrained, can do all this. One need only look at the first 200 years of American history, as a backwater colonial republic grew into a continent-spanning industrial colossus and home of the world’s middle class, to have confidence it is possible. A robust national economic policy promoted this development through aggressive public investment in both industry and infrastructure, heavy involvement in the financial system, regulations for safe and equal access to vital services, the pioneering of public education and organized labor, and high tariffs to insulate the domestic market. These were not exceptions to American capitalism; they were its scaffolding.

One need only look at the first 200 years of American history, as a backwater colonial republic grew into a continent-spanning industrial colossus and home of the world’s middle class, to have confidence it is possible.
In the 21st century, capitalism itself, and the public policies supporting it, will necessarily look different. Rebuilding American capitalism is not a nostalgic exercise in recreating the past. The effort is more akin to what occurs after an earthquake levels parts of a city. The disaster causes great suffering, but it also exposes poor construction, crushes unsuitable structures, and provides the opportunity to modernize. Rebuilding does not mean recreating the old city, but rather building something that retains its character while preparing to better serve its residents for the decades to come.

The task begins with an emphasis on Productive Markets—ones in which the conditions and constraints channel investment toward the uses most valuable for workers, the broader economy, and the nation. Globalization must be replaced with a bounded market that restores the mutual dependence of American capital and labor and invites the trade and immigration that benefit American workers. Financialization must be reversed, so that both talent and capital in pursuit of profit find their best opportunities in productive investment rather than extraction and speculation. Policymakers must embrace the principle that making things matters and boost investment in critical industries.

Likewise, policymakers will need to help reinvigorate Supportive Communities—the institutions that operate alongside and within the market. The American labor movement has devolved into a dysfunctional and sclerotic collection of unions that fail to advance workers’ interests effectively or represent very many at all. But a strong labor movement is vital for capitalism to function well. Public education has become obsessed with college prep, and does it poorly, but what Americans want it to do is help students develop the skills and values needed to build decent lives in the communities where they live. At the foundation of it all, families must form and flourish. For capitalism to succeed, the jobs it creates must be ones that support families and allow them to thrive.

Families do not exist to support capitalism; capitalism exists to support families.

This is true partly because families are important to a well-functioning capitalist system, but more so because they are its proper end. Families do not exist to support capitalism; capitalism exists to support families. The fundamental task of rebuilding American capitalism is establishing those constraints and strengthening those institutions that will create a market and reinforce a culture supportive of family life. The decision to form a family and raise children is not a consumption choice—an experience, to be weighed against a nice vacation or more time for gardening. It is the basic obligation of life and citizenship, incurred by virtue of having been born and raised oneself, and of enjoying liberty and prosperity in a nation built through that same work performed countless times across generations. A capitalism that avows neutrality on the importance of this pursuit compared to others, rather than holding it up as the highest good, has no future, and does not deserve one.
This handbook presents a comprehensive agenda for restoring conservative economics and rebuilding American capitalism. The first section, *Responsive Politics*, outlines capitalism’s poor performance in recent decades and defines the substantive goals toward which the American people would orient the market. The second section, *Productive Markets*, discusses the policy reforms necessary to align investment and the pursuit of profit with the public interest. The third section, *Supportive Communities*, discusses the policy reforms necessary to buttress key institutions.

Each section includes an introduction, analysis and policy proposals, and commentary from Compass Advisors—all leading policy experts in their respective fields. Each advisor was asked to compose a brief memo for conservative policymakers, providing recommendations for addressing the issues at hand.

The discussion of data and policy proposals is by necessity brief, but each of the ideas presented here is supported by American Compass’s in-depth research, including essays, surveys, whitepapers, policy briefs, and podcasts. These are highlighted throughout, and available on our website. We hope that policymakers will find these materials useful, and join us in advancing a conservative economics that emphasizes the importance of family, community, and industry to the nation’s liberty and prosperity.

**Oren Cass** is the executive director of American Compass.
In recent decades, American politics has been driven by a devotion to “consumer welfare,” and policymakers narrowed their goal to increasing how much stuff everyone could buy. Whether families earned income through paychecks or relied upon government transfers, whether communities thrived or collapsed, whether inequality rose, whether families formed—none of that counted. That mindset is neither conservative nor responsive to the needs and aspirations of the American people. Politicians and their economic advisors have ignored Americans’ growing frustration with the economy, unable or unwilling to see the difference between an economy that supplies secure jobs that support flourishing families and communities and one that ships manufacturing jobs overseas in exchange for cheap flat-screen TVs. As a result, American politics has experienced a populist backlash.

Conservatives now realize that economics needs politics to define the ends that markets should advance, and policymakers must be responsive to their constituents. The market has incredible power to orchestrate millions of individual actions through price signals and freely chosen transactions. But the market has no power to recognize, let alone provide for, the many needs that are not reflected in price signals, even when they are more important to people’s lives and require greater coordination and cooperation.

No matter how much people want to see investment, growth, and job creation spread widely across the country, markets will concentrate it in narrow geographies or send it overseas if that provides investors the greatest return. No matter how much people care about forming and raising strong families in thriving communities, markets will value their efforts and the results at roughly zero. Identifying such priorities, and establishing public policies that force market actors to take account of them, is a task that only politics can complete.

Thus, rather than relying on the excuse that “markets know best,” conservative economics depends upon a definition of the market’s purpose. Responsive politics requires taking the time to understand Americans’ priorities and respecting the inherent validity of those priorities as the foundation from which policymakers should work. Only with a clear understanding of what the nation wants to achieve can policymakers begin answering the question of how to achieve it.
When asked, Americans readily identify what they see as major problems and what they want for themselves and their children. In American Compass polling, a majority of Americans across parties and classes reject the consumer-welfare standard chosen by economists, instead placing significant weight on concerns about stagnating wages, rising inequality, and pressure to have two parents working to support a family. American aspirations for their families are likewise disconnected from the assumptions and preferences of the upper-class elites who make policy. While highly educated people in high-income households emphasize “getting out” of smaller cities and towns for top-tier schools and careers, most Americans see the objective as building a decent life in their community, living close to home even if it means sacrificing career options, and prioritizing family over economic success.

Economists and policymakers, themselves highly-educated high earners living and working in a narrow set of prosperous places, have claimed to know people’s interests better than the people themselves, with disastrous results. Leadership requires knowing why one leads—and for whom.
The breakdown in American capitalism over the past half-century is most apparent in its failure to deliver widespread prosperity for the American people. Success requires more than just rising material living standards: For citizens to flourish, they must have access to good jobs that pay family-supporting wages. For the nation to flourish, its growth and opportunities must be broadly shared. Capitalism is unique in that it can achieve these results, but no principle of economics guarantees that it will. To preserve what is good and necessary in our free enterprise system, we must be willing to recognize what has broken down and commit to rebuilding.

### The American Condition

In the past 50 years, American capitalism has achieved substantial growth in aggregate labor productivity, real gross domestic product per capita, and real corporate profit per capita. This is where economists, policymakers, and commentators have focused their attention. But while those levels were doubling or tripling, wages went nowhere—up only 1% in total, not annually, after adjusting for inflation.
Economists have tended to show little concern over stagnating wages, arguing that people continuing to earn the same wage will continue to be as well-off and more income can always be redistributed to them. Americans across the board disagree. A majority of every party and class sees the issue as a big problem, helping to explain why men are leaving the workforce and marriage rates are declining.

Another important consequence of growth, profits, and productivity rising while wages stagnate is that the divergence produces rising inequality.

With incomes rising much faster for the top quintile of American households, their share of America’s total income has risen dramatically while everyone else’s share has fallen; income inequality has reached its highest level in nearly 75 years. Those in the middle have seen the largest decline in their share of the nation’s output. If middle-class households had maintained a constant share of national income since 1970, their average income would have been $86,000 in 2019, in comparison to their actual income of $69,000.

Are Stagnating Wages a Big Problem?

By party and class
Respondents were presented with the fact that “after adjusting for inflation, young men earned roughly the same wages in 2019 that they did in 1960” and asked to choose between two views:

A. This is a big problem, and helps to explain why men are leaving the workforce and marriage rates are declining. We should not expect people in 2019 to be satisfied with a standard of living from 50 years earlier.

B. This is not a big problem, because we know that men were eager to work and able to start families on a 1960s wage in the 1960s. We should expect them to feel the same way about the same wages today.

- Big Problem
- Not a Big Problem
- Neither / No Opinion

National Income Has Shifted to the Top, with the Middle Losing Most

Percentage-point change in share of aggregate income, 1967–2021

Source: American Compass Family Affordability Survey (2023) - N = 1,000 American parents
Note: Order of statements A and B was randomized across respondents; responses combined for “strongly agree” and “somewhat agree.”

Source: U.S. Census Bureau
As with stagnating wages, economists often downplay the implications of inequality, arguing that it should be irrelevant as long as everyone is still materially better off than they were in the past. Again, the American people disagree. A majority see a big problem with only some Americans achieving major gains while others are left behind and pluralities across all political parties and classes agree.

With wages stagnating and inequality rising, the costs of supporting a family have quickly outstripped a worker’s ability to do so. In 1985, a typical male worker could provide middle-class security for a family of four (food, housing, health care, transportation, education) on 40 weeks of earnings, leaving a comfortable cushion for other expenses and savings. In 2022, providing that same middle-class security would require 62 weeks—a problem, there being only 52 weeks in a year.
Yet again, economists often fail to see why this matters. Families have responded by sending a second earner into the workforce or relying on government support, ensuring that their consumption can continue to rise. But this represents a major loss for families, who no longer have the freedom to order their lives as they wish or the flexibility to cushion inevitable financial challenges. For instance, American families often prefer to have one parent at home with young children and the majority of Americans across parties and classes see it as a big problem that many have lost this option they want and once had.

A reliance on redistribution to make up the gap created by wage stagnation has led to a situation where a working-class family supported by someone earning a median wage feels the same financial pressure as a family with little or no earnings of their own. This dynamic erodes both the economic incentives and cultural norms in favor of supporting a family through productive contributions to the community, which a well-functioning capitalist system must foster.
Much as inequality has grown between households, geographic inequality has widened substantially in recent decades as growth and opportunity have become concentrated in narrower regions. In the first two decades of the 21st century, the top quintile of “prosperous” zip codes saw job growth four times higher than in the other 80% of zip codes and accounted for nearly 57% of the net new jobs nationwide. Economists tend to celebrate the concentration of capital and talent as economically efficient “agglomeration,” but it represents a disaster for those left behind and for the integrity of the nation’s social fabric.

The cumulative consequences of American capitalism’s breakdown have been made especially vivid by the explosive rise in “deaths of despair,” concentrated in regions and among populations left behind by a malformed economy. The rise has been so dramatic that American life expectancy peaked in 2014 and has been falling ever since. As the Financial Times observed in March 2023, “the average American has the same chance of a long and healthy life as someone born in the most deprived town in England.”
The American Ambition

At the heart of conservative economics is the idea that a nation can and should choose the shape of its markets in pursuit of the substantive outcomes it values. Whereas much of conventional economics declares itself above politics and able to evaluate results objectively through measures of consumer welfare, conservatives recognize that the choice of consumer welfare as the measuring stick is just that—a choice—and not a good one. Thus, a responsive politics that seeks to understand America and pursue the economic policies that will serve the nation well, is vital. What do Americans want from their economy, and how do they define success for themselves?

For most Americans, the American Dream is not to “rise up” from humble beginnings through elite education to high-paying jobs in big cities. It is to work hard, build families, and achieve middle-class security in the communities where they live. Of course, everyone will have their own specific definition, but key elements are broadly shared: affording health insurance, being able to support a family on one income, owning a home, and saving enough to send children to college.

For parents, across political parties and classes, the goal of education is not maximizing academic potential but rather “developing the skills and values to build decent lives in the communities where they live.” Young adults feel the same way about their own education.

Defining Middle Class in America

“How important are each of the following, in your view, to being in the middle class?”

- Essential
- Important
- Nice to Have
- Insignificant

Educating for Life or for Academic Success?

Parents, by political party and class

Respondents were presented with two statements on the purpose of public education, in randomized order, and asked “Which is more important?”:

1. Help students develop the skills and values needed to build decent lives in the communities where they live.
2. Help students maximize their academic potential and pursue admission to colleges and universities with the best possible reputations.

- Build decent lives: Much more important
- Build decent lives: Somewhat more important
- Maximize academic potential: Somewhat more important
- Maximize academic potential: Much more important

Source: American Compass Family Affordability Survey (2021) • N = 1,000 American parents

Note: “Parents” refers to parents with at least one child between the ages of 12 and 30. Respondents were asked to answer questions in light of the experience of their eldest child age 30 or younger.
Similarly, while most upper-class parents with the highest incomes and levels of education would choose an education path for their own children that leads to the “best career, far from home,” most other parents would give higher priority to local ties, choosing “good career, close to home.”

Likewise, family takes precedence over career for most Americans. Most parents, across parties, see a happily married life with children, even if just getting by financially, as preferable to being financially well-off but single with no children in the household.
Thus, while the American education system focuses on moving every young person from high school to college to career, most parents see that model failing their children and would prefer a shift toward supporting non-college pathways like apprenticeships and training programs.

Among families with children, upper-class Americans embrace a model in which both parents work full-time while using full-time paid childcare, but for other Americans that model holds little appeal, and the top choice would be to have one parent working full-time while the other parent provides childcare in the home. This preference is strongest among the working class, and among married women.

In the workplace, most Americans place heavy importance on labor-management relations and say they wish they had more opportunities for their voice to be heard, but the traditional labor union model is not the model they prefer. Among potential union members, 63% say they would prefer a worker organization run jointly by employees and management over one run by employees alone.
### How Would American Workers Prefer a Worker Organization to Be Run?

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<th>Potential union members</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
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Source: American Compass Better Bargain Survey (2023) • N = 531
Includes only part- or full-time, nonsupervisory employees who work 30 or more hours per week at a private, for-profit company. Question wording: “Thinking now about your ideal kind of worker organization, whether or not that’s a traditional union, how would you prefer it to be run?” Adapted from Richard B. Freeman and Joel Rogers, What Workers Want (Russell Sage Foundation, 1999).

### Americans Want Families to Receive More Support

- Yes, with more support couples could have more children.
- Yes, more assistance to families would improve the lives of children.
- Yes, families are falling behind and need help.
- Yes, being a parent is hard work and should be rewarded.
- Unsure
- No, there are more important problems.
- No, our government can’t afford it.
- No, it’s not the role of the federal government.
- No, families with children don’t need more assistance.

Source: American Compass Home Building Survey (2023) • N=1,572
Question wording: “Should the federal government provide more support for families with children?”

Finally, in addressing the challenges facing American families, widespread support exists across the ideological spectrum for expanding government support. Even among Americans identifying as “very conservative,” most agree that the federal government should provide more support for families—most often because “families are falling behind and need the help.”

When they are working well, free markets not only allocate capital to productive uses and serve consumers at the lowest possible price, but also spread prosperity throughout a nation by ensuring that people have opportunities to build the lives they want, access to good jobs with rising wages through which they can support their families and communities, and ultimately the ability to raise children prepared to do the same.

In recent decades, conservatives have declined to hold American capitalism accountable for those outcomes, and it has failed to produce them. But if spreading prosperity through family-supporting jobs is not a core function of the market economy, where does that responsibility lie? One answer might be that it is no responsibility at all—family-supporting jobs and rising wages for the common man are nice to have, but inessential. A second might be that it is not the market’s responsibility but the state’s to create the necessary jobs or redistribute the income. Some libertarians take the first view, some progresses the second.

For conservatives, though, rebuilding American capitalism is imperative to protecting and advancing the nation’s liberty and prosperity. Policymakers must play an essential role in that process. The chapters that follow explain how.
Politicians are out of touch with the realities of family life and the priorities of their constituents, especially their working-class ones, and would do well to find new ways to connect.

AMBER & DAVID LAPP
We’ve spent the past decade living in a working-class town in southwestern Ohio, initially on a short-term research project and then settling in as citizens, neighbors, and friends—so that is the vantage from which we understand America.

For this memo we talked with 14 of our neighbors about the American Dream, their experiences in the economy, and what they think policymakers can do.

Here are six themes we heard:

“I don’t think the American Dream really exists anymore.”

The people we spoke with described the American Dream as increasingly out of reach. “The American Dream means everyone has a chance at success, but I don’t feel that is true for the low-income or anyone who has a criminal record,” said a woman who worked as a supervisor at a homeless shelter.

Cody, a father of three who was working 60-hour weeks between two jobs as an independent contractor to an internet company and in his grandfather’s custom furniture workshop, and whose wife also worked part-time, said that the American Dream means “independence”—in terms of both self-sufficiency and freedom from government interference—but that that’s harder to achieve than it used to be. He qualifies his view by saying that at the community level we have become “too independent.” Social capital matters, he says. “Everybody needs help sometimes.”

When Corrie thinks of the American Dream, she thinks of newly arrived immigrants who start family businesses and rise to the middle class. “I think a lot of people have forgotten that the American Dream also applies to Americans.” She admires the immigrant story but says that, for families like hers who have been in America for generations, “I don’t think the American Dream really exists anymore. Because it’s so hard. It may exist, but what we think of as the American Dream is unattainable for a lot of people.” (It does exist, she adds with a smirk, “for rich people.”)

As evidence, Corrie cites the rise of the “working homeless,” of which she is part. Though she and her husband have been married for almost 20 years and he has kept a steady factory job while she worked part-time at McDonald’s while also raising their three children, they are unable to afford rent in the current market and have moved in with her sister’s family.

“In the middle is where you get screwed.”

For families like Corrie’s, part of the problem is that their income is too high to qualify for government assistance but not high enough to pay their bills. A common sentiment we heard was, as Corrie put it, “You have to be rock-bottom poor for you to even get any help.”

Means-tested welfare programs can create a “lobster trap” effect, in which programs are easy to enter but difficult to exit. Brittney, a mother of four living in government-subsidized housing, explained the incentives discouraging work and marriage this way: “I got a job, and my husband has a job. We lost our food stamps, and our rent went to $1,200. I am basically working to buy food at this point. There was no ‘bettering’ our situation there.” She and her husband delayed marriage for years because they knew that it could jeopardize Brittney’s housing.

“I think that’s where it’s hardest is for the people who are just starting to come up the income bracket, and not really knowing what they can afford, and what they can do, and if it’s going to hurt them to make a little more money,” said Cody, the father of three. “It’s really tough. Once you get up in there, you know you’re fine. But in the middle is where you get screwed.”

These incentives are psychologically demoralizing and contribute to the sense lower-income people have that it’s difficult to get ahead, even if (and maybe especially when) they work hard. Income cliffs create resentment on the part of the working class toward those who receive benefits, and toward the government for undermining the value of hard work. People will often face the challenge from both sides at different times, vacillating between frustration that higher income would mean the loss of benefits and frustration that others are receiving benefits that they cannot.
**“We want to thrive, not just survive.”**

When Wyatt was working at a hotel in Cincinnati, he observed that his Gen Z coworkers were different. While some labeled them as lazy, Wyatt says he likes that they were idealistic and had life priorities other than working and making money. It’s not that young people are afraid of hard work, he says, but they have different expectations about what an employer can rightfully demand from them.

Corrie talks about her time in the service industry when managers asked her to stay past her shift or pick up another shift when other workers didn’t show. The insinuation was that being a good employee meant taking one for the team, canceling evening plans, and staying at work. Corrie admires that younger workers are pushing back. “I want to be able to show my kids that there’s more to life than just working.”

Stephanie, a homemaker whose husband works at a factory, is concerned about “quality of life issues” with his employment. During the pandemic he had time at home for family meals and their baby’s milestones. Now he’s missing those things; she wishes he could work from home part-time.

**“Family trumps work.”**

The priority for many working-class young adults is time with family. Shayla, who works seasonally at an amusement park, says that her children are “my American Dream.” Growing up, her parents both worked opposite shifts at a restaurant, one early in the morning, one late into the night. She doesn’t want that for her kids.

Brittney, who had postponed marriage to keep her subsidized housing, summed up a common attitude: “I want to survive, but I have my whole life to work, as well. It’s important that my children look back and remember time together with me. I do try to work around their school hours, so we have the whole night together and weekends are important. … That’s when they have games and stuff with sports.”

Or as Corrie put it, “We would have no time as a family if we were to do things the way we need to do them to get the goal that we want [homeownership].” Reflecting on the toll of long work hours, she asked, “How is my marriage supposed to be successful if I’m never home to work on it? You should not have to give up your family time for work. … I’ve seen so many relationships and marriages fail because all people do is work, because that’s what they have to do to pay their bills.”

Desiree, a young woman who grew up as what she described as “lower middle class” and started her own successful construction company, described her friends who have become parents: “I see many people spending all of their money on basic necessities after having children.” She thinks this should be addressed with “affordable and accessible” paid leave and childcare.

Many people mentioned feeling looked down upon in the workplace. “Treat me like I’m a normal human being,” Shayla implored, recalling one particularly judgmental manager. Anna, a restaurant server, mentions that the way people talk to her makes the job hard, specifically the way management treats employees.

**“Just talk to me like I’m human.”**

When asked what kinds of opportunities they would like the economy to provide, many people talked about workplace culture. Respondents mentioned a desire for “a cohesive team environment,” being treated with “respect and dignity” whether or not they had a college degree, and forming relationships with managers who were more like “mentors” than adversaries. One respondent mentioned NUMMI, the joint venture between Toyota and GM, as an ideal workplace model that emphasizes teamwork and collaboration between labor and management. Another said it would be nice for workers to have a real voice in company management.

Nicole got her first factory job right out of high school. Over the years she never missed a day and was recognized twice as employee of the month. She had a supervisor who was also a mentor, and when he moved to another company, he asked Nicole if she’d like to follow him there. She appreciated that “he knew what I was capable of.”

But Nicole found that not having a college degree was a disadvantage in terms of pay and advancement. At one point the mechanical contracting company she was working for fired their warehouse manager and temporarily put Nicole in his place. She did the job for eight months, but never received the title or a raise from the $13 per hour she had made previously. They hired someone from outside the company. “He was a man. He had a degree,” Nicole says. “I trained him. And then they pushed me back out.”

When we told Nicole about the American Compass proposal to ban bachelor’s degree requirements, she exclaimed, “That would be awesome! More power to people who get college degrees, but some of us didn’t have the money.”

Many people mentioned feeling looked down upon in the workplace. “Treat me like I’m a normal human being,” Shayla implored, recalling one particularly judgmental manager. Anna, a restaurant server, mentions that the way people talk to her makes the job hard, specifically the way management treats employees.

Nicole seems remarkably unresentful, speaking matter-of-factly. “The people in the office have the degrees and make more money. … The highly educated sometimes think they’re better than the average worker.” She says that a common
problem is management’s unwillingness to take seriously the problems workers raise. They say they’ll look into it, but months go by. “Just talk to me like I’m human,” she says. “If I have a solution to bring to the table, let’s talk about it.”

“I don’t trust the government anyway.”

If working-class Americans feel dismissed in the workplace, the problem is even more acute in politics. In our interviews, there was disillusionment with, but no rage against, politicians. People didn’t mention them unless we asked. Political leaders are too irrelevant for rage—seen as clownish, “pandering,” and “inept” on all sides, the butt of a joke, not a serious hope.

Skyler, a project manager at an electrical company, diagnosed the problem this way:

“[Politicians] are increasingly becoming an elitist group that speak to us and campaign to us with the corniest and most patronizing ways. Few people trust politicians. And even fewer think politicians will even try and do what they are promising to do.”

For example, the commonly invoked “kitchen table” image—of a husband and wife looking at their budget late at night trying to make ends meet—needs updating. “That’s my go-to metaphor whenever I’m imitating a politician!” laughed Cody. “It’s more like chilling on the couch looking at my bank account on my smart phone, saying, ‘What the hell?’” Corrie adds that many families don’t even have a kitchen table, or family dinners, anymore. The implication is that politicians are out of touch with the realities of family life and the priorities of their constituents, especially their working-class ones, and would do well to find new ways to connect.

Skyler laments that, “Those who should go into politics are either turned off by the insanity of partisan politics or have no viable pathway into politics as they are not filthy rich, well-connected, and so on. So, the standard for political leadership continues to decline.”

Frank, a young adult who has received disability checks “since I was a baby” but recently received an unexplained letter about the termination of those payments, put it more succinctly: “I don’t trust the government anyway.”

This distrust leaves many skeptical that the government can do much to improve economic outcomes. Desiree, who founded the construction company, says that “with all the events our age group has lived through thus far, and how little our government has supported bettering our lives, I don’t expect the economy to provide any sense of security.”

Cody adds, “There are examples of what the government could do positively, but there are lots of examples of what they’re doing to make it harder.” He focuses on the latter.

But while many Americans are growing ever more skeptical about the attainability of the American Dream and politicians’ ability to solve problems, they also mention a strong desire for a practical, collaborative approach to problem-solving. And they see a role for themselves in that process as well—treated as fellow citizens, not uneducated grunts.

“The college-educated have something to bring to the table, too. We know what they don’t know. They know what we don’t know,” says Nicole. “It’d be crazy what we could accomplish if we could come together, if people would stop thinking they’re better than everyone else. If we could come together this world would be a different place.”
Democracies do not die in darkness. They die in the full light of day when enough of their citizens decide that they cannot achieve their dreams unless the system changes.

HENRY OLSEN
Republicans and conservatives rightly love liberty. That’s why so many have difficulty engaging with the new conservative economics and domestic policy propounded by American Compass and politicians including Senators Marco Rubio, Josh Hawley, and J.D. Vance. They believe, wrongly, that these policies contradict liberty.

The opposite is, in fact, true. Conservative economics is not just consistent with liberty, the two are inextricably intertwined.

The simplistic defender of liberty will be aghast at that assertion. The new thinking endorses government intervention in the economy and supports tilting the scales of redistribution to favor families over individuals. Both ambitions are contrary to liberty, in the simplistic view, because they set the collective judgment of the elected representatives in government over that of the market—an unforgivable heresy.

But that’s just not so, and a simple review of American history will show us that. Our democratic governments have always set their judgment over that of the market to better encourage commerce, provide for the national interest, or protect domestic institutions like the family. It’s the recent market fundamentalism that is antithetical to American democracy, not conservative economics.

Take the simple underpinnings of the modern economy, bankruptcy and corporate law. At common law, an individual was liable to repay all of his debts regardless of his capacity to do so. Thus, debtors unable to repay their lenders were thrown into debtors’ prison or were required to sell all of their personal assets to avoid such a horrid fate. That was simply the law consistently enforcing the doctrine of personal responsibility.

America’s founders thought differently. They believed that individuals deserved second chances in life and ought not to be condemned to misery and servitude because of a risk gone wrong. They thus created the law of bankruptcy, which overrode common law to allow a person unable to repay his debts to have some of them discharged by law.

This surely created what is today called “moral hazard” as the dishonest took advantage of this escape to take greater risks than perhaps they ought to, with borrowed money. But the result was, on balance, social gain. More people were willing to take risks knowing they could preserve their freedom, and both liberty and economic growth were thereby encouraged.

The creation of modern corporate law supercharged this innovation. Prior to the mid-19th century, individuals were personally liable for debts their businesses incurred. Predictably, this inhibited risk-taking for the same reason the fear of debtors’ prison did. Only an act of government—an Act of the Crown in Britain or a legislative declaration in the United States—could allow an individual to avoid that fate by creating a corporation in which his liability would be limited to his investment in the company.

Whig politicians in the 1830s and 1840s sought to change that. They wanted government to put a finger on the scale in favor of economic expansion, and toward that end they advocated for uniform and regular incorporation. Their idea was that allowing any combination of individuals to form a corporation without prior approval would increase the number of people who would do so. That in turn would encourage risk-taking and collective economic endeavors, things needed to expand industry and engage in widespread commerce. Their success was so widespread that we have today forgotten this reform was ever needed.

Other now common practices were adopted in early America to put government in charge of once-private activities to better ensure liberty for all. Public prosecutors were created in the late 1700s, taking the burden off private individuals to procure lawyers to pursue criminal cases. That gave such men power, but it also meant that crimes against the poor would be brought more readily. This narrow abridgement of “liberty” actually increased liberty for the vast majority of Americans.
Conservative economics is not just consistent with liberty, the two are inextricably intertwined.

The economic platform of the new Republican Party pushed these principles to the national stage. The Morrill Land Grant College Act used public lands to build public universities with the express intent of encouraging agricultural research to improve farm productivity. The Pacific Railroads Act subsidized the construction of the first transcontinental railroad, and further acts subsidized the construction of America’s mighty rail network. The protective tariff allowed American manufacturing to grow rapidly, bringing power to the nation and wealth to its citizens.

These principles remain a staple of conservative and Republican policy even today. Which Republican governor doesn’t use public funds to attract large industries to their state? Which fails to invest in public education and public universities? Even school choice, that bastion of conservative education policy, is at heart merely a different mode of redistribution from those with wealth to those without to accomplish a publicly determined end.

Viewed against this backdrop, the “new” economics is actually the traditional American understanding renewed for our age: what Henry Clay dubbed “the American System,” updated to address the challenges of a globalized and financialized economy in which American families are struggling to form and support themselves and the American nation is struggling in great power competition with China. Market fundamentalists may be indifferent to the outcomes of those struggles—or, more commonly, propose naïve nostrums about how the “self-regulating market” is itself the best guarantee of success. Americans and most conservatives are not so foolish or sanguine.

Americans today want what their ancestors wanted: genuine liberty to live dignified lives of their own choosing. They do not want a regimented, socialist economy or a woke, uniform society. But neither do they want concentrated private power, exercised economically or socially, to put barriers in front of them that they cannot reasonably be expected to surmount. They want a government responsible to them that tears those barriers down and erects protections to ensure they cannot fall into undeserved penury. And then they want government to get out of the way and let them flourish.

Democracies do not die in darkness. They die in the full light of day when enough of their citizens decide that they cannot achieve their dreams unless the system changes. For as the Declaration of Independence tells us, “whenever any Form of Government becomes destructive of these ends [the rights to life, liberty and the pursuit of happiness], it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.” No beautifully decorated house is grand if its residents live in misery.

The United States of America remains one of the greatest and most exceptional nations in world history. We did not acquire this status by blithely pretending that the individual can prosper while the community suffers. We became the Earth’s inspiration and its colossus by recognizing that the individual can only prosper when his happiness, as viewed on his terms, is inextricably intertwined with the health of a community dedicated in word and in deed toward that goal.

That is what today’s conservatism needs to rediscover. That is what today’s reformers are doing. That is why those who love liberty are our natural allies and will soon become our firm friends.

The Republican Party has changed. It is now home to more working-class (non-college) voters than the Democrats. In 2022, Republicans carried the nationwide working-class House vote by 13 points. In 2020, Trump carried the nationwide working-class presidential vote by four points. Modeled estimates by the States of Change project indicate that Trump carried the working-class vote in 35 out of 50 states, including in critical swing states like Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin.

A key task—perhaps the key task—for conservatives is figuring out how to deepen their burgeoning advantage among working-class voters. Naturally, that means being attentive to what the working class wants and needs. This entails engaging with concrete problems and actually improving lives. Campaign slogans, however effective in the short run, are no substitute for policies that deliver real benefits.

What should these policies be? Start with what they shouldn’t be. They should not reprise the traditional Republican playbook of cutting taxes and shrinking government on the theory that doing so will allow the free market to enrich everyone. That ship has sailed. Working-class voters do not have a knee-jerk hostility to government and government spending and do not believe that unleashing corporate capitalism, based on its track record, is likely to benefit them. They certainly do not believe that tax cuts skewed toward the wealthy and corporations, as in the one major legislative achievement of the Trump era—the Tax Cuts and Jobs Act of 2017—are going to do much to improve their lives or opportunities.

Conservatives must advocate a robust policy program for national economic renewal, not a tired rerun of Reagan-era policies. That most assuredly includes a role for government, albeit one that is consistent with conservative principles of individual responsibility and dynamic entrepreneurship and commitments to the social bedrock of family and community. After all, America has worked best when public policy and private initiative have collaborated in service of great national goals. That goes all the way back to the early 19th century American System of infrastructure investment and industry promotion initiated by Alexander Hamilton and includes the great surge of innovation, widely shared prosperity, and American global leadership after World War II.

One could imagine a world in which progressives were themselves attempting to claim the mantle of American investment and economic renewal. But that world is not this one. The recent Inflation Reduction Act (IRA), the $1.5 trillion cornerstone of the Biden administration’s economic agenda, provides a case in point. The largest category of spending was on climate—more than half a trillion dollars centered on promotion of renewables and related infrastructure, with only limited funding for nuclear, geothermal, carbon capture and sequestration (CCS), and cleaner fossil fuels. The imbalance of support between renewables and alternatives like nuclear and CCS undercut the potential efficacy of the spending but did correspond to the preferences of the educated elites that dominate the Democratic Party.

The bill could not have passed without West Virginia Senator Joe Manchin’s support, and the price for that support was a side deal with Manchin on permitting reform, which would have enabled completion of the natural gas Mountain Valley Pipeline in his home state. Permitting reform would have helped other energy projects move forward as well—not just oil and gas but also renewables. But progressive opposition blocked the reform.

That opposition was remarkable. As has been widely noted, for the IRA’s investments to achieve the administration’s goals, an absolutely massive build-out of infrastructure is necessary, especially interregional high voltage transmission lines. It is very hard to build such things fast in the United States, given permitting and regulatory obstacles. Even with the permitting reform bill, the pace at which this infrastructure could plausibly have been built was likely far below what would be needed to hit administration timetables. Without permitting reform, the pace has been truly glacial.
More broadly, the flood of federal spending—not only the IRA, but also the infrastructure package and the Chips & Science Act—was supposed to trigger an investment surge, resulting in boom conditions like the “morning in America” of Ronald Reagan’s first term. That has not happened, despite some positive trends like rising construction spending in the manufacturing sector.

As liberal economist Noah Smith has noted:

The U.S. is clearly not experiencing any kind of a revival in either private or government investment. The employment boom is due to increased consumption and exports, not to businesses or the government buying new capital. ... [M]any of the investments [from the administration’s bills] won’t actually be made at all—or not within a reasonable time frame.

In addition to delay, there’s the issue of America’s ruinously high construction costs. Transit projects, including both roads and trains, cost much more in the U.S. than in other countries, and these costs have exploded in recent decades. Costs feed into delays, and delays feed into costs. This is just as true for the private sector; unsurprisingly, the TSMC [Taiwanese Semiconductor Manufacturing Company] factory that Biden is trumpeting in the U.S. is hitting major delays because navigating local rules is proving more expensive than expected. Of course, factories and roads and trains and power lines that never get built don’t actually boost labor demand, because the workers don’t get hired. ... If Biden really wants to boost investment, both at the government and private level, he needs to tackle this basic problem, not just spend more money.

This is where conservatives should focus. Progressives like Smith, Ezra Klein, and Derek Thompson are trying to get their party to embrace what is sometimes called “supply-side progressivism.” But theirs is very much a minority view on the Left; the obstacles are steep given that the very reforms that are needed are fiercely opposed by a wide variety of interest groups for whom such reforms are anathema.

Conservatives have many problems of their own but making it a lot easier to build stuff should not be one of them. They are well-positioned to advocate for what their opponents cannot: sweeping away the obstacles preventing a new era of public-private cooperation to achieve great national goals and widespread prosperity.

That focus would consolidate and expand the advantage among working-class voters. Cultural issues are not enough; only a robust program for national economic renewal—not just advocated for but implemented—can do the trick.

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Cultural issues are not enough; only a robust program for national economic renewal—not just advocated for but implemented—can do the trick.
Productive Markets

Channeling the pursuit of profit toward the nation’s liberty and prosperity.

A great benefit of the free market is the latitude it affords individuals to pursue their own self-interest however they may wish to define it. When that pursuit advances the common good as well, capitalism generates unparalleled prosperity. But the free market alone does not guarantee that individual and public interest will in fact align. Market fundamentalism’s basic error is to misunderstand this point.

Conservative economics distinguishes amongst free markets and recognizes that only some have the alignment between self- and public interest necessary to harness capitalism’s power for the benefit of American workers, their families and communities, and the nation. Markets require constraints if they are to channel investment and the pursuit of profit toward productive ends. Adam Smith shows how the system can work, not that it always will. The American economy’s trajectory demonstrates that sometimes it does not.

In recent decades, as both public policy and technological progress freed markets from their traditional constraints, market actors responded by pursuing profit in ways ever less connected to the common good. When price signals indicated that speculating, offshoring, and monopolizing would offer better returns than building, hiring, and innovating, businesses obliged. American economists applauded, insisting that low prices for consumers were all that mattered, while manufacturing—its innovation, supply chains, and jobs—headed abroad to nations whose governments actively courted it.

Globalization severed the bond between capital and labor, so that growth and profit no longer depended on investment in a domestic workforce. Shareholders in multinational corporations saw their wealth skyrocket while workers saw their wages stagnate. Entire industries shifted overseas, decimating communities,
reducing productive capacity, and slowing innovation. Financialization severed the bond between capital and the real economy altogether, offering huge paydays for producing nothing of value. Capital and talent surged toward Wall Street, the financial sector metastasized, and real investment declined.

Rebuilding American capitalism begins with restoring the conditions necessary for capitalism to work: forcing the nation’s capital back into dependence on the nation’s workers, so that their mutual success is the surest path to a return on investment; focusing financial markets back on their task of bringing capital to productive uses in the real economy; and fostering the industries whose development is vital to the national interest.

No force has done more to undermine American capitalism than globalization. Misunderstanding their own theory, economists presumed that abstract concepts like “the invisible hand” and “comparative advantage” would ensure that free trade enhanced the prospects and prosperity of all who participated. This may well have been true several hundred years ago, when international trade meant placing bales of wool on ships and sending them abroad, receiving cases of wine in return. But in the modern global economy, where capital is mobile and large imbalances can persist indefinitely, free trade has meant in practice the hollowing out of American industry, the loss of millions of jobs, and the accumulation of trillions in debt. At the outset of globalization, the United States ran a $60 billion trade surplus in advanced technology surplus. Thirty years later it ran a deficit approaching $200 billion.

So Much for Comparative Advantage

U.S. trade balance in Advanced Technology Products, 2020$ (billions)

Source: U.S. Census Bureau
For trade to work, it must be balanced: goods and services produced by foreign workers for America exchanged for ones made by American workers for the world. Policymakers have tools such as tariffs to do this—they only need the will. China’s non-market economy and authoritarian political system poses a special challenge, to which a broad decoupling is the only answer. Free trade with a non-market economy only undermines America’s own free market; free trade with an authoritarian nation only undermines American freedom. If satisfying the Chinese Communist Party offers the highest rate of profit, American business leaders have shown they will eagerly do just that.

Immigration poses a challenge parallel to that of trade. Properly constrained and kept in balance, it can benefit America greatly. But as policymakers have pursued it, granting employers easy access to foreign workers as a substitute for Americans, the result has been to weaken worker power and reduce the incentive for employers to invest in productivity, leaving wages low while profits climbed. America must reassert control of its borders, reform guest worker programs, and restrict legal immigration of low-wage workers so that employers have no choice but to create and offer jobs that Americans will do.

For domestic investment to begin flowing again toward productive uses that benefit workers, their families, and the nation, financial markets will have to return to their proper role as the conduit for capital instead of a diversion. The increasingly complex and deregulated financial sector has become an end unto itself, pulling capital out of the real economy and absorbing a disproportionate share of top business talent for purposes of financial engineering and speculation that generates enormous profits for the practitioners but nothing of value for the economy. The market has become so disordered that many companies now cannibalize their own capital bases to disgorge cash back to shareholders more quickly.

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**Growers, Sustainers, and Eroders**

Market capitalization, NYSE and NASDAQ

Growers: Companies raising money in financial markets for their operations
Sustainers: Companies investing profits in their operations and also returning cash to financial markets
Eroders: Companies disinvesting from operations to return even more cash to financial markets

Source: Standard & Poor’s Compustat database • Note: Includes U.S.-headquartered firms reporting results in U.S. dollars.
Policymakers must have the confidence to establish rules discouraging market activity that extracts value rather than creating it. Rather than rewarding businesses for taking on potentially ruinous levels of debt, by allowing them to deduct interest payments from their taxes, the law should make the downside more costly for investors and do more to protect workers and communities caught up in an ensuing bankruptcy. Private equity firms and hedge funds should have to provide much greater transparency into their investments, especially when they manage public money. And unproductive activities like high-frequency trading and share buybacks should be disfavored or outright banned.

While any increase in domestic investment would be a welcome change of course, policymakers owe particular attention to industry—those capital-intensive sectors like manufacturing, construction, agriculture, and energy that are responsible for a disproportionate share of productivity gains and provide the foundation on which a modern services-based economy can thrive. Industry is at once most important to the nation and least attractive to short-term, profit-maximizing investors. Other nations, recognizing this, invest heavily in supporting and attracting industry of their own. America can do likewise, using policy to bring self-interest and the public interest into closer alignment, or it can continue to fall further behind.

Policymakers have a range of their tools at their disposal. Constraints like local content requirements can create guaranteed demand for domestic production, inducing investment in new capacity. Needless regulation designed to slow development can be cleared away. Mechanisms like a domestic development bank and pre-competitive R&D consortia can subsidize investment directly and foster ecosystems in which investment is lower-risk and higher-return. An important part of rebuilding American capitalism is, simply put, a recommitment to building.

Over the Past Decade, Manufacturing Productivity Has Declined

Manufacturing sector labor productivity (output per hour), indexed: Q4 2012 = 100

Source: U.S. Bureau of Labor Statistics
Globalization

Capitalism relies upon the mutual dependence of a nation’s capital and labor to produce good outcomes for both, and for consumers, too. Globalization has severed those bonds, urging the owners of capital to forsake the interests of their fellow citizens and pursue higher profits by moving production abroad, undercutting American producers with cheap imports, and exposing American workers to competition from foreign labor. American workers, their families, and their communities paid the price. The nation’s industrial strength, capacity for innovation, and economic resilience declined. Globalization is not the inevitable outcome of technological progress, nor is it a prerequisite to growth. Just as policymakers chose the current order, they can choose to move beyond globalization toward more balanced global flows of goods, capital, and labor.

1

ELIMINATE THE TRADE DEFICIT

Establish a uniform Global Tariff on all imports, set initially at 10% and adjusted automatically each year based on the trade deficit. After any year when the trade deficit has persisted, the tariff would increase by five percentage points for the following year. After any year when trade is in balance or surplus, the tariff would decline by five points the following year.

America’s enormous trade deficits are a double disaster for the nation. First, they represent a mortgaging of the future, as we pay for our consumption of goods and services produced abroad by sending back our assets: ownership of our corporations and real estate and bonds that promise future payments. Second,
they represent a shortfall in demand for American industry, because other nations are not increasing what they buy from America as quickly as American consumers have shifted their own purchasing abroad. This shortfall has reduced domestic business investment, weakened supply chains, and transferred our technical knowhow to other nations. We are giving competitors and adversaries an advantage while degrading the domestic industrial commons vital to innovation and growth. In the process, we have lost millions of well-paying jobs and devastated communities and entire regions.

Policymakers should welcome international trade only if it is balanced, exchanging goods and services produced here for those produced abroad. Such reciprocal trade is mutually beneficial, maintains domestic industrial capacity, and ensures in turn a balance in capital flows. Trade can still occur at high levels, and certainly should in sectors where other nations have substantial comparative advantages relative to America’s own.

With greater balance achieved, fewer government interventions in the domestic free market would be required to correct for distortions created abroad.

Three different policy interventions could create the market incentives to bring American trade back into balance. The first and best option is for the United States to make imports relatively less attractive than domestic products by imposing a Global Tariff that rises until the trade deficit is eliminated. Second, the United States could make foreign acquisition of its assets relatively less attractive than acquisition of its exports by imposing a Market Access Charge on inbound financial flows. Third, the United States could issue Import Certificates (ICs) to American exporters based on the value of their exports, which importers would have to acquire, thus offsetting the value of their imports. ICs would create an implicit subsidy for exporters, financed by an implicit tariff on importers, with the price of an IC rising or falling as needed to hold exports and imports in balance.

FURTHER READING
- Essay by Michael Pettis
  Bad Trade
- Atlas
  Where’s the Growth?
- Policy Brief
  The Global Tariff
- Policy Brief
  The Market Access Charge
- Policy Brief
  The Import Certificate
- Essay by Oren Cass
  Searching for Capitalism in the Wreckage of Globalization: A Journey to the Center of the Neoliberal Dogma
- Commentary by Oren Cass
  Republican Stance on Free Markets Is Shifting When It Comes to China

FURTHER LISTENING
- Critics Corner with Michael Strain
- Talkin’ (Policy) Shop: Balancing U.S. Trade

2

DISENTANGLE AMERICAN INVESTMENT FROM CHINA


In 2021, hedge fund manager Ray Dalio gave a forthright defense of his investments in China despite its horrifying human rights record and adversarial posture toward the United States. “I can’t be an expert in those types of things ... I look to whatever the rules are. If the government has a policy that I should do a certain thing and so on, but I can’t be an expert in all of those particular dynamics.” This frank statement underscores the reality that financial markets allocate capital in pursuit of the highest return, regardless of whether this aligns with national values or interests. American investors and corporations are pouring hundreds of billions of dollars into China, strengthening its economy and military, and granting the Chinese Communist Party enormous leverage. The recipients of this capital tend to
operate outside of American securities law and transparency requirements, corrupting the American market and subjecting retail investors and pension funds to excessive risk. Many firms in China are already under U.S. sanctions as national security threats or for human rights abuses yet are still included in American index funds.

The United States should use broad and clear prohibitions to halt the flow of American capital to Chinese firms. Chinese-domiciled or -controlled firms should be banned from U.S. stock markets and excluded from indices that allocate passive investments. Banks should be prohibited from making loans to Chinese firms. Investment firms, pension funds, and endowments should be prohibited from holding Chinese assets. Existing assets should be divested within five years.

3

REPUDIATE CHINA’S STATUS AS WTO MEMBER AND FREE TRADE PARTNER

Rescind China’s permanent normal trade relations (PNTR) status, rejecting WTO authority over U.S. trade policy and handing the matter back to Congress.

As a member of the World Trade Organization (WTO), the United States is expected to extend permanent normal trade relations (PNTR) to all other WTO members, including those like China that routinely ignore their own obligations. China obstructs access to its market, ignores intellectual property rules, and coerces foreign firms, but the WTO has been unable to remedy the situation. To the contrary, the organization has sometimes ruled against the United States for defending its own interests. The WTO’s legal framework provides a useful default for American companies productively engaged in the global economy, so outright WTO withdrawal could do more harm than good. But the United States should not hesitate to reject WTO rules and standards when they are not in the national interest. In the case of China, the PNTR offered by the United States as part of that country’s ascension to the WTO have been a disaster for American workers and industry, and certainly not reciprocated by China in its own policies.

The United States should revoke China’s PNTR status and refuse to treat China as a free-trade partner, notwithstanding the WTO requirement to do so. Congress voted to suspend Russia’s PNTR status after the invasion of Ukraine, and China’s much graver long-term threat and more flagrant trade violations merit at least as strong a response. By default, all products from China would be subject to the higher tariff rates that apply to nations not granted PNTR, like Cuba. Congress would need to make regular policy determinations about how to regulate trade with China, as it did before it relinquished its authority to the WTO. By rescinding PNTR status, the United States would signal to China that it will no longer tolerate open violation of trade norms and to the global community that American trade policy will be dictated by American interests. It would also discourage American investors and corporations from doing business in China.

FURTHER READING

- Collection Regaining Our Balance: How to Right the Wrongs of Globalization
- Research Wrong All Along
- Policy Paper The Balancing Act: Options for Policymakers on Globalization
- Policy Brief End “Permanent Normal Trade Relations” with China

FURTHER LISTENING

- Talkin’ (Policy) Shop: End “Permanent Normal Trade Relations” with China
ENFORCE LEGAL CONSTRAINTS ON SUPPLY OF LOW-WAGE LABOR

Implement a skills-based system for legal immigration and mandate the use of E-Verify by all American employers. Impose harsh and escalating penalties for employers who knowingly or repeatedly fail to comply with the law.

Capitalism works when capital in pursuit of profit must find ways to expand output with the labor present, and when it must share the rising proceeds with that labor. Lax immigration policy and enforcement have provided employers with a safety valve in the form of foreign workers who, especially at the low-wage end of the labor market, relieve pressure to raise wages and invest in productivity. The COVID-19 pandemic’s aftermath has fostered tight labor market conditions, leading employers to complain of “labor shortages” and demand relief in the form of increased immigration. But these conditions are precisely the ones necessary for lower-wage workers to enjoy the kinds of gains that higher-wage workers and investors have enjoyed in recent decades. Rather than provide relief, policymakers should increase the pressure.

The composition of legal immigration is the main economic issue. Immigration can increase worker power for lower-wage workers when that immigration is into higher-wage segments of the labor market. Thus, the need for a skills-based immigration system. Maintaining the current legal immigration level but skewing its composition toward workers who will compete in the labor market’s high-wage segments, will tend to strengthen worker power in the market’s low-wage segments even more quickly than would restricting immigration broadly. It will increase demand for what is today low-wage labor, create strong incentives to invest in improving the quality of those jobs, and have distributional effects that shift income back toward the working and middle classes.

Mandatory E-Verify is a vital cornerstone for this approach, which can work only if labor supply is effectively limited to legal residents. Policymakers already have a system, called “E-Verify,” that validates the legal status of American workers. What is lacking is the political will to ensure its consistent use. Employers should have no choice and should face penalties for employing illegal workers even inadvertently. Penalties for intentional and repeated offenses should be catastrophic and include criminal prosecution. The law should recognize that the employer who opts for illegal and exploitable labor is harming Americans’ material wellbeing, endorsing criminal activity, and undermining the national interest for profit. Aggressive deterrence of employer malfeasance eliminates the job opportunities, reducing much of the incentive for illegal immigration.
MAKE ALL JOBS ONES THAT AMERICANS WILL DO

Cap H-2A and H-2B temporary visa programs at current levels and phase them down to zero over the next ten years. Revise H-1B temporary visa program to award visas only to those jobs offering the highest wages and phase it down as part of any transition to a skills-based immigration system.

The United States operates a range of temporary visa or guest worker programs, justified by claims of labor shortages and the trope of “jobs Americans won’t do.” The H-2A and H-2B programs, for temporary agricultural and other seasonal work, respectively, provide employers with an alternative to offering jobs to Americans at competitive wages in good conditions. The H-2A program has no legislative cap and the number of H-2A visas issued annually has expanded from fewer than 50,000 in 2005 to more than 250,000 in 2021. The H-1B program, meanwhile, is intended to bring high-skilled workers to America to fill jobs that not enough Americans can do. But in practice, roughly 40% of the nearly 100,000 H-1B visas issued each year are for employment at just 30 companies, more than half of which are top outsourcing providers like Infosys, Tata Consultancy Services, and Cognizant. Most of the visas go to entry-level and junior workers.

The effect of these programs is to hold wages and prices below levels where the market would otherwise settle, benefiting consumers and employers at the expense of American workers. Higher-income households that enjoy the lower prices without seeing their own labor undercut benefit disproportionately. The United States should cap the H-2A program at its current level and then phase both it and the H-2B caps down to zero over the next decade. Rather than assign H-1B visas via lottery, the federal government should award them based on wage level, with all visas going to those positions for which employers are offering the market’s highest wages. Extraordinary wages, not employer pleadings, are the real evidence of an inability to fill a role, and the situation where policymakers might serve the common good by providing assistance.

FURTHER READING

• Collection
  One Simple Trick for Raising Wages: The Economics of Labor Supply and the Role of Immigration Policy

• Atlas
  A Guide to Labor Supply

• Essay by Oren Cass
  Jobs Americans Would Do: A More Productive Conversation About Raising Workers’ Wages
We are literally trading the future control of our country, the wealth of our children and grandchildren, for current consumption—cheaper TV sets and sneakers. This is madness.

AMB. ROBERT LIGHTHIZER
The Free Trade Folly

Trade policy has failed American workers, their families, and their communities over much of the last 30 years. Until the changes made in the Trump administration, it led to the offshoring of American industry, the closure of thousands of factories, the loss of millions of jobs, the decay of many communities, stagnating wages, rising inequality, and massive trade deficits. The answer to this problem is not closed borders and autarky but rather a change of course from globalist, corporate-driven free trade to sensibly leveraging our great market to achieve balanced trade and more higher-paying American jobs.

Trade policy went off track because politicians in the 1990s embraced a mythical, absolutist free trade that never existed except in the minds of academics. The Clinton administration, with strong support from both parties, signed NAFTA, granted China most favored nation benefits, and subjected the nation’s economic policy to the judgment of WTO bureaucrats. This approach was always controversial but prevailed in Congress and across several presidential administrations because of aggressive lobbying by multinational corporations; a naïve faith in the “end of history” where all nations would come together in support of a utopian world free from bad behavior and self-interest; and, finally, the mistaken belief that maximizing consumption, efficiency, and business profits was the supreme objective of economic policy. All were wrong.

Americans are producers first, consumers second. Good jobs, high wages, and strong families should be the objective of trade policy. Productive American businesses can make profits under rules that prioritize our workers, farmers, and communities.

Conventional wisdom holds that conservatives are free traders. This is wrong too. Free trade is a philosophy that conserves nothing. Globalization produces disruption, dislocation, and destruction; conservatives by contrast seek to defend traditional values and institutions, preserve the social fabric, and ensure the conditions for families and communities to flourish.

Conservatives are not tempted by the fantasy that nations will abandon self-interest to cooperate for the sake of global harmony.

From the beginning of our republic, conservatives supported some form of an “American System”—the wise and measured use of tariffs, infrastructure investment and, where necessary, subsidies to strengthen our manufacturing base and create good jobs. This was the clear prescription of Alexander Hamilton and the approach of all 12 Republican presidents before the Second World War, and it created the largest economy and strongest middle class in the world. More recent Republican presidents, particularly Ronald Reagan and Donald Trump, embraced the sensible use of tariffs and threatened to limit market access to advance America’s national interests in trade. Their focus was on supporting American workers as producers and reducing pernicious deficits.

Conservatives have long understood the danger of trade deficits. In 2022, the American trade deficit in goods and services approached an unbelievable $1 trillion and the deficit in goods was nearly $1.2 trillion.

When a country runs decades of huge trade deficits, it is transferring its wealth overseas, often to its most dangerous adversaries, in return for higher short-term consumption. A shocking statistic makes this point: The net international investment position of the United States—how much Americans own in equity, debt and property overseas compared to how much foreigners own in America—is negative $17 trillion. Foreigners permanently own $17 trillion in American assets, in excess of what Americans own around the world. That deficit has increased over five-fold in just the last 20 years. The permanent ownership of American property means that foreigners not only control the assets, but also capture the future earnings from them. We are literally trading the future control of our country, the wealth of our children and grandchildren, for current consumption—cheaper TV sets and sneakers. This is madness.
Trade is good for America, but only when the trade is imported goods and services for exported goods and services (not American assets), so that demand for American labor remains strong.

Addressing this problem will require the New Right to supplement the traditional right-of-center emphasis on investment-friendly tax and regulatory policies with a willingness to use subsidies when needed to assure fairness and success for businesses in strategic sectors. We should also continue working to open export markets for our productive farmers and manufacturers, but we should no longer offer the carrot of even greater access to the American market, risking more of our jobs for openings overseas that never seem to come. That has failed. Instead, we must insist that the countries running large, persistent surpluses with us open their markets to our products and threaten otherwise to limit their access to America. Buttressing these efforts to promote fairer trade, we also need a policy of carefully calculated tariffs on most imports to force trade overall into balance. Trade is good for America, but only when the trade is imported goods and services for exported goods and services (not American assets), so that demand for American labor remains strong.

Finally, American policymakers must recognize that China is an extremely dangerous adversary that is determined to supplant us as the global superpower by whatever means necessary. Proclaiming the problem and then doing nothing, the approach favored by many politicians, is not enough. They cannot claim to understand this dire threat to our way of life but still want to continue business as usual on trade and maintain our perilous dependence. We transfer $300 billion of assets to China every year. We are building their economy and their military. No country in human history has done this for an adversary.

America needs to begin the process of strategically decoupling our two economies, so that trade and investment are occurring only when balanced and in our interest. Anyone still arguing for economic integration or partnership after all these years of evidence is unworthy of support and certainly no conservative.

Amb. Robert Lighthizer is the former U.S. Trade Representative in the Trump administration and deputy trade representative in the Reagan administration.
Does anyone think our current immigration policies are working?

Over the past two years, the Biden administration has released two million illegal immigrants into the United States, a total that exceeds the level of legal immigration over the same period. The total number of people who have entered the country illegally over that period is surely much larger. Few of them will ever leave. No great nation can tolerate such mockery of its laws or abdicate responsibility for the boundaries of its community.

Yet we have been stuck in a political stalemate on the issue for decades. The progressive preference for open borders, strongly supported by a corporate lobby eager for cheap labor, is deeply unpopular with the American people and efforts to promote amnesty have been repeatedly rejected. Unfortunately, conservatives have been equally unsuccessful in advancing an alternative, too often emphasizing a negative message of what we are against without articulating a vision of what all Americans will gain from an immigration system that works. Once we do that, we will win.

First, we must emphasize that a clear, rational, and firmly enforced immigration policy is reasonable, moral, and essential. Even the most ardent supporters of very high immigration levels cannot be happy with the current surge in, among other things, child labor, cartel profits, human trafficking, and drug smuggling. Not only is this state of affairs producing vast human misery; it is fundamentally inconsistent with the principles of justice on which America is built.

Second, we must emphasize that we know how to end this national catastrophe. It can be done. The United States has the right, the obligation, and the ability to choose its own immigration policy to advance the national interest. Those who say it cannot be done, in fact, simply do not want to do it. By undermining enforcement and aggravating the crisis, they hope to make an open border appear inevitable so that, like the weather, Americans don’t even see it as a political issue. Refusal to enforce the law sets off a vicious cycle, encouraging further violations that make enforcement even more difficult. For a decade, I have been saying, “They will pass any law, as long as it will not work.” Conservatives must always remind people that this situation is outrageous and untenable, and that we can fix it. We can replace the vicious cycle with a virtuous one, in which a clear message goes out to the world that we will defend our sovereign borders and that unlawful entrants will be stopped and deported. As we regain our credibility, violations will become less common, and thus easier to prevent. We must close the maddening array of loopholes that activist lawyers and judges have carved out of the law and give our Border Patrol officers the support and resources they need to do their job.

To pass good law, leaders need to unify and promote vigorously an effective bill, explain why it is needed, leave it on the floor for extended debate, and expose the special interests that are blocking it. The Border Security and Enforcement Act, sponsored by Congressmen Tom McClintock (R-CA) and Andy Biggs (R-AZ), makes a good start in correcting some of the most egregious problems. It is unlikely to be signed into law during this Congress, given the current constellation of political forces, but it offers a credible alternative to the status quo and can force both sides to explain their positions to the American people.

Notably, the bill mandates the use of E-Verify for all employers. E-Verify is an online tool that allows employers to verify that new hires are legally authorized to work in the United States. It has proven remarkably effective, but its use is still voluntary.

An employer mandate may seem an odd inclusion in a border bill, but the invocation of E-Verify highlights the third critical step for conservatives: articulating a positive vision. What is immigration policy for? Yes, we need to make the case for an immigration policy that is clear, just, and enforced. So, the first step is explaining why today’s policies are unclear, unjust, and obviously unenforced, and the second...
step is showing that better policies are available. The final step must be to explain what we want to see a better policy achieve. After all, if illegality were the only problem at the border, then we could just make all immigration legal, and the problem would disappear. But, as an E-Verify mandate suggests, other concerns are at stake.

E-Verify, of course, is designed in large part to protect American workers. Our vision for immigration should focus on ensuring that American workers are protected, especially the most marginal ones whom employers would rather ignore: ex-convicts, recovering addicts, the handicapped and developmentally disabled, even teenagers and single mothers who might require accommodations that employers would rather not make. Economists claim that technological progress has weakened the demand for, and wages of, less skilled workers, and they warn that this trend will continue. How can an American afford to raise a family while competing with an unlimited flow of workers desperate to work for any wage? The brutal fact is that businesses will always lust for cheap labor and see families as none of their concern; economists are happy so long as there are more people to buy more colas, thus boosting GDP.

A positive immigration policy would use firm enforcement to admit highly skilled people who can deliver significant economic gains, while restricting the admission of less-skilled people who are more likely to earn low wages in our market and need to rely on taxpayers for support—not because of any moral shortcoming on their part, but because that’s the economic reality that we face. Everyone knows that wealth disparity is a crucial concern for our society. In a tight labor market with low immigration and strict enforcement, the market power of marginalized workers increases. With so many low-wage Americans struggling already, an immigration policy that gives them power to demand better wages simply makes sense, while one that weakens their position while adding yet more people in an even weaker position does not.

Finally, a positive vision should strive for an immigration policy that fosters assimilation and national unity, especially in these confused times. America is a generous nation, and we should continue to be. The one million legal immigrants that we admit each year is an enormous focus on immigrants who can contribute productively and prosper here. But we also need greater investment in outreach to embrace legal newcomers when they arrive, and a recommitment to America as a melting pot that brings people together in a common culture instead of dividing ourselves against each other. Good examples of steps in that direction are an initiative to help immigrants prepare for the citizenship test and the opening of Hispanic Community Centers in a number of cities.

Making the case for why we should control immigration will be essential to achieving an immigration policy Americans can be proud of. It can inspire and energize supporters to undertake the hard work of repair and is key to persuading the persuadable to our side.

Hon. Jeff Sessions represented Alabama in the U.S. Senate for 20 years and served as the 84th Attorney General of the United States.

Not only is this state of affairs producing vast human misery; it is fundamentally inconsistent with the principles of justice on which America is built.
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The New Right should care deeply about preventing Chinese hegemony over Asia. The reason, though, is not necessarily obvious. After all, most conservatives are justly tired of the “forever war” interventionism of the old-guard GOP and rightly skeptical of the foreign policy “establishment” that still promotes the same approach. But the threat China poses is truly different, and much graver than that posed by “rogue states,” terrorism, or Russia. Beijing presents a real, concrete peril to Americans and especially to the realization of the goals that the New Right seeks.

Beijing’s vision is to make China—and by evident extension not the United States—the dominant global economy, with all the myriad advantages that are the perquisites of such wealth and power. This is the natural impulse of a great power—in China’s case, a superpower. Why wouldn’t China pursue the goal of becoming the world’s richest and most powerful nation, one that can dictate the contours of the global economy and ensure its people are the wealthiest, most secure, and most influential?

To achieve this goal, though, China needs economic scale, which, as reformists like Michael Lind and Robert Atkinson have observed, is vital for economic success. In practical terms, Beijing needs an immense and secure market sphere in which to reliably sell its products, collect and analyze data, obtain natural resources, and invest. To outcompete and supplant the United States, this sphere must be large enough to outclass our own geoeconomic sphere and must be sufficiently under Beijing’s control to reorient economic flows to its benefit. The natural center of such a Chinese sphere would be Asia, given China’s geographic position and the fact that Asia will represent half or more of global GDP in the future. With the Asian economy under its aegis, China would also be in a commanding position to bring the rest of the global economy under its influence. Countries well beyond Asia would surely fall into step with Beijing’s tune under these conditions. Who could afford to be locked out of the world’s largest market?

If Beijing achieved such regional hegemony, the results would be disastrous for Americans—in ways the New Right should understand far better than the neoliberal consensus it seeks to supplant. China supplanting the United States as the world’s most important economy would mean by definition a decline in Americans’ prosperity and economic security. That’s what supplanting means. Economics is not always or even normally positive sum: Relative gains do matter to lived economic and social conditions, unlike in the cloud castles of neoliberal economists. If China were the top global economy, Americans would fall down the scale.

A dominant China would also leave U.S. policymakers less able to advance Americans’ interests. Instead of having to convince Washington and state capitals, reformers would now need to persuade Beijing—as the new center of global regulation, currency, and economic leverage—to help them. Good luck on that front. Just imagine trying to implement a CHIPS Act with Samsung and TSMC firmly within the Chinese sphere of influence, forcing the Netherlands’s ASML to attend first to Chinese interests as well. How much academic research and intellectual property could be retained in the United States if all the most important conferences and funding sources lay on the Pacific’s other side? In these conditions, Beijing would privilege its own citizenry while granting special secondary status to those foreigners who toed its line. Reorienting finance, technology, and media back toward the interests of regular Americans is hard enough in today’s economy; in a China-dominated one it would be impossible.

Worse, Beijing would have strong reason to act to weaken the one plausible threat to its hegemony: America. The United States is not just another country to Beijing—a Cambodia or Canada or Chile that can be slotted into a tributary relationship. America is the one country that can lead the resistance to Beijing’s hegemonic aims. Accordingly, expect Beijing to treat America especially harshly, weakening it to secure China’s ascendancy.

America cannot, then, afford to consign over half of the global economy to China, an ambitious superpower rival of unprecedented strength.
The question, then, is how to prevent that outcome at a tolerable level of cost and risk for Americans.

Fortunately, this is, in fact, feasible. Many countries, especially in Asia, do not want to live under Beijing’s hegemony. The United States must work together with these states in an anti-hegemonic coalition to deny Beijing domination of Asia (which in key respects is already happening).

While the consequences for Americans of Chinese hegemony over Asia would be primarily economic and political, the crux of the matter is the military balance in Asia. The stakes of our rivalry with China are geoeconomic in nature—whether China dominates the world’s largest market sphere to our detriment—but the means by which Beijing could attain that goal or be denied it are military in nature. Most countries want to trade with China and benefit from its wealth, but they do not want to live under its thumb. Beijing is finding it very difficult—as we have also found—to use economic leverage and other peaceful means to compel or induce countries to surrender core goods like political autonomy, which is what is at issue. In fact, Beijing’s efforts to do so have produced the reverse: increasing moves by countries around the world to balance against China’s overweening demands.

The problem is that Beijing has another option: military force. China is undertaking an unprecedented, historic military buildup. If China could gain military dominance in Asia, it could impose its will on enough countries in the region to break apart the anti-hegemonic coalition and compel its Asian members to submit to its ascendancy, creating the geoeconomic sphere it seeks. To deny China that result, America needs the ability to prevent Beijing from generating enough coercive leverage to force its neighbors to heel. The technical term is a “denial defense”: the ability to prevent China from taking and holding the key territory of an allied country. If Beijing cannot do that, it is unlikely to bring resolute countries to heel.

This is a feasible, if demanding, goal. Successfully achieving it would give the United States the leeway, strength, and time to chart a course of selective decoupling on its own terms, presumably in concert with at least some other countries, allowing America to rebuild its own industrial capacity and economic autonomy. Achieving such a balance of power would not require full-scale decoupling or a massive economic warfare campaign that would shock the American economy and could be especially harmful to working Americans. Fuller decoupling might still be a goal on its own merits, but it would not be strategically necessary.

The New Right has helped to reintroduce a vital insight to American politics and policymaking: contrary to the predictions of the Tom Friedmans of the world, he who controls political power and for what purposes matters a great deal for economics. Conservatives understand this instinctively in the domestic sphere, it is a foundational element of their critique of the neoliberal project. But the same logic applies even more fully to international politics, where no sovereign authority exists to redress grievances. This vital insight therefore illuminates how bad it would be for Americans if China had such dominant position over the global economy. It is therefore vital to take the steps needed to prevent it, and to do so at a reasonable level of cost and risk for Americans.


China supplanting the United States as the world’s most important economy would mean by definition a decline in Americans’ prosperity and economic security.
America Cannot Continue to Absorb Global Imbalances

The implacable trade deficits run by the United States since the late 1970s have been, and continue to be, costly to the American economy. For decades, the implicit and explicit subsidies to manufacturers that have driven surpluses in countries like China and Germany have caused global manufacturing to migrate from deficit countries to surplus countries, and from none more so than the largest deficit country by far, the United States. What is more, as I wrote in “Bad Trade,” published by American Compass, American trade deficits force Americans to choose between higher unemployment, more household debt, or greater fiscal deficits. They have helped drive the surge in American debt for nearly five decades.

It is important to understand the U.S. trade deficit within the context of global trade. In spite of the World Trade Organization (WTO) and other global entities designed to enforce free trade, the world is experiencing one of the most mercantilist periods in history.

Conventional wisdom holds that countries that run persistent trade surpluses do so because their populations are especially hard-working and thrifty and their manufacturers especially efficient at production. This is simply not true. The reward for successful exporting would not be trade surpluses, but rather the ability to import ever greater amounts of foreign goods in exchange for those exports at constantly improving terms of trade.

In a well-functioning trade environment, countries would not be able to run large, persistent surpluses or deficits, mainly because these surpluses or deficits would force changes in their respective economies that would automatically eliminate them. The fact that we live in a world with the largest, most persistent trade imbalances in history is more than sufficient proof that mercantilist policies in individual economies are preventing the necessary adjustments that make free trade beneficial for the world.

In the modern global economy, countries achieve “competitiveness” not by raising worker’s productivity but rather by indirectly suppressing wages. Countries run persistent trade surpluses because total domestic demand is insufficient to absorb all that is produced, and the reason demand is so low is because workers in these countries are paid too low a share of what they produce to be able to afford to consume it. Surplus countries, in other words, are simply countries in which domestic policies implicitly or explicitly force workers to subsidize manufacturers. This is not mainly a matter of low wages. It is a matter of low wages relative to productivity, which is why nominally high-wage countries, like Germany or Japan, are as mercantilist as lower-wage countries, like China.

This is why countries that run large, persistent surpluses are harmful to the global economy. Their surpluses are mainly the result of policies that directly and indirectly subsidize manufacturing growth through policies that suppress domestic demand, and it is precisely those surpluses that allow them to force the demand-suppressing cost of their policies onto their trading partners.

Thus, the role that the United States plays in the global economy. Because it is the absorber of last resort for excess foreign savings, it must also be the consumer of last resort for excess production, which means foreign manufactures have privileged access to American consumers relative to American manufacturers. It is not in the best interest of the American economy that it continues to play this role.

Unfortunately, decades of attempts to intervene in trade have done little to reverse American trade deficits. That’s because these interventions are based on obsolete trade models that misunderstand the relationship between capital flows and trade imbalances. Most mainstream economists implicitly assume (often without realizing it) that trade deficits are caused mainly by differences in comparative advantage or by production cost differentials, and that foreign capital surpluses flowing into the United States are mainly responding to these deficits.

But this hasn’t been the case for decades. In today’s world, foreigners do not fund U.S. trade deficits. They direct their excess savings into the U.S. financial market mainly to take advantage of its depth, liquidity, and governance. Whether it is oligarchs parking their
In the modern global economy, countries achieve “competitiveness” not by raising worker’s productivity but rather by indirectly suppressing wages.

wealth, central banks managing their currencies, flight capital, speculators looking for liquid assets, or mercantilist economies that must acquire foreign assets to balance their surpluses, nearly half of the excess savings of the world is dumped regularly into U.S. financial markets, with much of the rest going to the most similar financial markets, mainly in the UK, Canada and Australia.

But the balance of payments must balance. If foreigners pour capital into the United States, the United States must run an equivalent trade deficit, even if that foreign capital simply represents the desire of foreigners to acquire American farmland, factories, stocks, bonds, property and so on. As countries like China or Germany implement mercantilist policies that force up their domestic savings rates, and directly or indirectly pour these excess savings into the United States, China and Germany must run trade surpluses and the United States has no choice but to run a corresponding trade deficit.

For that reason, trade tariffs and other forms of trade restriction are insufficient to eliminate American trade deficits. Because these restrictions have no impact on the savings imbalances in the mercantilist countries, as long as the United States continues to allow unfettered foreign acquisition of its assets, it will continue to run the large trade deficits needed to accommodate the transactions. Global trade, after all, must balance, and the United States provides the main balancing role.

If the United States wants to eliminate its trade deficits, it must change tactics. Rather than restrict trade, the policymakers must restrict the ability of countries that run persistent trade surpluses to dump their excess savings into U.S. financial markets. They should unilaterally restrict harmful capital inflows in ways that leave productive, long-term investment in the American economy unaffected.

Of course, restricting inflows will partially undermine the global dominance of the U.S. dollar, so the necessary policies will almost certainly be opposed by Wall Street, by billionaire owners of highly mobile capital, and by the foreign policy establishment. They will however benefit American manufacturers, workers, small businesses, and middle-class savers, and ultimately will result in a healthier, stronger American economy and industrial base with a larger share of global manufacturing.

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**Industry**

American prosperity is built on the foundation of goods-producing industries like agriculture, manufacturing, and resource extraction, which deliver the most productivity growth, support broad ecosystems of suppliers and customers, foster technological progress, and play a critical role in national defense and resilience. Fortunately, less attention is being paid to the economists who have insisted that Americans should not worry about what we make domestically, or whether we make anything here at all. But recovering from the damage they have done will require concerted public action.

1. **CREATE DEMAND FOR DOMESTIC MANUFACTURING**

Establish a 50% local content requirement (LCR) for goods that are critical to national security or the industrial base as defined by the Departments of Commerce and Defense, mandating that domestic labor and domestically sourced intermediate goods account for at least half the value in those critical goods.

For decades, policymakers and Wall Street promoted the idea that goods should be made wherever is cheapest, regardless of the effect on our national industrial base. Low-cost imports, made artificially cheap by foreign subsidies, reduced demand for domestic products, while offshoring of industrial capacity in pursuit of lower costs diminished America’s ability to compete or innovate. Investing in new domestic capacity makes little sense with supply chains (and thus demand) entrenched overseas and America now lacking both the scale and the knowhow to compete. But just as policymakers created the problem by ignoring the importance of where things are made, they can help to fix it by creating guaranteed demand for things made in America.
Congress should establish a 50% local content requirement (LCR) for goods designated as critical for national security or the U.S. industrial base by the Departments of Commerce and Defense, with “domestic content” defined as the sum value of domestic labor and domestically sourced intermediate goods. LCRs create guaranteed demand for domestic production, harnessing market forces to serve that demand efficiently. The requirement will support a more robust U.S. industrial base and promote investment and innovation, replacing the vicious cycle of industrial decline with a virtuous one of expansion.

**2**

**FOSTER LARGE-SCALE INDUSTRIAL INNOVATION**

Create a framework for pre-competitive research and development partnerships to encourage private-sector R&D collaboration and match whatever funding industry invests in a consortium with federal funds.

The United States has lost its position of global leadership in advanced manufacturing and innovation, surpassed in fields like semiconductors, aerospace, and telecommunications by other nations that have pursued global competitiveness through large and heavily subsidized national champions. In addressing this challenge, government and academia can lead the way in basic research, but they lack the incentives and market focus to translate breakthroughs into products or establish efficient production processes. For their part, even the largest individual firms often lack the resources and knowhow to continually incorporate scientific breakthroughs into existing platforms, let alone develop new ones. Such necessary investments are risky, have long payback periods, require enormous amounts of capital, and even when successful may never offer the kinds of returns available from asset-light business models.

In pre-competitive R&D, competing firms collaborate to develop common technology platforms, sharing the resulting intellectual property—from which they can develop differentiated products and compete against each other. The collaboration pools resources and expertise, mitigating the risks and reducing the costs that otherwise prevent those firms from pursuing such research. Such efforts have an impressive track record in industries like semiconductors, aerospace, and biotechnology that depend on sophisticated technology platforms far upstream from final competitive products. Public policy can play a critical constructive role in convening and subsidizing this research without “picking winners and losers.”

Congress should establish a framework for Pre-Competitive R&D Consortia (PCCs), including waivers of antitrust prohibitions and requirements that resulting IP and production capacity must remain in the United States. Rather than target specific industries with funds, the program should be open to any industry that sees value in participating, with public funding limited to a match of funds that the industry’s members are willing to commit themselves.
Establish a national development bank for critical industrial projects. Leverage public capital to attract private capital for long-term investments in critical industries, the defense industrial base, and infrastructure.

Around the world, the United States has helped to establish development banks and fund large infrastructure and industrial projects. Dozens of national development banks worldwide have successfully deployed trillions of dollars that enable local industries to flourish. The European Investment Bank (EIB) and its “Juncker Plan” achieved a 15:1 ratio of private to public capital deployment, credited with creating more than 1.7 million jobs. No such American bank exists.

An American development bank could attract the private capital and restart the business investment growth required to rebuild American industrial capacity, stepping in where financial markets have failed to channel resources toward national economic priorities. Most stand-alone development banks operate with a “callable capital” model, funding their own activities and balance sheets through tax-advantaged debt backed by an implicit government guarantee. The bank’s cheap financing makes feasible a range of longer-term, higher-risk, lower-return projects that the private sector has eschewed, all with limited systemic risk. No major national or multilateral development bank has ever sustained major losses.

The United States should establish a national development bank to finance long-term, capital-intensive projects vital to national economic and security priorities. Its capabilities should include direct debt issuance, credit and completion guarantees, equity lending, syndication authority, and technical assistance. Its policy mandate should focus on attracting private capital to reshore domestic manufacturing, strengthen the defense industrial base, modernize the commercial maritime industry, and secure critical infrastructure. An American development bank with $100 billion in callable capital may be able to mobilize $1.5 trillion in private funds within a few years. Callable capital would represent the most taxpayers could ever owe—though if history is any guide, public cost would most likely be zero.

FURTHER READING

- Essay by Terrence Keeley
  On Infrastructure Financing
- Essay by Oren Cass
  The Rise of Wall Street and the Fall of American Investment
- Essay by Wells King
  Rediscovering a Genuine American System
LET AMERICA BUILD AGAIN

Repeal the National Environmental Policy Act of 1970.

The National Environmental Policy Act of 1970 (NEPA) is infamous for imposing red tape on energy and infrastructure projects and triggering environmental reviews for other projects that require federal permitting or federal funds. These reviews can take years and, rather than concluding the matter, once completed provide an invitation for environmental groups to launch lawsuits over the quality of the process. The lawsuits can occupy years more, even if no legal basis exists for objecting to the project.

Numerous proposals now exist for “permitting reform,” and many would be an improvement on the status quo. But policymakers should not accept a broken, counterproductive law that provides no meaningful environmental protection as their starting point. Congress should instead repeal NEPA. The only way that the thousands of pages of reports and endless lawsuits enhance environmental protection is by discouraging investment and stalling building altogether—which is perhaps why advocates love it, and why its repeal is so vital. Without NEPA, all substantive environmental laws on the books would remain in force, providing all the same protections they do today. America could begin building again.
Capital Flows Are the Core Concern

With the demise of the Bretton Woods system in 1971, countries around the world began to open their markets to foreign investment, and the U.S. dollar emerged as the reserve currency of choice. Today, two-thirds of all foreign reserves and nearly 90% of foreign exchange trades are denominated in U.S. dollars—a phenomenon known as “dollarization.”

As the monetary safe haven to the world, the U.S. current account (or “trade balance”) has been in deficit ever since, growing to a record average of $247 billion in each quarter of 2022. A current account deficit means that the United States is a net borrower, absorbing more in foreign savings than we invest abroad. Those savings are largely held in the form of U.S. government debt, suppressing our borrowing costs and allowing Congress to run large budget deficits with impunity. This is often referred to as America’s “exorbitant privilege,” as the global role of the dollar allows the American economy to consume more than it produces—an apparent “free lunch.”

Yet America’s exorbitant privilege is also an exorbitant burden. Soft budget constraints have atrophied Congress’s ability to make hard trade-offs, shielding new spending from the democratic scrutiny that would occur if new taxes had to be raised in equal proportion. And while economic dogma says current account deficits must eventually be balanced by matching surpluses and, therefore, don’t matter in the long run, it does not say how many decades or even centuries in the future the “long run” might be. In the meantime, large trade deficits have hollowed out America’s productive capacity. Instead of factories and equipment, global savings have flowed into financial products and real estate as quasi-safe stores of value, leading to periodic bubbles. When the U.S. government does the borrowing, the proceeds are sent back out as transfer payments through underfunded entitlement programs rather than leading to any investment at all.

In short, the modern era of financial globalization is typified by enormous trade and financial imbalances—imbalances that will eventually come due. These imbalances are largely the responsibility of our foreign trading partners, particularly countries like China, which have engaged in one-sided industrial policies designed to suppress their domestic consumption. America’s role has simply been to absorb those imbalances with no questions asked.

Until the global economy rebalances, efforts to rebuild American industry are fighting economic gravity. To prepare for rebalancing, we should thus use our exorbitant privilege to finance industrial policies of our own. For example, an economic development bank dedicated to building up critical infrastructure and export industries would have to issue bonds not unlike those issued by the Department of Treasury—only these bonds would go towards financing investments in the real economy rather than an ever-growing budget deficit.

In the medium term, America will need to revisit robust capital controls akin to those that defined the Bretton Woods era. While our trade deficit with China gets significant public attention, trade per se is largely a red herring. Investment flows matter much more. Indeed, the U.S. had robust trade in final goods with China prior to their entry into the World Trade Organization. It was only after normal trade relations were made permanent that U.S. companies felt confident not only to trade with China, but also to offshore their production, enter into joint ventures, and invest in Chinese industrialization more generally. It’s one thing for Volkswagen, a German company, to open shop on U.S. shores. It’s another thing entirely to entangle the capital structure of U.S. multinationals with the economy of a foreign adversary.

Capital controls can be broad or narrow. The broadest approach would be to apply a small levy on all foreign purchases of U.S. stocks, bonds, and other assets, as proposed by Senators Josh Hawley and Tammy Baldwin in 2019. Such a “market access charge” could be adjusted as needed to restore a balanced capital account, in turn ensuring a balanced current account. The primary downside...
of this approach is that it would fail to differentiate healthy sources of foreign investment from the countries engaged in problematic forms of market manipulation. If not enacted with care, this could risk the U.S. dollar’s abrupt depreciation.

A more targeted approach would aim to restrict foreign capital from entering sectors that are either politically sensitive or subject to financial speculation. In 2016, British Columbia, Canada, enacted a 20% tax on international home buyers. The measure was in response to rising home prices and the growing number of foreign owners of vacant properties. So far, it appears to be working. As the *New York Times* reported, “[F]oreign investment in [British Columbia] real estate fell from a high of 9% of residential sales in June 2016 to about 1% in June 2022.” Beginning this year, Canada has further banned most foreigners from buying residential property for two years. In the U.S. context, the job of reviewing foreign investments in real estate and sectors sensitive to national security falls on the Committee on Foreign Investment in the United States (CFIUS). Yet despite a Trump-era reform to strengthen CFIUS, large gaps remain in the committee’s purview.

This includes U.S. agricultural land, of which China owns roughly 384,000 acres, including near U.S. military bases. As the policy analyst Lars Schönander notes, “U.S. Department of Agriculture data show that Chinese ownership of U.S. farmland leapt more than 20-fold in a decade, from $81 million in 2010 to $1.8 billion in 2020. Beijing hasn’t outlined a strategy, but large-scale state backing for these investments indicates there is one.”

Unfortunately, foreign investment in U.S. farmland is not systematically tracked, much less regulated. The *Protecting America’s Agricultural Land from Foreign Harm Act of 2023* from Senators Mike Braun (R-IN) and Jon Tester (D-MT) would change this by reforming the Agricultural Foreign Investment Disclosure Act (AFIDA). While the AFIDA already requires the Department of Agriculture (USDA) to collect data on foreign ownership of agricultural land, the USDA has failed to enforce the law for decades.

Whatever the sector, the U.S. needs to bolster its capacity to enforce capital controls across the board. Under the Biden administration’s export controls on semiconductors to China, for example, enforcement falls on the Commerce Department’s Bureau of Industry and Security. Yet if the bureau is not properly staffed and funded to fulfill its expanded mission, the new export controls will be worth only the paper they’re written on.

The Chinese Communist Party, for its part, controls China’s capital account with an iron fist, enabling the buildup of industrial capacity at the expense of U.S. producers and Chinese households alike. And while we might wish for a world in which trade and investment flowed across international borders unperturbed, we now know that this cannot be achieved unilaterally. Globalization without balance is unsustainable. It’s about time America leveled the playing field.

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Geographic Inequality

One of the central economic and social challenges of our time is widening inequality over the past generation between superstar cities and their surrounding areas on one hand and smaller cities and rural areas on the other. Geographic inequality has serious consequences: It concentrates economic growth and opportunities in a small number of places, while the rest experience not only economic stagnation, but also declining health outcomes and in many cases rising “deaths of despair.”

Economists on both the left and right tell policymakers that little can be done about this. They say that the agglomeration of economic activity in superstar cities is a natural phenomenon—and a desirable one, insofar as it juices GDP growth—and they advise policymakers to focus on helping people “move to opportunity” or providing subsidies and redistribution to those left behind.

This is incorrect. A potent but often overlooked solution to geographic inequality is regulation. Conservative policymakers who are interested in addressing issues of geographic inequality and expanding economic growth to smaller cities and rural regions should return to the traditional American approach to regulating network industries.

Conservatives have become acutely aware of the need for regulation in the modern network enterprises of “Big Tech,” like social media, search, and e-commerce. Precisely the same rationale applies to scrutinizing the market structure and practices of airlines, railroads, and telecom. Indeed, these latter providers of physical infrastructure are critical to the economic vitality of physical places.

Network, platform, and utility (NPU) industries (for instance, transportation, telecommunications, energy, and banking) usually feature network effects, high capital costs, and tendencies to monopoly or oligopoly. As a result, competitive markets are unlikely to generate investment in these critical infrastructural services across a wide geography. This is intuitive: It is more expensive to send a letter or run scheduled flights to rural Alaska than to Dallas or Detroit; there is simply not enough volume to make regularly scheduled service affordable. Market players will not serve these areas—or if one does, it will likely be a monopolist that can and will charge exorbitant rates, collecting from locals the maximum price they can pay. To use another example, if only one railroad can bring the farmer’s crops to market, it can extract all of the farmer’s earnings for itself. If the farmer doesn’t pay, the crop will spoil and he’ll be left with nothing but debt. Who would want to become a farmer under such conditions?

The American system of regulated capitalism solved this problem. For NPU industries, policymakers in the 19th and 20th centuries established a system of structural regulation to ensure, among other things, broad geographic coverage of the infrastructure for commerce and communications. This system applied, with slight variations, to railroads, telegraph, telephone, postal service, electricity, airlines, and more.

The system’s vital, interlocking elements included:

- **ENTRY RESTRICTION AND CORPORATE PRIVILEGES**
  One or more firms were granted a privilege to operate in an industry, with limits on competition—preventing a new entrant from focusing on only the most profitable routes, at which point other firms would have to abandon higher-cost rural and small-town service to compete. In exchange for these privileges, the law also assigned firms critically important duties.

- **UNIVERSAL ACCESS AND EXIT RESTRICTIONS**
  Firms were required to serve everyone in their geographic area and could not abandon towns or cities without regulatory approval.

- **NONDISCRIMINATORY PRICING**
  Firms could not price-discriminate between big and small customers, or between users in small towns or big cities. Railroads were banned from charging more for short-haul freight transportation (relied upon by rural farmers who live between two cities).
than longer hauls from one big city to another. Customers in many sectors were also guaranteed uniform rates for service. The cost of a stamp is the same whether the letter goes to Alaska or Dallas. Regulated airline prices were set based on mileage—equal rates for equal miles. This meant there was no penalty for living in a smaller city or less populous region.

The system worked. In the middle of the 20th century, America was undergoing a convergence in which poorer areas were growing faster and thus geographic inequality was shrinking. After deregulation, convergence halted—in many cases, gaps are now re-widening. Smaller cities like Dubuque, Iowa, are losing air service. To preserve its own air service, Cheyenne, Wyoming, guarantees the revenue of airlines—the same airlines that make billions in profits in flush years and get federal rescue dollars when times get tough.

Policymakers need to talk about how policy choices, and deregulation specifically—not inevitable and irreversible economics trends—have been a disaster for small cities and rural America, and how we can make changes to reinvigorate these areas.

In particular, policymakers who care about geographic inequality should advocate for renewed regulation in the following areas:

- **RAILROADS**
  Deregulation of rail led to abandonment of rail lines, the shrinking of the once great American railroad network, and the squeezing of countless small businesses and farms forced to rely on a single provider. Deregulation also enabled railroad management to disinvest, returning hundreds of billions of dollars to shareholders while leaving their industry less resilient. A new system of railroad regulation should focus on expanding geographic access and channeling innovation toward safety and technological improvements, not merely cost-cutting that benefits shareholders.

- **AIRLINES**
  The airline industry is now an oligopoly of only four big airlines. There’s little competition, particularly in so-called “fortress hubs” like Dallas and Atlanta. The airlines themselves are caught in a boom-and-bust cycle, in which they make high profits in the right conditions but then go bankrupt, demand taxpayer bailouts, and consolidate further through mergers. Who suffers the most? The cities and people that airlines have stopped serving. Policymakers should start pushing for new airline regulations that require service to smaller and mid-sized markets, in order to ensure that the nation’s basic transportation infrastructure benefits the entire nation.

- **BROADBAND INTERNET**
  Across the country, people have problems with internet access. In many places, especially rural areas, there is no high-speed service, or there is no competition and consumers face exorbitant prices. Monopolist utilities shouldn’t get to price-gouge consumers, because like telephones and electricity, the internet is a utility essential to modern life. Regulation should tame the big telecom monopolies and ensure that they serve rural places with affordable, high-speed Internet.

In framing these issues, the key principles and themes to stress are:

- **THE AMERICAN TRADITION**
  The traditional American approach, for generations, was a system of regulated capitalism that spread economic opportunity all across the country—not one that concentrated it into a few big coastal cities.

- **ECONOMIC INFRASTRUCTURE**
  Transportation and communications are the infrastructure of the economy—they are essential for all kinds of commerce, growth, and opportunity. Regulation is essential in these areas to ensure that everyone has access to the building blocks for entrepreneurship and economic opportunity—whether in rural America, in a small town, or anywhere else.

- **CONSTRAINING CORPORATIONS**
  Proponents of deregulation have tended to present profit-seeking corporations as inherently beneficial and government intervention as inevitably destructive. But when it comes to NPU industries, markets don’t work the way they are supposed to, and Americans should not accept infringement of their liberty from too-powerful corporations any more than from too-powerful government. Sometimes regulation can be the problem, but sometimes it is an indispensable part of the solution.

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MICHAEL LIND

A Strategy of National Developmentalism

The objectives of American conservatism are unchanging and necessary—strong, self-reliant families and a strong, self-reliant nation. The economic program of American conservatism should promote those goals. Tragically, for the past half-century, conservatives have instead borrowed a radical free-market economic strategy from the libertarian movement that pursues and has delivered the opposite.

Libertarianism is not conservatism, and never has been. In the 19th century, free-market libertarianism was called “philosophical radicalism.” In the 20th century, the libertarian thinkers Milton Friedman and Friedrich von Hayek insisted they were not conservatives. The conservative philosopher Russell Kirk dismissed libertarians as “chirping sectaries” and William F. Buckley, Jr. purged the mainstream right of Ayn Rand’s followers.

And indeed, libertarian economics is at odds with the goals of conservatism. Libertarianism endangers national security by celebrating the offshoring of essential dual-use civilian-military manufacturing to foreign countries—including adversaries like China. Often it rejects the relevance of borders and value of nation-states altogether. Libertarianism weakens the family, by allowing employers to pay workers too little to support themselves, much less to provide for children. Libertarian economics treats the unpriced value of family and community as worthless, and libertarian philosophy regards the obligations they impose as unjust and invalid.

A New Right must replace family-wrecking, nation-weakening libertarian globalism with a conservative economic strategy that achieves conservative goals instead of subverting them. That strategy is what the economist Robert D. Atkinson and I call “national developmentalism.” Far from novel, developmentalism is rooted in the “American School” of economics associated with Alexander Hamilton and Henry Clay in the 19th century and with successful U.S. economic development in the 20th century under Republican and Democratic leaders alike.

Private property and markets are fundamental to national developmentalism. But developmentalists reject the fundamentalist clichés of libertarianism that promise a mythical “self-regulating market” that will optimally allocate resources in favor of the tried-and-true, pragmatic recognition that technological innovation and economic growth result from the partnership of private enterprise with public investment and support. Government should be limited in its scope, but within its proper sphere government should be competent and powerful. From a genuine conservative point of view, being “for” the market and “against” government is like being “for” the respiratory system and “against” blood circulation, even though both are necessary for bodily health.

Unlike libertarians, for whom all markets are alike and operate according to the abstract laws of Econ 101, economic realists, a category which should include all conservatives, understand that different industries have different structures. Some are competitive but others are naturally monopolistic or oligopolistic. No one-size-fits-all theory or system of regulations is appropriate.

And all industries are not created equal. Industries in the traded sector, like consumer electronics or automobiles or aerospace, which produce goods or services that can be sold outside a local area (and potentially in global markets), enrich a community and ultimately a country more than industries in the nontraded local service sector, like hair styling, whose markets are small and local. Among traded sector industries, manufacturing is the most important, for three reasons. First and foremost, no country can be a great military power if it cannot manufacture most or all of its own armaments and weapons platforms. Second, thanks to increasing returns to scale, manufacturing firms that dominate large national or global markets are more efficient than small ones. There are no local mom-and-pop auto companies or steel mills. Third, manufacturing has a “multiplier” effect both “upstream” (suppliers) and “downstream” (users of manufactured parts).

Most state, county, and urban development agencies seek to encourage local production by national or global manufacturing firms, if they can, to
anchor local development strategies. They know what they are doing. A county is better off with one auto parts supplier with national or global sales than with a hundred walk-in hair salons. It is the auto parts supplier that allows the hair salons to thrive.

What about workers replaced by mechanization or automation? By lowering the price of goods and services, technology-enabled productivity growth can provide everyone with more discretionary income, some of which can lead to greater hiring in sectors like health care that cannot yet be automated. Another alternative that should be of particular interest to pro-family conservatives is sharing the gains from technology-enabled productivity growth with workers in the form of more leisure time that can be used for family activities, rather than in the form of higher wage income or more material consumption. Conservatives should favor an economic system that favors those who value children over granite countertops more than those who value granite countertops over children. A genuine conservative economics would distinguish technological progress from growth in gross domestic product (GDP). When higher productivity leads to higher GDP, people can prosper. But GDP can also increase by three methods, each harmful to family cohesion in some cases. One harmful method is the outsourcing and marketization of formerly unpaid labors of love—fast food rather than a home-cooked meal, or paid childcare rather than a parent or relative raising a child at home. Formal economic activity and profits increase when labor moves from the unpaid household sector to the paid market sector, even though productivity may not increase at all. The other two harmful methods of growth involve working more or more workers. When additional family members are pulled into the workforce, or people work more hours or take on additional jobs, GDP does grow. Here the tradeoff is leisure and family time (unvalued by the market) for market-valued output, again with costly consequences for family and community health.

A healthy manufacturing sector and strong productivity would help to ensure that the typical worker’s wages begin rising again and that a family can support itself on one income. A living wage, whether it is imposed by law or negotiated with workers alone or collectively, should be high enough to pay not only for recurrent expenses like housing, food, and transit, but also for private premiums or public payroll taxes for health insurance and contributions to retirement programs.

The most popular and effective social insurance program is Social Security, which radical libertarians have tried for decades to repeal or cut. But genuine conservatives should embrace social insurance, in preference to the libertarian and progressive alternative of means-tested welfare. Social insurance supports self-reliance because it is earned by work effort and paid for by a payroll tax. It is an earned benefit, not “welfare” in the pejorative sense.

Most Americans say they would prefer to ensure Social Security’s solvency primarily by means of higher payroll taxes, not benefit cuts. With good reason both Ronald Reagan and Donald Trump refused to cut Social Security; when George W. Bush attempted to partially privatize it, the backlash among conservative Republican voters wrecked his second term. Social Security is efficient because benefits guaranteed by government and adjusted for inflation have lower risk than private benefits invested in the casino of the stock market or eroded by inflation in private savings accounts.

The same logic calls for a robust social insurance program to support families raising children. Families face concentrated costs as well as constraints on their income during the limited number of years when their children are young and dependent; rather than expecting a “family wage” to always cover that highest level of costs, adults should pay throughout their working lives into a social insurance program that offers the necessary support to working families in those crucial child-rearing years.

Does embracing pro-manufacturing industrial policy and pro-family social insurance make conservative economics nothing but progressivism under another name, as radical libertarians might claim? No. A genuine conservative economic industrial policy would focus on national security and productivity growth, unlike the industrial policy of progressives that seeks to steer funding to renewable energy boondoggles and institutional childcare. Genuine conservatives would strengthen the family by adding a new, work-earned social insurance benefit for stay-at-home parents. In contrast, the objective shared by progressives and the U.S. Chamber of Commerce is economic growth based on labor force growth, so that all mothers of young children are in the workforce, with their children raised en masse by paid strangers in government-subsidized institutional daycare.

Libertarian economics and progressive economics alike undermine the values that conservatives hold dear. It is time for a genuine third way, a conservative economics that strengthens rather than undermines the family, the community, and the nation.

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Financialization

Robust financial markets are vital to a productive economy, but they are not an end unto themselves. Their task is to facilitate investment by connecting capital to its most productive uses at the lowest possible cost. In recent decades, American finance has metastasized, claiming a disproportionate share of the nation’s top business talent and the economy’s profits, even as actual investment has declined. This “financialization” of the American economy weakens the nation and threatens our future prosperity.

1. **DEFEND WORKERS IN CORPORATE BANKRUPTCY**

Reform the bankruptcy code to establish primary financial obligations to workers and local communities that are paid first in the event of a bankruptcy—six months’ salary for workers laid off and one year’s tax liability in domestic localities where a business ceases operations.

Much financial engineering aims to convert the real economy’s activity into derivative products with risk-versus-return profiles that will appeal to particular investors. This has some value, when the result is to spread risk among parties who choose how they wish to participate. For instance, some investors may wish to hold a firm’s equity while others might prefer its debt. Unsurprisingly, though, the engineers find it especially attractive to design products that shift risk onto third parties while keeping returns for themselves. The leveraged-buyout model employed by many “private equity” (PE) firms
represents an extreme case, incurring high levels of debt that enable much larger profits when a transaction is successful, while accepting that some bankruptcies will occur along the way. The workers and communities devastated by the bankruptcies do not get to “hedge.”

The United States should create a new, primary obligation to workers that is paid first in the event of a bankruptcy. This could equal, say, six months’ salary for all workers laid off in advance of or during a Chapter 11 reorganization, or for all workers in the event of a Chapter 7 liquidation. A similar claim should be created for local communities, equal to one year’s tax liability in each domestic locality where a business operates. These changes in bankruptcy rules would decrease the value that creditors can recover from a business in bankruptcy while increasing the value available to other affected parties. This would make much riskier the aggressive leverage strategies that accept the chance of bankruptcy as a cost of business and a means to higher returns. It would also give workers and local communities a seat at the table in reorganizations.

ENFORCE TRANSPARENT AND ACCOUNTABLE PUBLIC INVESTMENT


The $5 trillion in assets controlled by state and local pension systems play a prominent role in U.S. financial markets, for instance as the largest source of capital for private equity firms and hedge funds. Routinely underfunded by politicians and thus under pressure to deliver implausibly high returns, these pension funds turn to risky and expensive alternative investments that tend to deliver subpar performance, often underperforming simple market index funds. Only five out of 52 state pension systems outperformed a basic 60% equities, 40% bonds portfolio over the past decade.

Bad incentives give pension managers rational reasons to continue investing this way. Alternative investments are illiquid and opaque, which means that funds are locked up for years and difficult to value along the way. No one knows how volatile they are or how well they are performing. Both politicians and the managers they appoint are quite happy to have their hands tied and their results unknowable. And as for alternative investment managers, they go on collecting their fees—for holding the money, for the transactions they conduct, sometimes for advising the firms they buy, regardless of their success. With the pensions guaranteed by state and local governments, it is taxpayers who are ultimately left to foot the bill.

The United States should require transparent and accountable investment of capital imbued with public purpose, like state and local pension funds and tax-advantaged endowments. Fund managers proposing to earn fees by investing public-purpose capital should be required to publicly disclose upfront
Distinguish Speculation from Investment

Establish a financial transaction tax (FTT) of 10 basis points on secondary-market sales of stocks, bonds, and derivatives. Use the proceeds to fund a pro-investment tax policy such as permanent full expensing of capital investments or a lower capital gains tax rate for longer-term investment.

Healthy financial markets allocate capital to vital, long-term value creation; unhealthy ones foster unproductive speculation and market churn. Good financial regulation and tax policy can tell the difference. Unfortunately, in the United States, productive business investment has been in long-term decline and the financial industry now specializes in trading assets around in circles. A prime example is the explosion of high-frequency trading, in which enormous volumes of trades occur in fractions of a second, not for purposes of generating value, but to capture profit at someone else’s expense. High-frequency trading now accounts for the majority of trading volume yet accomplishes little beyond diverting capital and talent from more productive pursuits.

Congress should establish a financial transaction tax (FTT) of 10 basis points on secondary-market sales of stocks, bonds, and derivatives. Most of the world’s largest financial centers, including London, Hong Kong, and Shanghai have this kind of tax, which targets unproductive and speculative transactions and can lower costs for long-term investors by reducing excessive churn and encouraging a return to low-turnover, lower-cost strategies. According to the Congressional Budget Office, such a tax would raise more than $750 billion over ten years. This revenue could in turn be used to reduce the tax burden on productive investment—for instance, by making full expensing for capital investment permanent, canceling the requirement that research and development costs be amortized over at least five years, or creating a new a new category of very-long-term capital investment taxed at a very low top rate.

FURTHER READING

- Policy Paper by Chris Griswold
  No Need to Speculate: The Empirical Case for a Financial Transaction Tax
- Commentary by Chris Griswold
  America Should Bring Back a Financial Transaction Tax
Traditional capitalism, in which firms raise capital from investors and use it to grow their businesses, while returning some share of the profits as dividends, works brilliantly to deliver economic growth and prosperity. But it is no longer working in America. Firms are now disgorging capital much faster than they raise it and, in many cases, so quickly that they cannibalize their existing operations. They do this primarily through share buybacks rather than dividends, which allows them to increase stock-based compensation to executives, manipulate their stock price, and help investors defer tax liability. Share buybacks top $1 trillion annually and exceed dividend payments by two-to-one. Economy-wide, business investment has fallen significantly as a share of GDP.

Firms also have a substantial incentive to raise capital through debt rather than equity, because interest payments can be deducted from taxable profits while dividends and share buybacks cannot. The best illustration of the tax code’s bias comes from a 2014 analysis by the Congressional Budget Office, which found that a corporation financed entirely by equity investment would face an overall effective tax rate of 38%, while one financed entirely by borrowing would face a rate of -6%. (The Tax Cuts and Jobs Act of 2017 affected these rates somewhat.) Private equity firms take particular advantage of these provisions, performing leveraged buyouts that load firms with dangerously high debt loads while offering the promise of much higher investor returns if all goes well. When all does not go well, the risk of bankruptcy is much higher—and it is the workers and communities reliant on those firms that bear the highest cost.

The United States should discourage financial engineering and push capital markets back toward their necessary, traditional role by banning share buybacks and eliminating the deductibility of interest. Share buybacks are not inherent to our capitalist system; they are the direct result of a decision by the Reagan administration in 1982 to promulgate SEC Rule 10b-18, which gives a safe harbor from insider-trading and market-manipulation rules for such buybacks. But of course, a firm deciding to buy its own shares on the open market is the very definition of insider trading. As for interest deductibility, the argument that taxes should apply only to profits and profits are calculated after interest has been paid merely begs the question. The tax system can just as well define profit as a business’s earnings before interest and taxes have been paid. Indeed, Earnings Before Interest and Taxes (“EBIT”) is a standard metric reported on the income statement and is commonly referred to as “operating profit.”
Financialization is a blight on capitalism. In that system, the corporate sector is supposed to provide the large-scale capital investment that drives economic growth. Financialization inverts the corporate sector’s role, diverting resources away from capital intensive projects and toward financial assets instead. And it empowers agents outside of corporations, whether Wall Street financial managers or ESG political activists, to control the nation’s vital economic resources.

Capitalism’s free enterprise system assumes a traditional flow of funds: Workers earn income to provide for their necessities, and save the rest. Their savings—in banks, retirement accounts, and many other vehicles—are invested in businesses. Businesses, in turn, invest these savings productively in their operations. As Adam Smith describes it in The Wealth of Nations, “[b]y what the frugal man annually saves,” he is “like the founder of a public workhouse” because those savings serve as “a perpetual fund” for reinvestment in the economy.

For most of modern American history, the corporate sector was the principal net borrower of savers’ resources. The corporate sector, as a whole, continually raised capital from the rest of the economy and spent it on non-financial assets: property, plants, and equipment, creating jobs and driving innovation.

Financialization (whether as cause or effect) disorders this cycle. Capital is supposed to flow from households, which are net savers, into businesses, which are net borrowers from the rest of the economy. But in a financialized economy, non-financial corporations begin to fail in their role as the borrowers and builders. They instead become savers themselves by acquiring financial assets, effectively deferring the earthy and material work of productive capital investment to others. Corporations do this in a variety of ways, from focusing their business activities on financial services and buying up other companies, to returning capital back to shareholders faster than they raise and invest it.

Statistically, this transition began in the 1980s, as the share of corporate investment in tangible assets declined and the acquisition of financial assets climbed. By the start of the 21st century, the corporate sector’s role had flipped; it was no longer the economy’s net borrower, but a net lender—like banks and investment funds. But that is not all that happened, because not all sectors of an economy can be net lenders. Someone must absorb and ultimately deploy society’s savings. In this transition, the net borrower and thus “investor” has become the United States government. As federal deficits have soared, the government has issued trillions of dollars in Treasury bonds. In net terms, the American economy’s savings are now no longer channeled to fund corporate investment, but government spending.

Whatever system that is, it is not traditional capitalism. As the parable of the talents instructs: For one entrusted with investing another’s capital, saving is no virtue. Preserving the free enterprise system requires reestablishing the business sector as the net investor of the economy’s resources.

While there are a variety of policies that might encourage corporations to increase capital investment, financial incentives can only go so far. Ideas and ideologies that operate internally within corporations play a primary role in setting business investment decisions. In this sense, “financialization” is also a useful shorthand for the predominance of financial considerations in business management. Effective policy reform must focus on corporate governance, with the goal of reforming both how corporations invest, and who decides it.

Milton Friedman’s dictum that corporate directors should act exclusively to maximize profits can lead to suboptimal capital investment. An approach to business management that focuses exclusively on maximizing profits will tend to prefer quantifiable investment opportunities, which can be shorter-term and lower in capital intensity. It will also tend to increase the influence of financial managers in investment decisions at the expense of more closely affiliated owners and managers whose histories and skills are bound up in the corporation’s long-term future.
The purported opposite of the Friedman doctrine, so-called “stakeholder” governance and the Environmental, Social, and Governance (ESG) movement, contributes to financialization in its own way. Only by the dominance of large investment managers in corporate governance could a minority, elite political movement like ESG attain the level of influence it currently has over corporations. Whereas financial managers might cut capital investments by imposing a kind of spreadsheet logic, ESG seeks to even more relentlessly discipline corporate behavior toward its abstract ends through the forced quantification of concepts, such as disclosures of “diversity matrices” or “Scope 3” emissions.

ESG opposes corporate investment in a more fundamental way, too. While ESG as a corporate governance methodology might have the theoretical capacity to promote riskier long-term capital investments, its substantive environmental and social commitments undercut any chance of that. For one, capital investment is often energy intensive. Revealingly, ESG advocates opportunistically endorse “shareholder value” to support share buybacks by companies precisely because it comes at the expense of energy companies’ capital investments. In these ways, financialization also stands for the control of businesses by ideologically and physically distant managers who cut corporate investment in pursuit of agendas that are unrelated to the interests of the business or the nation.

Instead, public policy should promote flesh-and-blood corporate governance that drives real capital investment. Financial incentives certainly have a role to play. For example, reforms to corporate tax policy can reduce tax-motivated investment arbitrage, like how the current deductibility of business interest expenses encourages corporations to lever up on financial assets with excess corporate debt. Better regulation should restrict share buybacks to reestablish more strategic investment planning via long-term investment and dividends.

Public policy can also encourage corporate management to operate with better priorities. Bankruptcy reforms can improve corporate governance by ensuring workers and communities receive higher priority when it comes to preserving corporate assets. Labor laws can open up new forms of worker representation within the traditional corporate governance framework, consistent with fiduciary duties. And public pension governance can be improved by increasing transparency, so that lawmakers and the public can see how public resources are being used to advance different visions of corporate governance in the market.

Public policy can help to draw limits that encourage the corporate sector to better perform its role in the market and ensure the system’s healthy functioning.

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The run on Silicon Valley Bank in March 2023 was a shock to both policymakers and business leaders, revealing previously unknown fragilities within the banking system. But the significance of this episode goes beyond questions surrounding the insurance and regulation of midsize banks; in many ways, it illustrates the larger imbalances facing the U.S. economy as a whole.

As is now well understood, the problems at Silicon Valley Bank arose from its reliance on a customer base heavily concentrated in one industry: the software start-ups that have come to define Silicon Valley. During the COVID years, with interest rates near zero, tech-sector enthusiasm swelling, and the latest SPAC bubble underway, software companies were flush with cash, and the bank’s deposits rose rapidly. Typically, a bank with a growing deposit base will happily make more loans, increasing its profits. But what makes Silicon Valley software companies attractive is precisely their low capital intensity. They are asset-light companies mostly based on intellectual property rents rather than physical production, and they usually seek to maximize revenue growth and valuation rather than operating cash flows. As such, they are poor candidates for conventional bank lending. Thus, facing limited appetite from its customer base for conventional loans, Silicon Valley Bank essentially turned to speculating on interest rates.

Inevitably, when interest rates rose, the value of Silicon Valley Bank’s bonds declined. At the same time, the end of easy money meant leaner times for software start-ups—that is, more withdrawals and fewer deposits—forcing the bank to sell its securities at a loss. The consequent deterioration of the balance sheet provoked further customer concerns, leading to more withdrawals and more losses, culminating in a classic bank run.

Less appreciated, however, is that the story of Silicon Valley Bank is in key respects the story of the American economy. During the last few decades, the U.S. economy, like Silicon Valley Bank, has become heavily reliant on software and internet companies—now so dominant they are often considered synonymous with “technology.” As of March 2023, the top five U.S. companies by market capitalization were Apple, Microsoft, Amazon, NVIDIA, and Alphabet (Google), which account for around 18% of the total S&P 500 index value, a level of concentration unprecedented until recent years. Moreover, Apple, Microsoft, and Google alone account for almost 16% of S&P 500 profits. (NVIDIA is a “fabless” chip company that doesn’t manufacturer its chips, specializing in design and then outsourcing production to Taiwan.) Even within venture capital, there has been a strong shift away from “hard tech” and toward software. In 2006, 45% of venture capital investment went to hardware, but that figure was down to 8% in 2017, according to the U.S. Department of Defense’s Office of Strategic Capital.

In the “Fordist” economy of the 1960s, the largest profits were generated by companies—mostly integrated manufacturers like GM or GE—with the largest labor forces and highest capital spending. Today, by contrast, the most profitable companies—asset-light software and some financial firms—employ relatively few people and have few capital spending needs.
This diversion of resources away from productive business investment and toward unproductive—and often destabilizing—financial activity is one definition, and the most pernicious effect, of the phenomenon called financialization.

In other words, the U.S. economy’s shift toward asset-light companies means that profits are increasingly separated from production, capital spending, and labor, limiting opportunities for productive investment. As with Silicon Valley Bank, this “excess cash” is increasingly deployed in financial speculation—stock bubbles, crypto bubbles, subprime real estate securities, and so on. This diversion of resources away from productive business investment and toward unproductive—and often destabilizing—financial activity is one definition, and the most pernicious effect, of the phenomenon called financialization.

In the wake of the Silicon Valley Bank failure, federal agencies rushed to shore up the regional banking system, providing additional deposit guarantees and other measures to prevent capital flight from smaller banks. Whether one characterizes such actions as a “bailout” or not, these interventions—enthusiastically supported by erstwhile “tech libertarians”—follow a typical pattern: Under the sway of “neoliberal” dogmas parroted by various “experts” and political lobbies, the United States at first refuses to consider proactive policy measures to advance a national economic strategy, only to be forced into rushed, reactive interventions later, urgently demanded by the same industry lobbies. Amid the panic surrounding a crisis, these interventions often prove more extensive, intrusive, and arbitrary than might have been necessary earlier. Ultimately, we end up drifting further and further from any laissez-faire ideal, yet without a coherent strategy guiding economic policy. A more prudent approach would be to proactively develop such a strategy and incentivize capital allocation around national goals, in order to minimize the risk of crises and the inevitable bailouts that effectively subsidize bad behavior.

Unlike Silicon Valley Bank, of course, the fundamental imbalances plaguing the broader U.S. economy will not be resolved through more deposit insurance or better interest rate hedges. Nor are the effects limited to the financial system; they threaten our defense industrial base, critical supply chains, and capacity to innovate in “hard tech” and “deep tech” sectors, while also contributing to workforce precarity. At bottom, investment in these and other capital-intensive sectors is discouraged by factors including financial market incentives, corporate profit strategies and compensation schemes, rival foreign subsidies and industrial policies, cumbersome environmental and permitting regulations, the loss of skills following decades of deindustrialization, and beyond. Even the rare U.S. manufacturing bright spot of recent years, Tesla, has had to rely on significant subsidization. In the United States, this took the form of a Department of Energy loan for its first factory and consumer subsidies for the purchase of electric vehicles. Tesla has also received significant support from China, which is now home to the company’s most profitable factory and key elements of its supply chain.

The good news is that, understood in these terms, the concept of financialization helps to explain much of what ails the American economy and, thanks to its many causes, offers a wide range of levers for policymakers to pull. It is not possible in this memorandum
The concept of financialization helps to explain much of what ails the American economy and, thanks to its many causes, offers a wide range of levers for policymakers to pull.
The family is the institution that, at its best, teaches the values of hard work, independence, resilience, and responsibility, and when it breaks down, no number of government policies or social programs can take its place.

PATRICK T. BROWN
Supportive Communities

Strengthening the institutions that allow markets to deliver on their promise

Americans are more than just economic actors, trading goods and services, constantly seeking their own financial advantage. They live and work within communities, as part of a social fabric. These interlocking communities—including families, neighborhoods, schools, workplaces, labor unions, and churches—shape and support individuals, creating the foundation for flourishing individual lives and productive engagement in a well-functioning market economy.

Public policy and economic forces play powerful roles in reinforcing or eroding the foundations of these institutions, which are essential to our liberty and prosperity. But in recent decades, market fundamentalism has prevented conservatives from protecting them or articulating how capitalism relies upon them. Instead, a singular focus on delivering cheap products quickly has undermined them, leaving people atomized and unsupported. As good, working-class jobs in once-thriving communities disappeared, economists and pundits celebrated the “creative destruction” as a chance to “move to opportunity.” In other words, to uproot families, shattering generations-long community ties that cannot easily be rebuilt. Both those who stayed and those who left lost out: The former saw their communities weakened, while the latter found themselves alone, far from the support of family and friends. Similarly, policymakers converted public education into a college-prep service, leaving out most Americans, who do not earn college degrees. And especially on the right, they cheered the demise of the labor movement, trusting that market competition would provide workers whatever support and protection they might need.
Conservatives must reject this libertarian thinking that sees individuals as merely cogs in a global economic machine. People are not only consumers, but also producers, as well as friends, family members, and fellow citizens deserving of equal participation in the social and economic life of the community. They cannot succeed without the support of institutions, which means that capitalism cannot succeed without the support of those institutions. Policymakers must not simply assume they will always exist, but rather work to preserve and strengthen them.

The most fundamental of these institutions is the family, which provides the basis for the health of every other community and prepares people for participation in them. Yet while the right talks frequently about the consequences of broken families for children’s futures, and declining marriage and fertility for the economy’s growth, it has rarely recognized that supporting families must therefore be a central element of economic policy. Instead, such “intervention in the market” has been rejected as beyond the proper scope of government. While conservatives should be careful not to undermine the importance of work and the value of the market, it is clear that the American family is in serious need of support, with marriage rates in decline and fertility rates below what many families say they desire, largely due to economic constraints.

### Reasons for Unmet Fertility

By class, married respondents only

- **I don’t think I could afford to have more children.**
- **My preferred lifestyle or career would be difficult with more children.**

![Bar Chart](chart.png)

Source: American Compass Home Building Survey (2021) - N=333
Note: Excludes respondents who say that "My family is still growing."
Policymakers should support working families with children by providing them with a monthly Family Income Supplemental Credit (Fisc), ensuring that young Americans have the resources they need to start families. This would allow families to pursue their preferred form of childcare, without the pressure to have both parents work and leave young children in daycare. Policymakers should also reform employer and Social Security benefits to cover homemakers, acknowledging the value of these years invested in the family and community. And families need support navigating modern technology. Parents are currently on their own to protect their children from the harmful effects of social media platforms—a fight they are ill-equipped to win. Policymakers should help by taking the same kinds of steps to keep children safe online that we take for granted as necessary in the physical world.

Families also rely on public education to help prepare children for the responsibilities of productive citizenship. But educators have lost sight of this purpose. Rather than prepare people of diverse backgrounds, abilities, and interests to build the lives they want in their communities, the education system has imposed a college-or-bust mindset that pushes every young person toward traditional higher education. On one hand, this model strip-mines talent out of communities and into elite institutions and big cities. On the other, it leaves everyone unprepared for, or uninterested in, college with little useful preparation at all. Instead of pretending that a bachelor’s degree is the best option for every student, our education system should invest equally in a range of pathways, including apprenticeship and training programs.

### Fewer than 1-in-5 Go Smoothly from High School to College to Career

Outcomes per 100 students
- Graduate high school
- Enroll in college
- Complete college
- Jobs require degree

Source: American Compass analysis of data from U.S. Department of Education and Federal Reserve Bank of New York
Policymakers need to reduce dramatically the hundreds of billions of dollars in subsidies that flow to college education, requiring colleges to offer affordable programs and making them accountable for the success of their graduates. Those resources should be redirected toward better supporting the four-fifths of young Americans who do not go smoothly from high school to college to career, for instance by subsidizing trainee programs offered by employers, often in partnership with community colleges. Policymakers should also reject the use of the bachelor’s degree as an arbitrary mechanism for screening job applicants, not only in government jobs, but also in the private sector.

As people move from family and school into the labor market, the workplace can also be an important source of identity and community, and it is certainly also one where individual workers need support and solidarity.

A libertarian conception of labor sees workers as production inputs who appear at the job, earn the marginal product of their labor, and then vanish again. But conservatives should see purposeful work as a fundamental element of what markets provide and labor organizations as vital institutions for a thriving market and civil society. Both the left, with its support for dysfunctional unions, and the right, with its support for intransigent employers, bear responsibility for the foundering of America’s labor movement. Without power in the labor market, workers have faced stagnating wages, less investment, and increased precarity.

When workers organize, they are able to support each other and assert their voice and dignity within the workplace. They also develop the power to counterbalance capital, creating the balance of power and mutual dependence that capitalism requires. Rather than cheer labor’s demise, conservatives should provide new options. Reforming the 1935 National Labor Relations Act could allow for new forms of worker organizations that might provide benefits, work collaboratively with management, and bargain industry-wide for baseline employment conditions. As part of such reforms, new labor organizations should also be restricted from engaging in partisan politics, the activity that most often alienates rank-and-file members.

How Many American Workers Have Secure Jobs?

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<thead>
<tr>
<th>Workers, by education</th>
<th>Insecure Jobs</th>
<th>Secure Jobs</th>
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<tr>
<td>All Workers</td>
<td>Red</td>
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<tr>
<td>High School or Less</td>
<td>Red</td>
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<td>Some College</td>
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<td>Blue</td>
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<tr>
<td>College or More</td>
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Source: American Compass Better Bargain Survey (2021) - N = 1,188

“Workers” excludes those in the labor force who own their own business or supervise others. “Secure Job” defined as job that earns $40,000 or more per year, with predictable earnings, steady hours, and health benefits.
Family

The family is the indispensable institution, the only one capable of producing the next generation and preparing it for the burdens of productive citizenship. Its ongoing collapse poses the greatest threat to American liberty and prosperity. Nearly half of parenting-age Americans say they have fewer children than they would like, most often because they cannot afford to have more. The vast majority agree that government should do more to support families—almost always because “families are falling behind and need help” or “more assistance to families would improve the lives of children.” How conservatives respond to this challenge will determine what we leave the next generation to defend, and whether we will have equipped them to defend it.

1

SUPPORT WORKING FAMILIES AS THEY RAISE CHILDREN

Establish a Family Income Supplemental Credit (Fisc) that pays families a monthly benefit of $250–$350 per child, beginning during pregnancy. Cap the benefit that a family can receive at its prior year’s income, so that the benefit is available only to working families but the full value reaches even very low-income households.

Making ends meet has become much harder for American families. Decades of stagnating wages have left the typical worker unable to attain middle-class security. Nearly half of parenting-age Americans report having fewer children than they want, with affordability cited as the top obstacle. The economic challenge is compounded by a biological one: Parents must start families early in their working lives, before they have had the opportunity to save, and the arrival of children simultaneously raises costs and reduces income.
Many proposals focus on expanding paid leave and childcare, on the assumption that both parents can and should be in the workforce. But these benefits are valuable only if both parents work, targeting only that family arrangement for support and creating a strong incentive to adopt it. Most families prefer a different arrangement—in particular, having a parent at home with young children. Public policy should leave that choice to the parents.

The United States should create a social insurance program that helps parents afford the cost of raising kids. The program should begin during pregnancy and continue until children reach the age of 18, providing families with $350 per month until a child reaches the age of six and $250 per month thereafter. Through the taxes they pay, households without children would help to support those that have them, and parents who are successful in their own careers will go on to repay the support they received and help to support those less fortunate as well. While some child allowance proposals call for unconditional payments to all families, an effective social insurance program should preserve an expectation that families are also working to support themselves. A household should only be eligible to receive payments up to the total level of income it earned the previous year. This look-back limit would target the program to working families, give someone who has lost a job time to find a new one, and ensure that even a very-low-income household—for instance, a single parent working part-time at the minimum wage—could receive the full benefit.

2

ELIMINATE OBSTACLES FOR STAY-AT-HOME PARENTS

Modify benefit calculations in social insurance programs like Social Security, Medicare, and SSDI so that stay-at-home parents in working families can accrue credits and maintain eligibility alongside working spouses.

American entitlement programs are designed to support workers and provide only limited coverage for spouses who are not full-time workers themselves. For instance, stay-at-home parents do not receive credits toward a work history, leaving them with a lower “spousal” benefit at retirement or “widow(er)” benefit if the spouse with a work history dies. When retiring workers become eligible to receive Medicare, spouses will typically lose their employer-based family coverage but may not yet be eligible for Medicare themselves. The SSDI disability program is available only for people with a recent work history, even though a stay-at-home parent who becomes disabled could create challenges and costs for a family comparable to those faced if the working parent becomes disabled. The Affordable Care Act’s “Family Glitch” makes a worker eligible for a subsidized health insurance plan if the worker’s own employer-based coverage is too expensive but offers no help if the employer provides affordable coverage for the worker alone and not for dependents.

The United States should reform its social insurance programs to recognize the family as the relevant economic unit.
for purposes of calculating eligibility and benefits. Parents should both receive credit for work when one is working and the other is caring for children, and the affordability of health insurance should be defined based on the cost of family coverage. Finally, Congress should create a “Family Retirement Account” similar to an IRA or 401(k) that allows parents to save together toward retirement, make annual contributions equal to twice the level allowed in individual accounts, and receive employer contributions on behalf of them both.

3

VERIFY AGE ONLINE

Create a public, online tool housed at the Social Security Administration that allows any person to verify his age to an online platform without disclosing personal information to that platform.

Americans are beginning to reach a vital consensus that social media is harming children. Children who use social media are more likely to suffer from anxiety, depression, and self-harm, and are more vulnerable to exploitation and exposure to harmful material. Even concerned and involved parents find themselves unable to protect their children from a ubiquitous industry that designs its products for addiction and benefits from strong network effects. Laws are needed. But any reasonable rules to protect children online will require knowing who is and is not a child online.

Effective age verification can help protect digital spaces the way we already protect physical ones. Everyone takes for granted in the physical world the need for government-issued documents to verify age and access age-restricted spaces and services. But as both commercial and social interaction has migrated online, no comparable online capacity has emerged. Market forces create little incentive for social media platforms to establish reliable age-verification processes. Those tools that do exist tend to be highly intrusive of privacy, are often difficult to use, and typically rely on existing forms of identification like credit cards, public records, and physical government IDs. Reliable identification is a critical public utility and only the federal government has the basic information like Social Security numbers, visa records, and dates of birth to provide it consistently and securely.

The United States should create a public, online tool housed at the Social Security Administration that would allow any American to verify his age to an online platform without disclosing other personal information. For example, a person would input her Social Security number on the government website and receive via text or email an anonymized, temporary code to use with an online service. The service could in turn submit this code to the public database and receive back confirmation of whether the person is above the relevant age. This system would provide the age verification required for other safety provisions to be effective, while revealing nothing further about a user’s identity or activity to either online services or the government.

FURTHER READING

- Essay by Chris Griswold
  Protecting Children from Social Media
- Policy Brief
  An Online Age-Verification System
- Essay by Ivana Greco
  Reframing Family Policy
- Essay by Erika Bachiochi
  Pursuing the Reunification of Home and Work

FURTHER LISTENING

- Talkin’ (Policy) Shop:
  Age Verification
PROTECT CHILDREN ON SOCIAL MEDIA

Restrict the use of social media by minors, including a prohibition on minors uploading images for public display, and prohibitions on platforms displaying inappropriate content to minors and using algorithms to serve them recommended content or targeted advertising.

Many of social media’s core features, from public display of private information to algorithmic targeting to easily available harmful content, are especially dangerous for children. Widespread and public image-sharing enables the social comparison pressures that drive so much of social media’s mental health harms, while creating a permanent and public record that exposes children to predators and other risks. Algorithmic recommendations designed to maximize user engagement and platform revenue rely on aggressive data collection, invasions of privacy that minors rarely realize they are allowing, and manipulation of their attention. Harmful and inappropriate content is displayed to children, from pornography and depictions of abuse to glorification of illicit-drug use, eating disorders and self-harm. Even when children are not looking for such content, algorithms regularly deliver it to them.

The United States should regulate children’s access to social media, taking the same steps to provide a safe environment online that we take for granted as necessary in the physical world. The most straightforward way to address social media’s dangerous features is simply to prohibit and penalize them. Social media platforms should be responsible for ensuring that minors’ accounts are restricted to “private” settings that allow only approved family and friends access to the user’s content, especially images. The same indecency restrictions applied on the airwaves should apply to children accessing content online as well. Policymakers need not dictate how to prevent the display of harmful content to children (though measures restricting algorithmic operations would be useful). The law simply needs to establish clear and economically meaningful consequences for failure. Silicon Valley prides itself on rapid innovation; with sufficiently stiff fines at stake for every failure, that innovation will be channeled quickly toward protecting kids. Finally, platforms should be prohibited from targeting advertising at children, which will help to protect privacy and reduce the incentive to attract and addict children to the platforms in the first place.
Conservatives of every ideological stripe agree: The key to a healthy, well-functioning society is strong families. Families are where children are born, raised, and formed into the adults they will become. The family is the institution that, at its best, teaches the values of hard work, independence, resilience, and responsibility, and when it breaks down, no number of government policies or social programs can take its place.

Many on the right correctly point to the multitude of cultural problems that make raising a family more difficult today. But parents are under economic pressures as well. Shifts in the economy’s demands and rewards have discouraged family formation and parenthood, a reality reflected in the nation’s sharply declining marriage and fertility rates. Our tax code and social safety net programs reward cohabitation rather than marriage, making relationships more precarious and leading to worse outcomes for children. And many families find that they need two incomes to make ends meet, even if they wish one of them could be at home while their children are young.

A conservative family policy agenda must recognize the burdens unique to parents and advance sensible reforms to make having and raising a child easier in today’s America. This agenda might encompass a range of policies, from spending less on provisions in the tax code that favor the use of center-based childcare, to eliminating environmental and regulatory burdens on the housing market that especially penalize young couples just starting out. But most fundamentally, a conservative approach to family economic security should recognize the simple truth that parents face specific costs that the childless do not.

As birth rates fall and parenthood becomes less common, families are bearing the financial burden of having and raising children on their own. A single, childless worker and a married one with three kids have the same earnings potential in the labor market, but the demands on their earnings are very different.

Meanwhile, the whole society has a stake in them taking on that responsibility. Children are, quite literally, the future—as citizens, taxpayers, workers, inventors, and parents themselves. Economists refer to this as a “positive externality.” Much of the net benefit accrues to the community as a whole, rather than the individuals bearing the cost.

Of course, a child is not an accounting exercise. But neither can the nation afford to remain blind to the economic pressures that families face and the economic and social costs of leaving them to fend for themselves. Declining birth rates constrain the national capacity to invest for the long-term and reduce the will to do so, produce a zero-sum approach to politics, and erode the nation’s confidence.

The most straightforward way of helping parents with the specific burden associated with having children is by putting more money in their pocket. At the same time, policymakers must avoid offering government benefits indiscriminately, in ways that downplay the importance of a stable, two-parent home or that repeat the Great Society’s mistake of equating a government check with a paycheck.

American Compass proposed one such plan in 2021: the Family Income Supplemental Credit (Fisc). It would offer a monthly payment to parents, starting prior to birth, with a higher value for married parents to encourage stable households. By structuring the program as a form of social insurance, contingent on families also working to support themselves, the design encourages a clear distinction between payments that support families with a worker present as opposed to those that seek to reduce poverty through handouts.

At present, the main mechanism for providing financial support to families is the Child Tax Credit (CTC), which began as an outgrowth of the Contract with America and was passed by a Republican Congress in 1997. The original CTC reduced a family’s federal taxes owed by $1,000 per child. The Tax Cuts and
Jobs Act of 2017 (TCJA) expanded the CTC, doubling its per-child value to $2,000 and increasing the amount that low-income households (who do not pay enough in federal taxes to receive much benefit from a credit reducing those taxes) could receive.

The TCJA expansion is due to expire in 2025 unless Congress acts. Conservatives should prioritize improving the CTC, increasing the amount further (and permanently) and ensuring that low-income families are eligible for the full value. An estimated one-third of children live in households with earnings too low to receive the full $2,000 per-child credit. As the credit’s value increases, fewer and fewer families have sufficient income and tax liability to take full advantage of the benefit.

Importantly, making the credit available to all working families is very different from paying it unconditionally. Proposals like the Fisc and the Family Security Act proposed last year by Senators Richard Burr, Steve Daines, and Mitt Romney aim to deliver the full value even to a family with one parent working part-time at the minimum wage. But some connection to the labor force remains vital; families with no income of their own would be ineligible. By contrast, President Biden’s pandemic-era CTC expansion, which offered money unconditionally to all families, was an inadequate vehicle for family policy, partly for its lack of connection to work, and also for its failure to replace the tangle of tax credits and programs for low-income households with a simpler cash payment. Reforming the CTC in conjunction with other tax provisions not only keeps the price tag reasonable, but also makes the tax code simpler and more legible for parents.

A better child benefit wouldn’t solve all of the problems facing American families. Indeed, it might not lead directly to a significant uptick in the birth rate at all. But it would give families much needed breathing room, particularly around the birth of a new child. For those most concerned about “the culture” it would help to replace stories of struggling families with stories of flourishing ones. And, perhaps most importantly, it would send a clear and unmistakable message that the nation sees directly supporting strong families as a key function of government. Many conservatives proudly tout their identity as being of the “party of parents” or standing for “family values.” A signature policy aimed at helping parents afford the cost of raising children would substantiate that rhetoric and deliver on it for working- and middle-class families.

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Children are, quite literally, the future—as citizens, taxpayers, workers, inventors, and parents themselves.
The state of our unions in the United States is not strong. The marriage rate has fallen more than 60% since 1970. Fertility rates reached a record low in 2020, well below the replacement rate. The falling fortunes of marriage and family life have hit the working class especially hard. No group has seen the share of its kids living in married homes fall as much as the American working class. In the last 50 years, the share of working-class children living in married-parent families fell a staggering 30 percentage points, from about 85% in 1970 to approximately 55% in 2020.

The fragility of American family life, especially among the working class, demands a strong public policy response. This response must strengthen the economic and cultural foundations of marriage and child-rearing in America, especially for working-class families. Congress should take three steps to make marriage and family life more appealing and affordable for ordinary Americans.

First, the federal government should, at the very minimum, “do no harm” when it comes to marriage. Many of our means-tested programs and policies, from Medicaid to the Earned Income Tax Credit (EITC), penalize marriage, especially for working-class families. Congress should take three steps to make marriage and family life more appealing and affordable for ordinary Americans.

The financial challenges to family life for working- and middle-class families are important but they are not the only barriers. There are also substantial cultural obstacles, with many young...
Given the importance of strong and stable families for our kids, communities, and the country, nothing is more important than moving to renew the economic and cultural foundations of the American family.

adults ignorant of or discounting the importance of marriage for themselves and any children that they have. To remedy this, the federal government should support public service ad campaigns on behalf of the “Success Sequence.” This is the idea that taking three steps—1) getting at least a high school degree (education), 2) working full-time in your 20s (work), and 3) marrying before having children (marriage)—give young adults an unparalleled shot at realizing the American Dream. Research indicates that the vast majority (86%) of young adults who take these three steps before having children reach the middle class or higher in their 30s and that 97% avoid poverty at this stage in life. The federal government should support campaigns and programs that publicize the worth of these steps and, given the erosion of marriage among young adults, place special emphasis on the economic, social, and emotional value of marriage for adults and children.

Previous campaigns related to drunk driving, teenage pregnancy, and smoking have helped steer the country in a better direction, and by the standards of most federal programs their costs are de minimis. For instance, the federal government could give $250 million annually in grants to states and nonprofits that develop innovative campaigns and programs to promote the value of the Success Sequence. These campaigns and programs should be evaluated for their success in changing attitudes among young adults regarding the social, psychological, and financial value of the sequence, especially marriage. These efforts should focus on young adults from lower-income communities who are currently least likely to follow the steps.

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Margaret Thatcher once said, “Any woman who understands the problems of running a home will be nearer to understanding the problems of running a country.” She was right. American policymakers, however, who “run the country,” seem largely ignorant of the many problems of running a home—or the importance of supporting those who do so. For many years, conservative policymakers have paid lip service to families with a homemaker without doing much to support them. But few issues are as important to parents with young children, and addressing their concerns should be a top priority.

During the 1960s and 1970s, when American women left the home in large numbers to pursue paid work and greater educational opportunities, politicians rightly applauded the tearing down of legal and cultural barriers that had kept women on an unequal footing with men. But at the time, and ever since, few policymakers appreciated the key role played by homemakers in America’s social, economic, and political fabric. Homemakers raise children, care for the sick and elderly, and steward family economic and physical health. They also knit neighborhoods and communities together through volunteering, social events, and religious activities.

Today, even though many American families want to have a homemaker, they struggle to do so. Polling by American Compass shows that for parenting-age Americans, the preference when raising young children is to have one parent working and the other taking care of the kids. This preference is particularly strong among working- and middle-class Americans, and among married mothers.

Only the highest-income, highest-educated households prefer to have two full-time working parents, with their children in full-time paid childcare. Yet, conservative policymakers have given little attention to this desire, more often prioritizing the culturally dominant preferences of the wealthy elite to put their children in paid childcare during family policy discussions.

Conservative policymakers should rethink their approach. This reconsideration should begin with an understanding of how homemakers are still needed in the 21st century. During the 1970s, liberal feminists such as Betty Friedan made the case that technology and economic advances rendered homemakers unnecessary. Friedan and her supporters believed modern food manufacturing, nursing homes, and the public school system would replace homemakers, leaving women free to join the paid workforce without consequences for children, the elderly, and families. This was profoundly incorrect, as evidenced by modern crises from the skyrocketing obesity and collapsing mental health of American children to the unavailability and unaffordability of high-quality eldercare.

American loneliness has also reached epidemic levels since homemakers left for paid work. In prior generations, homemakers were often responsible for organizing the community barbecues, coffee hours, raffles, church activities, and other social events that knit people together. The loss of these community ties is socially burdensome, resulting in mental health issues and “deaths of despair,” particularly for men. Indeed, the dual-income family model leaves little time for anything outside of work and immediate family care. As the Brookings Institution recently found, “The average middle-class married couple with children now works a combined 3,446 hours annually, an increase of more than 600 hours—or 2.5 additional months—since 1975. This average combines dual- and single-earner couples, but the trend is mostly driven by increases in the employment of, and hours worked by, women in dual-earner couples.”

Finally, American homemakers are responsible for raising a significant percentage of the nation’s children—a national treasure of which we increasingly have too few. Since 2008, America’s fertility has been dropping, sowing the seeds of a future demographic crisis. As Pew reported in December 2022, this will have a significant impact on state budgets: “The future course of fertility represents a key source of fiscal uncertainty for states as smaller working-age populations may eventually threaten tax bases.” Similarly, the federal Medicare and Social Security trust funds depend on a base of younger workers paying into the system. Already on the verge of
collapse, this problem will continue to escalate as America’s fertility continues to decline. In the 1970s, when the cultural winds started to blow in favor of both parents working full time outside the home, public intellectuals worried about population growth and too many babies. Now, in the 21st century, we should worry about too few children to support America’s graying population—and consider whether making it easier for mom or dad to stay home while the other parent works would make it easier for American families to have the children they desire, but feel they cannot practically have.

Supporting homemakers is not only vital to the nation’s future, but also a conservative priority with broad political support. American Compass recently found that 62% of Republicans said it was a “big problem” that families face economic pressure to have two working parents; 60% of Democrats agreed.

Conservative policymakers should prioritize supporting the women and men who devote themselves to the work of the home. And stop calling them “stay-at-home parents”: they are not being left out or left behind. There’s a saying: “As goes the family, so goes the nation.” America’s homemakers shape their homes, and thus shape the country’s future. They deserve robust support.

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For many years, conservative policymakers have paid lip service to families with a homemaker without doing much to support them.
Perhaps nothing is more crucial to parents and to society than ensuring the healthy development of children, from conception onwards. The care and raising of children, especially when they are young, is at the center of family life, shaping new human beings and laying the foundation for a nation’s future.

The roots of human flourishing lie in children’s earliest years. In just the first 1,000 days after birth, a child grows from a physically helpless infant to a running, jumping, climbing preschooler. Children's early cognitive, social, and emotional development is equally rapid, forming the bedrock for all dimensions of their wellbeing and achievement throughout life, and offering a critical inflection point for addressing many of society’s biggest challenges.

For most of human history, children’s early development unfolded within families, usually with full-time maternal care. But unprecedented economic pressures are now forcing both mothers and fathers to spend a great deal more time in paid labor outside the home. Increasingly, parents are unable to give their young children the time and attention that they want to, and that children need to develop well.

The dominant framing of this problem is as a “caregiving crisis,” in which parents caring for their own children are “unpaid caregivers,” incurring inordinate “financial, professional, physical, and emotional costs” to their own wellbeing. “A childcare crisis is torturing American parents,” a Bloomberg Businessweek cover story recently explained, starkly revealed as the COVID-19 pandemic “thrust” even more parents into “stressful and exhausting” roles as full-time caregivers “for months on end.”

The consequent policy response is a push for increased government funding to expand nonparental, group preschool programs, promoted as “public education starting at birth.” In this ever more influential, Brave New World vision, government will fund a nationwide “infrastructure of care” that excludes families: aiming to “cultivate the potential of young children” through outsourcing their care to paid professionals, so parents—“primarily mothers”—are “freed up to pursue paid careers.”

Amidst overwhelming media and policy emphasis on expanding nonparental care, few ask parents outside the media and policymaking bubbles about their preferences for balancing work and the care of their young children. Those who do discover that, for the majority of parents, raising young children—not advancing their own careers—is what matters most.

In a 2021 American Compass survey, fewer than 1-in-5 married adults with household income under $150,000 said that both parents working full-time with children in full-time childcare is the best arrangement for their family. Overall, half of married mothers and almost half of married fathers said they would prefer to have one full-time earner and one stay-at-home parent while raising children under age five. Among working-class couples, over two-thirds said this is what they prefer.

Families’ needs clearly vary. But what most parents want is to spend more time raising their own young children. And they understand that young children benefit from being cared for at home.

As parents recognize, deep human connection is the gateway to healthy early development. Research is clear that children are “hardwired” to develop within a small group of familiar, loving people and need strong, consistent relationships to develop well. A surge of neurobiological findings has shown that the ongoing, nurturing interactions occurring within young children’s one-on-one relationships with loving caregivers shape the rapidly growing brain, with powerful, enduring effects on all domains of development.

So, while the world that children are born into has changed dramatically, what children need for healthy development has not. And the optimal developmental environment for most young children remains their own home.
The roots of human flourishing lie in children’s earliest years.

In the words of Nobel-prize-winning economist James Heckman:

The “intervention” that a loving, resourceful family gives to its children has huge benefits that, unfortunately, have never been measured well. Public preschool programs can potentially compensate for the home environments of disadvantaged children. No public preschool program can provide the environment and the parental love and care of a functioning family and the lifetime benefits that ensue.

As Heckman notes, high-quality programs can have significant benefits for low-income children, particularly those from single-parent households—the very children for whom good programs are often farthest from reach. Boosting access to high-quality childcare for the most disadvantaged children is a critical policy goal. But research has repeatedly found that even high-quality programs can have adverse effects on children when they displace the higher quality care that many children would otherwise receive at home.

Researchers remain especially worried that long hours in childcare may have particularly damaging effects on infants and toddlers. The largest study to date, by the National Institute of Child Health and Development (NICHD), found that extensive hours in nonparental, group care during infancy and toddlerhood predicted negative social-emotional outcomes from preschool into adolescence.

Yet little research has been done on how nonparental care specifically affects children under age three. In 2020, several researchers published an article in Epigenomics denouncing a “taboo on open debate” over the growing use of childcare for very young children:

We have identified around 1,000 research reports, in different sciences spread over 30 years, that separating small children from their mothers has a variety of adverse effects. However, we have not identified a systematic review in any leading general medical journal and as far as we know, this is the first editorial on this topic.

All the while, the upbringing of young children is increasingly framed as an especially time-consuming household chore that can be outsourced to paid strangers, like housecleaning or washing the car. Public investment in young children is now largely defined as government spending on nonparental care and education, demeaning the value of parental care in early development while normalizing the idea that people do not usually raise their own young children.

This is the wrong direction for policy. Not all parents can or want to stay home to care for young children. Parenting quality clearly varies. But, in most cases, the most valuable investment in children’s development is parents’ time spent providing nurturing care.

Loving family care is the foundation of healthy early development. Healthy early development, in turn, is the foundation of human flourishing. And while children’s flourishing depends on families, a family’s flourishing, too, rests in great part on the capacity to ensure their young children can thrive.

Our goal must be to reinforce the fundamental bonds of family: elevating—rather than displacing—the vital role of parents in raising their own children, especially during the first, foundational years of development. That is what most parents want. It is best for young children. And it lies at the heart of a stronger future for America.

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Protecting Kids Online

The Children’s Online Privacy Protection Act (COPPA) governs how social media companies engage the nation’s children, but it was written in 1998, before social media existed.

American teens are afflicted by a profound mental health crisis, and smartphones and social media are the principal culprit.

Social media companies monopolize the attention of teen users by addicting them. Addiction is the cornerstone of their business model, because it primes teens—to whom access is granted to third parties for a fee—to be receptive to graphic advertisements and prompts them to constantly generate data about themselves, making the advertisements more effective. A booming market exists for the data as well. Big Tech knows what it is doing and will fight to keep doing it.

But screen addiction keeps teens from family, friends, neighbors, and other community figures; it supplants team sports, exercise, good sleeping habits, life outdoors, and time for public service. Social media floods teens with dispiriting content that erodes their appreciation for their common inheritance, and promotes the most toxic forms of social engagement with peers. Properly understood, this addiction is not an individualized, isolable phenomenon—it is a generalized public crisis that casts a long shadow over America’s future.

The question for lawmakers is what must be done?

Breaking the addiction is the policy objective. There are four complementary strategies for doing so: First, restore parental authority; second, limit teens’ contact with social media to the extent possible; third, reduce the potency of the platforms; and fourth, hold Big Tech accountable for its failures to protect minors.

Parents want legislators to act. According to a survey of more than 2,500 adult-aged Americans by YouGov on behalf of the Institute for Family Studies and the Ethics and Public Policy Center (EPPC), 80% of parents support requiring parental permission before a minor opens a social media account and 77% support giving parents administrator-level access to what kids see and do online. These measures were supported by parents across the political spectrum.

Two laws recently passed in Utah to limit teen social media use, known together as the Social Media Regulation Act (SMRA), provide a good model for how to accomplish the above four strategies. The SMRA was signed into law in March 2023 and takes effect on March 1, 2024. It is replicable at the federal level.

The SMRA will be challenged in court, and it still awaits interpretation from Utah’s Department of Commerce, which is charged with implementation. How, for instance, does Utah define a “design” that causes the addiction of a minor? What are the permissible mechanisms for age verification? And how large will the fines levied by the Division of Consumer Protections be?

Nonetheless, the above, if properly implemented, will provide a powerful solution. The SMRA is anchored in giving parents more authority over the social media activity of their children. This is important for several reasons. First, if the objective is breaking the addiction of teens, placing the problem in the context of family is the best remedy. Second, it connects well with the conservative focus on giving parents greater authority over the lives of their children against institutions that have encroached on the parental domain. The school choice movement and the SMRA are parallel expressions of the re-assertion of the family. Parents, beyond any others, are most likely to fight for their kids. Third, it deflects criticism from libertarians that this is state overreach. These laws restore power to civil society, rather than undermine it.

The SMRA also improves upon COPPA in critical ways. As Adam Candeub (Michigan State University), Clare Morell (EPPC) and others have persuasively argued, COPPA fails to accomplish its basic objective: protecting teens. Its regulations were conceived under the dated assumption that the Internet is a purely benign, non-invasive force. This has proven to be spectacularly wrong. So, COPPA does effectively nothing to stop Big Tech from gathering data on minors; it defines a minor as being 13 years old or younger, giving social media companies license to addict
the lion’s share of American teens; and they systematically admit children under the age of 13 onto their platforms anyway, because no serious repercussions force them to stop. The pecuniary rewards for addicting minors far outweigh the potential punishments. Legislation modeled after the SMRA, if buttressed by serious penalties, would correct these issues.

Such legislation will receive fierce pushback. Big Tech will lobby against age verification on the grounds that the task is too difficult or will require the gathering of too much information. Then the same companies will likely push for biometric verification that would be far too invasive of personal privacy. This is a false choice. Age verification can be effective, and this trap can be avoided.

A vocal and radical contingent will also use the issue to argue for the autonomy of teenagers and the need to “protect” them from parents. *Washington Post* columnist Paul Waldman recently claimed, for instance, that the SMRA’s measures give parents the power to “spy” on their children. Conservatives should welcome this fight. Compared with bombardment by online “influencers,” nudging by corporate algorithms, and the commodification of “friendship” and “identity”—all for the purpose of enriching Silicon Valley—family is the vastly superior medium for the self-development of young people. There is simply no equivalence between the avaricious eyes of Big Tech and the loving gaze of a mother and father.

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Education

Public education is one of America’s great achievements and has been vital to the nation’s success as a democracy, its rise as the world’s dominant economy, and the flourishing of its citizens. Unfortunately, policymakers have forgotten what public education is for, pursuing decades of reform that sought to increase test scores and college attendance but served mainly to strip-mine academic talent from local communities while poorly serving the vast majority of young people. Schools cannot prepare everyone for college, nor should they. But they can prepare everyone for life. They can provide character formation, facilitate important research, instill common values, and equip students to make productive contributions to their communities. If we made those our goals, we might begin to make progress.

1

PROMOTE NON-COLLEGE CAREER PATHWAYS

Create a Workforce Training Grant providing up to $10,000 annually to employers for each trainee engaged in on-the-job training. Define “trainee” status for workers whose time is split between work and formal training. Certify eligible training programs that abide by defined parameters and impose strict quality controls.

Wages for workers without college degrees have stagnated for decades, in part because America lacks effective non-college pathways. Public funding for post-secondary education goes almost exclusively to traditional higher education even though most Americans do not earn degrees, and high schools operate mostly as college-prep academies. Private employers hesitate to invest in job training themselves unless they are sure they can reap the benefits.

PRIORITIES

1. Promote Non-College Career Pathways
2. Deflate the Overcredentialing Bubble
3. Assist College Students with a Small, Simple, Standard Grant
4. Provide Bankruptcy Relief to Student Debtors
Public funding should support workforce training just as it supports higher education. Employers know best what skills the workforce needs and how to teach them, have access to mentors and facilities, and can provide direct workplace experience. Employers can also partner with industry groups, labor unions, and community colleges to provide relevant training even when employers themselves cannot.

Congress should direct the Department of Labor (DOL) to create a Workforce Training Grant funded by redirecting existing higher education subsidies. Employers would receive up to $10,000 per year for each trainee engaged in on-the-job training. DOL would define “trainee” status for workers whose time is split between work and formal training and establish the parameters

that employers must define for training programs (responsible entity, program length, curriculum overview, completion standards, expected wage and job placement outcomes, and formal certifications earned). DOL would certify eligible programs and provide employers the annual grant. Imposing strict quality controls, including decertifying underperforming training options, would protect program integrity and provide data to track program effectiveness. The American Workforce Act introduced by Senator Tom Cotton provides a good example of this approach.

Employers increasingly require degrees for jobs that did not previously need them. This “degree inflation” is driven not by major changes in the skills these jobs require, but by changes in hiring practices. Degree requirements remove an estimated 15.7 million capable American workers from consideration for jobs they can do. This is devastating for those workers and harms employers as well, who needlessly exacerbate their own hiring challenges. Excessive employer demand for degrees also amplifies the harmful cultural message that college is the primary path to prosperity and respect. Many young people are pressured to pursue expensive, debt-financed degrees they don’t need and which the labor market cannot always reward. Everyone loses: workers without degrees, many workers with degrees, employers seeking workers, and taxpayers asked to subsidize a broken higher education system.

More employers are voluntarily abandoning degree requirements, but research suggests this positive trend is developing too slowly to address more than a fraction of the problem. Policymakers must forcefully break the cycle. A model exists. In June 2020, President Trump required the federal government to prioritize skills over
degrees in hiring, restricting reliance on the education attainment of applicants. The order stands and has been replicated by numerous state governors of both parties. Congress or the president could go further and prohibit federal agencies from requiring degrees from their contractors and consultants in addition to their employees. But government is not merely an employer, with influence only over its own workforce. It also sets rules for private employer practices where the market has proved incapable of advancing important national interests.

The United States should prohibit the use of bachelor’s degree requirements in private sector job descriptions and hiring criteria. Reasonable exceptions should be limited to situations in which a specific degree is a legal requirement or mandated by a third-party professional standard (e.g., a theology degree required for ordination by a particular denomination). This prohibition would foreclose recruitment processes and HR policies that preemptively dismiss applicants without degrees—including hiring algorithms and AI tools that discard such applications. Employers could still consider educational achievement when evaluating an application, but capable job applicants without degrees must be allowed to enter the pool.

**ASSIST COLLEGE STUDENTS WITH A SMALL, SIMPLE, STANDARD GRANT**

Replace existing federal tax subsidies, grants, and loans for higher education with a single federal grant worth 50% of the in-state tuition at the median state’s four-year public university. Establish a loan facility to support colleges and universities as they transition to self-financing their product.

America’s “college-for-all” model has produced a perverse financing system for higher education. Policymakers see a college education as the key to opportunity, subsidizing student attendance with loans—no matter the cost. Colleges and universities receive their money up front, regardless of how students perform or whether the education prepares them for success. Most enrollees fail to graduate or else land in jobs that do not require their college degrees, yet tuition continues rising. This model has resulted in student debt becoming the nation’s largest form of non-mortgage debt, growing from $260 billion in 2004 to $1.53 trillion in 2020. The public has a legitimate interest in supporting affordable college education for those who will benefit from it. But loaning large amounts of taxpayer money to teenagers with uncertain prospects and no collateral, to purchase an education whose provider has no accountability for results, was never a wise approach.

Colleges and universities should thrive only by ensuring that the students they admit have strong prospects of success, that the students who attend graduate on-time with a useful education, and that graduates carry minimal debt and find jobs in which they can pay off whatever

**FURTHER READING**
- Essay by Mike Reeser
  Colleges Should Only Succeed When Students Do
- Commentary by Oren Cass
  Complacency and Wasteful Spending Blight U.S. Higher Education
- Atlas
  A Guide to College-for-All
- Policy Brief
  Self-Financing by Colleges

**FURTHER LISTENING**
- Talkin’ (Policy) Shop: Financing Higher Education
loans they do have. The best way to establish the right incentives and place risks where they belong is to require these institutions to self-finance. Colleges financially dependent on their alumni’s future earnings to fund their ongoing operations would very quickly find lower costs and better outcomes central to their existence.

The United States should move its higher education system in this direction by eliminating existing tax subsidies, grants, and loans, and instead creating a single federal grant worth 50% of the in-state tuition at the median state’s four-year public university. Such a grant would make a high-quality, public university education available to all Americans, provide public support for its pursuit, and create incentives for states to hold the costs of their own systems in check. Those reforms would leave colleges with no option but to self-finance the remaining costs for the vast majority of students unable and unwilling to pay the entire tuition upfront. Public universities, and many well-capitalized private ones, are in a position to do so already. But Congress should also create a loan facility to support those who require assistance with funding their operations as they transition to self-financing.

4

PROVIDE BANKRUPTCY RELIEF TO STUDENT DEBTORS

Eliminate section 538(a)(8) of the U.S. bankruptcy code, placing student debt on equal footing with other debt and allowing it to be discharged in bankruptcy.

Policymakers committed to championing “college-for-all” have given student debt an unhealthily “sacred” status. Because they believed a college education was the key to prosperity, they provided open-ended subsidies for students through loans that the market would never offer. At the same time, overconfident in a college education’s value, policymakers prohibited discharging student loans in bankruptcy. This has led directly to the student debt crisis. Students borrow enormous amounts of money to invest in education that often offers little or no return, leaving them saddled with unmanageable debt when things don’t work out; colleges collect ever-increasing tuition without caring if the debt can be repaid; and policymakers resort to costly and inequitable loan cancellation in an effort to provide relief. Forgiving student debt holds no one accountable for these failures, and in fact encourages more of the same. The bankruptcy system, already tailored to helping debtors in need of relief, is a much better option.

The United States should allow the discharge of student debt in bankruptcy, currently obstructed by section 538(a)(8) of the U.S. bankruptcy code. The American bankruptcy process works well, giving indebted individuals a fresh start when they need it, while imposing substantial costs to ensure that those who can afford to repay their debts usually do so. Combined with sensible reform to force colleges and universities to bear the burden when their students default, bankruptcy offers relief where it is needed and creates incentives for all involved that will strengthen the higher education system.
ew areas of American life have experienced more conflict of late than K–12 education. Frustration with district schools’ preference for remote learning during the COVID-19 pandemic has played a role, as have high-octane culture wars about racial equity and curriculum. Between spring and fall 2020, homeschooling rates nearly doubled; for African American families, the rate quintupled. Dozens of states enacted or expanded private-school scholarship laws to help low-income families attend private schools or “unbundle” their education altogether, and a cascade of states has begun implementing universal school choice. It is unclear whether district enrollments will fully recover.

Some right-of-center leaders may be eager to celebrate the breakup of a monopolistic bureaucracy and the introduction of greater choice into the American education system. But a conservative vision for public education should go beyond tearing down existing institutions and handing their functions to the market. Conservatives—and liberals—should advocate for an expansion of choice while also preserving a public role in guaranteeing academic quality and fostering an environment in which public and private options can coexist and complement one another.

Most democracies support “school choice” as a matter of principle. Critically, they also insist on academic guardrails. The coupling of choice plus academic accountability is called “educational pluralism” (see, for instance, “Introducing Pluralism to Public Schooling,” published by American Compass, or “The Case for Educational Pluralism in the U.S.,” published by the Manhattan Institute), which, when well designed, results in a mosaic of distinctive schools and strong academic performance. Nations from the UK and the Netherlands, to Indonesia, Singapore, and Australia all employ this model. Other democracies’ academic accountability takes many different forms, and some have been used to good effect in the United States. For example, the laws governing charter schools in New York and Massachusetts set a high bar for entry—a causal factor in these schools’ ability to close achievement gaps for minority students.

Libertarians within the right-of-center coalition often advocate the elimination of academic requirements altogether. Their argument is that market forces, exercised through parents’ decisions, are the most appropriate arbiters of quality; the state can only oppress. This is a flawed approach for at least three reasons.

First, rigorous, knowledge-building content works. Across the K–12 continuum, mastery of rigorous content exercises an independent, positive impact on young people’s opportunities. When American schools fail to provide this, they are leaving one of the most powerful levers off the table.

In practice, this means that while a wide variety of public and private schools should be eligible for public funding and free to operate as they see fit, all should be held accountable for covering a basic corpus of knowledge. Mastery of this content should be assessed in all schools through rigorous exams, the results of which provide clear signals to parents and teachers about each student’s strengths and weaknesses, and to the public about each school’s.

Second, parents need help. A hands-off approach leaves too many parents behind. Many well-resourced families can navigate the choices and identify high-powered options. But almost 40% of parents in urban contexts are functionally illiterate, with limited social networks. Surveys of parents in high-choice systems, and research on individual voucher programs like Washington, D.C.’s, show that parents newly empowered to exert agency on behalf of their children’s education face a steep learning curve. As one of the country’s foremost scholars of educational opportunity Patrick Wolf put it, parents don’t need information—“they need a person.” Nonprofits are springing up in the United States to fill this person-to-person need, but some pluralistic countries build “parent navigators” in from the beginning.

Furthermore, as conservatives increasingly acknowledge, the market logic that works so well for commodities can falter when applied to more complex

ASHLEY ROGERS BERNER

A Sustainable Path to School Choice
contexts. We humans can get attached to people, places, and things that do not serve us well—including schools. Conversely, markets eagerly dispose of things to which we might rightly be attached. Closing a school may be the right thing for any number of reasons, but it inevitably leads to collective grief, anxiety, and sometimes outright resistance from community leaders or lobbyists. Kevin Huffman, commissioner of education for Tennessee from 2011–2015, tells a harrowing story of what he called his “abject failure” to shut down “the worst performing [charter] school in Tennessee,” in the face of such pressures.

My argument is not that parents don’t know any better and shouldn’t be given choices for their own children. Rather, it is that education policy should be crafted so that, as they make those choices, parents can trust that there are no truly low-quality options on the table. To quote education scholar Charles Glenn, “It is an appropriate goal of public policy to ensure that there are no failing schools.” In today’s world, we could expand his statement to include virtual, hybrid, and homeschooling. You want parent choice to succeed? Make sure there aren’t any truly dreadful choices.

An analog is the Federal Supplemental Nutrition Assistance Program (SNAP), which exists to “provide nutrition benefits to supplement the food budget of needy families so they can purchase healthy food and move towards self-sufficiency.” The program restricts eligible products to generally healthy options, such as fruits and vegetables, dairy products, and proteins such as meat, poultry, and fish. The program will not fund products such as “beer, wine, liquor, cigarettes, or tobacco,” or nonfood items such as pet food.

Third, education has a public purpose. The most important reason to ensure academic quality is that doing so reflects the original purpose of government-funded education. Lest we forget, the primary reason that democracies ask taxpayers to support the education of other people’s children is because these children’s lives (including workforce participation and social wellbeing) and political capacities (understanding democratic institutions, analyzing legislation, and voting) shape ours. This dual purpose of opportunity creation and civic formation runs like a thread throughout the nation’s educational history, state constitutions, Supreme Court decisions, and public reports. Put differently, the ultimate purpose of public funding for education is not to bolster parental autonomy or individual interest per se. It is to support the common good.

As noted, most democracies support a wide variety of schools and hold them all accountable. The United States used to be plural, too, but the culture wars of the 19th century reduced our understanding of “public education” to one thing: the district school. We are left with a public vs. private binary and a zero-sum-game approach. It’s no surprise to find district leaders diminishing charter schools, and choice advocates diminishing “failing public schools.”

Educationally plural systems, by contrast, focus on improving each individual school rather than pitting entire sectors against one another.

Nor is education a political football in such systems; England’s Labour Members of Parliament are on record defending the tradition of funds for religious schools.

Education leaders in the U.S. should follow suit and drop their weapons. Good things are happening in every school sector. There should be room for everybody. Beyond the strong philosophical and empirical reasons to support academic excellence and resist the take-no-prisoners approach to education policy, there is also an instrumental one: Casting a positive vision from a generous, pluralist space is more likely to build nimble and more politically sustainable school systems in the long run. And that would be a win for families, students, and teachers.

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One great impediment to education reform is a false notion about the American Dream—and really, about democracy itself. For many Americans, college epitomizes the promise of democratic citizenship. The narrative can be reduced to a basic syllogism: In a country that values social and political equality, you should be able to make a life for yourself and participate in the project of self-government. A college education is both the ticket to a well-paying job and an indispensable training ground for self-government. Ergo, everyone who wants to better themselves should go to college.

Up until the election of Donald Trump, presidents of both parties embraced what Michael Sandel calls the “rhetoric of rising,” the notion that anyone who works hard can and should go as far as their dreams will take them. In practice, this rhetoric tied the American Dream to a narrow form of making a life for oneself, placing an outsized emphasis on educational attainment. This vision of upward mobility affords little honor to those who don’t go to college. In one speech during his presidency, he asked an audience of middle schoolers, “How many students here expect to go to college?” He then turned to the adults and said, “I expect all of them to raise their hand.”

Many charter schools—the reform tool of choice for many conservatives—echo that aspiration and embrace the goal of college-for-all. The LEAD Public Schools charter school network in Nashville notes that “our mission continues to prepare EVERY student in our care with the skills and knowledge they need to be ready for college and ready for life.” IDEA Public Schools, a network in Texas, is even more explicit: “We believe ensuring college success for 100% of our students is the best way to help them succeed in life.” The mission of Green Dot Public Schools, a network with schools in California, Tennessee, and Texas, is to prepare every student for “college, leadership, and life.” The list goes on, reflecting a deeply ingrained assumption that college is the broadly desirable end goal of education.

Serious education reformers ought to advocate the opposite. Far fewer people should feel the need to go to college. Our conception of success should be decoupled from college. Policymakers should use every tool at their disposal to de-emphasize the college degree. Because of our longstanding and ostensibly democratic conception of college, this might sound like an elitist agenda. In reality, busting the college monopoly better fits the needs of most Americans, and it better comports with the goal of self-rule.

College is a good option for some, but using it as a stand-in for success obscures the real purpose of public education, which is two-fold. First, public education ought to prepare young people for citizenship in a free society. This is the impetus for the liberal arts: Put simply, freedom must be learned. Second, public education should empower citizens to become contributing members of their communities, most obviously by preparing them for productive and well-paying jobs. Of course, for some, higher education serves these two basic roles. College prepares students for jobs that require a high level of expertise. It also provides a deeper civic education, preparing students for leadership, again through the liberal arts. The elite—those who lead our public and private institutions—will always be with us, and college will likely always serve as their primary training ground.

It’s not hard to see how those same elites came to presume that college should be the logical next step for every student. But the college-for-all paradigm nevertheless undermines the aims of public education, properly understood. College is often a clumsy form of career preparation, and our emphasis on it causes two seemingly opposite afflictions. Those without college credentials are left out of jobs for which they are perfectly suitable, while at the same time, many with college degrees are underemployed. The obsession with college also encourages an intense focus on the narrow criteria for admissions, which damages basic liberal education, encouraging students to see what they learn as a mere means for climbing another step on the ladder.
Policymakers should seek to direct a portion of the money currently funding higher education instead toward non-college pathways to the workforce.

College-for-all even detracts from that most basic mission of the university: the pursuit of truth. Universities’ effective monopoly over credentialing gives them extraordinary power, and thus leeway to evade scrutiny for violating academic freedom, embrace overtly political goals, and chase progressive fads. And because college is treated as a vague and universal rite of passage, it has become, in effect, all things to all people. For most people on college campuses, that academic mission, the pursuit of truth, simply doesn’t register as a primary goal.

Contrary to its egalitarian trappings, the college-for-all paradigm entails something of an elitist assumption—namely, that everyone should strive to be a member of the professional managerial class. In its condensed form, the basic message is that, to participate in civic and economic life, you really need a specialized credential. I suspect that few would actually say the quiet part out loud, but our educational policy often implies as much. This is fundamentally technocratic, not democratic, and we should challenge it both in word and policy.

For this purpose, policymakers have many tools at their disposal. They should seek to direct a portion of the money currently funding higher education instead toward non-college pathways to the workforce. They should follow several states in ending bachelor’s degree requirements for state employees—and, as a more radical step, they should consider banning employers from using the bachelor’s degree as a minimum job requirement. Likewise, they should encourage the use of apprenticeships as an alternative to degree-based professional certification.

None of this means that we should abandon higher education. With universities around the country embracing explicitly progressive political goals, some conservatives flirt with the idea of letting the system burn—or, indeed, burning it down. This is both unworkable and undesirable. We need engineers, scientists, doctors, lawyers, accountants, and other highly trained professionals. For them, higher education of the kind uniquely offered in the college classroom, and some form of credentialing, is necessary.

Further, regardless of whether conservatives lend their support, higher education will continue to serve its elite-forming function. Conservatives should think about ways to shape this kind of education. Some states have established schools devoted to open discourse and civic education at their flagship universities, which is a promising experiment that should be refined and replicated, with the goal of creating elites with local attachments, rather than mere “global citizens.” The pursuit of truth, after all, is vital for a well-functioning society. While lawmakers work to bolster non-college pathways, they should also think creatively about how to empower aspiring scientists and scholars who value academic freedom, and even encourage them to go into academia.

Lasting education reform is a monumental task—but also a vital one. We will know we are succeeding not when college attendance has become universal, but rather when it has become entirely unnecessary.

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The “college-for-all” educational model sees education as a conveyor belt that moves young people from elementary to middle to high school to a college degree and—finally—to a job. “High school to college to work arose about 50 years ago,” writes Ryan Craig, managing partner at University Ventures, “and became gospel only 25 years ago.”

Americans came to believe that a degree was the preferred, almost certain, pathway to upward financial mobility—the “surest ticket to the middle class,” in President Barack Obama’s formulation. Policymakers committed trillions of dollars to support this approach. Employers made the degree the default credential for hiring. And many benefits were associated with receiving a degree—for example, better health, higher levels of employment, and greater income and long-term wealth.

But American attitudes have begun shifting dramatically in the past few years, and the college degree has lost its shine. Many Americans, including young people, want other educational pathways to opportunity. And civic entrepreneurs in communities are leading the way in creating these pathways. The result is a new approach, opportunity pluralism, that focuses on providing young people with not only the knowledge, but also the relationships, they need to pursue a range of successful careers.

Recent polling data underscores how quickly American views and preferences have changed.

A 2022 Purpose of Education Index survey by Populace reports that ensuring “students are prepared to enroll in a college” dropped from Americans’ 10th highest priority (out of 57) for K–12 education in 2019 to 47th in 2022. Priority one is students “developing practical skills”—only one in four (26%) think they do—followed by “problem solve and make decisions,” “demonstrate character,” and “demonstrate basic reading, writing, and arithmetic.”

Four national surveys of Gen Z high schoolers conducted between May 2020 and January 2022 show a collapse in enthusiasm for college. In January 2022, around half (51%) said they plan to attend a four-year college, down 20 percentage points from a high of 71% in May 2020. Nearly one-third preferred post-high school educational experiences of two years or less rather than a four-year college experience.

American Compass reports that more than 8-in-10 parents (85%) “strongly agree” or “somewhat agree” that there should be “more educational options available for my child,” with strong support for non-college career pathways after high school. Foremost, parents preferred a three-year apprenticeship after high school leading to a “valuable credential and a well-paying job” over free college.

A Gallup survey reports that 7-in-10 Americans believe that employers should hire job candidates based on skills and experience instead of a college degree, though fewer than half say their employers do so. And a strong majority of employers (68%) and Gen Z (58%) agree that organizations should hire individuals from non-degree pathways.

Strikingly, while people have changed their own views, most don’t realize how widespread the rethinking has been. In the Populace survey of priorities, respondents were also asked what they thought the society’s priorities are: college preparation was their own 47th priority, but they perceived that society ranked it as the third highest.

One reason that Americans are changing their minds is that, to paraphrase John Maynard Keynes, the facts have changed. “[T]he economic benefits of college may be diminishing,” according to a Federal Reserve Bank of St. Louis study. It shows that the college income premium has fallen for recent college graduates while the wealth premium has fallen among cohorts born after 1940. In fact, for non-white heads of households born in the 1980s, the wealth premium cannot be distinguished from zero. This is true also for those with postgraduate degrees.

The college-for-all model should give way to an approach that expands pathways to opportunity. This is occurring in states and communities across the country under the banner...
of career pathways programs, which immerse young people in education, training, and work by connecting them with local employers. They often incorporate personal and occupational support services, including job placement, and come in different forms, including apprenticeships and internships; career and technical education; dual enrollment in high school and postsecondary education; career academies; boot camps for learning specific skills; and staffing, placement, and other support services for those seeking jobs. Finally, they offer the crucially important opportunity to build the social capital of strong relationships with adult mentors from all walks of life.

Programs are created in “top-down” and “bottom-up” ways. The former includes statewide programs created by governors and legislators from both political parties like Delaware Pathways by Democrat Jack Markell and Tennessee’s Drive to 55 Alliance by Republican Bill Haslam. Similar programs exist in politically diverse states like California, Colorado, Texas, and Indiana.

Examples of “bottom-up” programs between K–12 schools, employers, and civic partners include 3DE Schools in Atlanta; YouthForce NOLA in New Orleans, Washington D.C.’s CityWorks D.C.; and Cristo Rey’s 38 Catholic high schools in 24 states. And organizations like Pathways to Prosperity Network, P-Tech Schools, and Linked Learning Alliance form regional or local partnerships that provide advice and practical assistance to those creating pathways programs.

**CAREER PATHWAYS PROGRAMS HAVE FIVE COMMON FEATURES:**

- An academic curriculum linked with labor market needs, leading to a recognized credential and decent income;
- Career exposure and work, including engagement with and supervision by adults working in the relevant fields;
- Advisors who help participants navigate the many questions and issues they confront, ensuring they complete the program;
- A written civic compact among employers, trade associations and community partners; and
- Supportive local, state, and federal policies that make these programs possible.

These programs emphasize two important elements that lay the foundation for lifelong success: knowledge and relationships. Knowledge is what most educational programs focus on. And to be sure, teaching young people what they need to know to set off on a productive career is a vital element of opportunity pluralism. But as the old adage goes, it is not only what you know but also who you know. What distinguishes effective pathways programs is their ability to equip students with not only knowledge that pays, but also relationships that are priceless.

On a community level, recent studies by Harvard economist and Opportunity Insights Director Raj Chetty and colleagues show that cross-class relationships like those fostered by mentorships play a vital role in boosting upward mobility and expanding opportunity. It is not the relationships themselves that create opportunity. It is the downstream effects that the mentorships have on shaping young people’s aspirations and behavior.

Additional evidence comes from the U.S. Administration for Children and Families’ Pathways to Work Evidence Clearinghouse. Examining over 8,000 studies that identified 221 pathway interventions, it found that 38% of the interventions “improved outcomes in at least one domain of interest.”

Finally, studying the link between high school career experiences and adult career outcomes in eight countries, the international Organization for Economic Co-operation and Development concluded that “...secondary school students who explore, experience, and think about their futures in work frequently encounter lower levels of unemployment, receive higher wages, and are happier in their careers as adults.”

These programs provide long-term benefits to participants, communities, and society beyond the immediate success of someone getting a good job. They foster an occupational identity and vocational self that assist young people in achieving other life goals. They also create faster and cheaper ways to prepare individuals for jobs. Finally, they cultivate the connections and bonds that build on the dynamism and innovation nurtured by local initiatives and institutions of civil society.

Policymakers who want to increase the upward mobility of young people, foster the personal agency and other tools they need for human flourishing, and support the institutions of civil society should create and support career pathway programs.

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The American labor movement’s slow descent into obsolescence has deprived American workers of a vital institution. A well-functioning system of organized labor affords solidarity, mutual aid, bargaining power, and workplace representation, all of which can benefit workers, their families and communities, and the nation—both economically and socially. Especially for conservatives, who cherish the role of mediating institutions, prefer private ordering to government dictates, and believe prosperity must be earned rather than redistributed, reforming and reinvigorating the laws that govern organizing and collective bargaining should be an obvious priority.

**1**

**FACILITATE MEANINGFUL WORKER VOICE AND REPRESENTATION**

Amend the National Labor Relations Act to remove the prohibition on nonunion employer-worker collaboration and permit workers to form non-adversarial worker-management collaborative committees. Require the formation of such a committee be accompanied by the option for workers to elect one of their own to the company’s board.

American workers place enormous value on cooperative relationships with management. Poor employee-management relations harm job satisfaction even more than unpredictable scheduling or low wages. Worker voice can benefit businesses, too, through increased productivity and job satisfaction, improved information flow, and strengthened trust. But most American workers experience a “voice gap” between the influence they want to have on important workplace issues, and the influence they actually do have.

Under American labor law, the traditional “union” is the exclusive mechanism by which workers can organize and engage with management. Yet only 35% of workers not already in a union say they would vote for one and only 6% of private-sector workers...
FUND WORKER-LED BENEFITS AND TRAINING PROVIDERS

Establish parameters for voluntary, non-political, worker-controlled organizations that can receive employer and government funds and administer benefits and training programs. Allow state and local governments to work with such organizations in delivering joint federal-state programs like unemployment insurance.

Americans take for granted that employers and government programs in some combination will provide the basic supports and benefits needed by workers in a modern labor market. But this system works poorly. Government administration of public benefits like unemployment insurance is bureaucratic,

Institutions of organized labor have traditionally been the mechanism by which workers take collective action and gain representation and bargaining power in the private sector. Strong worker representation can make America stronger.

CONSERVATIVES SHOULD ENSURE WORKERS A SEAT AT THE TABLE, A STATEMENT SIGNED BY CONSERVATIVE LEADERS INCLUDING MARCO RUBIO, JEFF SESSIONS, AND J.D. VANCE
ineffective, and unaccountable. The COVID-19 pandemic and ensuing shutdowns strained state unemployment systems beyond the breaking point. Private insurance struggled to adapt. Employer-sponsored benefits such as health insurance, meanwhile, lock workers into jobs and limit their options.

Organizations of, by, and for workers are a far more sensible institution in which to locate responsibility for providing these kinds of benefits and services. Many other countries use systems like this, which have been proven to improve benefits provision because they are more accountable and transparent than either government or employers. When worker organizations don’t do their job, members can fire leadership or join a different one. Conversely, when a worker loses or leaves a job, he can remain attached to his organization.

ALLOW SECTOR-WIDE BARGAINING TO SUPPLANT REGULATION

Clarify that broad-based collective bargaining agreements are permissible under federal labor and antitrust law, creating space for state and local leaders to innovate. Specify appropriate areas of federal employment regulation from which broad-based collective bargaining agreements can choose to depart.

A well-functioning capitalist system relies upon workers and employers both possessing sufficient power in the labor market to defend their interests and come to mutually acceptable arrangements. This is not a natural state of affairs, as economists since Adam Smith have warned. Absent worker power, policymakers necessarily step forward with redistribution to ensure widely shared prosperity and regulation to govern the workplace. But America’s enterprise-level system of workplace-by-workplace unionizing and bargaining has proved unworkable. It cannot offer the kind of worker power required to return decision-making power from the federal government back to American communities, employers, and workers where it belongs.

The United States should establish parameters for creation, governance, and composition of worker benefit organizations and make them eligible to receive government funds for administration of public programs. As recipients of public funds, such organizations should be prohibited from engaging in partisan politics. This is what American workers want. When asked which activities are most important for a labor organization to perform, they rank providing benefits and training nearly as high as collective bargaining, and far above political activism. By a 3-to-1 margin, workers favor a tradeoff in which worker organizations can manage benefits with public and private money but cannot spend on politics.

FURTHER READING

• Policy Paper by Oren Cass
  A Better Bargain: Worker Power in the Labor Market

• Exchange
  Would Sectoral Bargaining Provide a Better Framework for American Labor Law?

• Essay by Michael Lind
  The Once and Future American Labor Law

• Essay by Wells King
  Workers of the World

• Policy Brief
  Worker-Run Benefits
lead the way in experimenting with these approaches, but federal law can help by getting out of the way. Congress should amend the National Labor Relations Act to clarify that broad-based, sectoral models of bargaining are permissible, and by amending antitrust law to provide safe harbor for employers and workers cooperating in this way. Congress should also permit broad-based collective bargaining agreements to depart from appropriate areas of federal employment law, creating upside for workers and employers to bargain in this way and beginning the process of transitioning back to privately settled agreements. When workers and employers on equal footing agree on an approach different from the federal default, they should be allowed to follow it.

4

GUARANTEE WORKERS’ LEGAL RIGHT TO ORGANIZE

Increase use of temporary injunctive relief to immediately reinstate workers fired for legally protected organizing activity and establish clear guidelines and rapid processes for seeking that relief.

Conservatives serious about protecting American workers must consider the hazards faced by workers seeking to exercise their legal right to organize in the workplace. Employers are legally prohibited from penalizing “concerted activity” in which workers take action to discuss or improve their wages, benefits, and working conditions, including by attempting to organize a labor union. Yet workers who exercise their legal right to protected concerted activity are sometimes fired by employers seeking to discourage the activity. Legal remedies under the National Labor Relations Act (NLRA) are weak, usually taking a long time to adjudicate and generally offering only reinstatement and backpay after a long absence from the workplace. For employers, breaking the law can be entirely rational.

The United States should expand its use of NLRA section 10(j), under which the National Labor Relations Board (NLRB) has the authority to pursue temporary injunctions in federal court that immediately reinstate workers fired during organizing campaigns. Immediate reinstatement is a much more valuable remedy for the affected worker. It also causes the employer’s violation to backfire, sending a strong signal to workers that they can exercise power and that their organizing effort is legitimate and protected. When pursuing a 10(j) injunction, the NLRB succeeds almost all the time (in every case in 2020 and in over 90% of cases in 2021). The NLRB should give its general counsel authority to pursue 10(j) injunctions in every case in which employer retaliation is identified by regional offices.
GET WORKER ORGANIZATIONS OUT OF PARTISAN POLITICS

Prohibit traditional unions—and any other organizations that collect mandatory worker dues, have legal authority to represent workers in collective bargaining, or provide workers with government-funded benefits—from spending funds on partisan political activities. Affiliated PACs with independent fundraising can make such expenditures, as 501(c)(4) political action groups separate from 501(c)(3) nonprofits do today.

American labor unions have become predominantly political organizations, representing only 6% of the private-sector workforce but spending nearly $2 billion during the 2020 election cycle. And while union members hold a wide range of political views, more than 99% of spending by the largest unions goes to Democrats and the political left. Perhaps for these reasons, “union political involvement” is the top reason cited by workers who do not want to join a union. Not a single policy issue, from a list of 20 on which the AFL-CIO and SEIU are actively engaged, was selected by a majority of workers as one that they would want to see a union speak out on. Given a choice of a worker organization that devotes its resources “only to issues facing you and your coworkers at your workplace” or “to both national political issues and issues facing you and your coworkers at your workplace,” potential union members select “workplace issues only” by 74% to 26%. Unions that could not spend on politics would better serve their members, which is their primary—indeed, only—role.

No reason exists that worker organizations created and recognized by law need to engage in partisan politics. This is especially true when workers are required to pay dues toward support of the organization and would be even more true if the organizations were able to receive public and employer funds as well to provide benefits and training to members. Indeed, asked to allocate points across different functions that a worker organization could provide, workers allocate eight times as many to benefits and training as to politics. A proposal that would allow worker organizations to receive public funds for training and benefits but prohibit those organizations from political spending is viewed favorably by 56% of adults in the working class and unfavorably by 17%.

The United States should prohibit political spending by worker organizations, comparable to the prohibition on political spending by 501(c)(3) nonprofit organizations. The ban should apply to any organization recognized by the National Labor Relations Act as the exclusive bargaining representative for a group of workers, any organization that receives compulsory dues from workers, and any organization that receives employer or public funds to provide benefits or training to workers. Such organizations could still create separate political action groups and raise voluntary contributions from workers and other sources to fund political activity.
Ironically, the end result of a libertarian approach to labor looks much like the progressive agenda it claims to abhor: a larger, more intrusive state and the disempowerment of the American worker and citizen.

BRIAN DIJKEMA
Everyone recognizes the importance of work for individual health and life satisfaction, strong families and communities, and more. And macroeconomists know the importance of a productive labor force for the overall vitality of an economy and rising living standards. Less often discussed is how the organization of that labor affects these outcomes. Apart from the occasional story about a big organizing campaign at a prominent consumer-focused company, labor relations in America receive little attention. In conservative circles, the attention is largely negative.

This is a shame, because when we talk about labor relations, we’re talking specifically about the ways that workers come together to solve their own problems. To ignore that is to ignore a unique contribution that the American nation has given to the world. Tocqueville famously admired the long-standing American tradition of not waiting for the government to get things done—not even to get justice done. In this context, justice does not mean John Wayne riding into town with a posse, but rather, in the Aristotelean sense, arranging the community to facilitate human flourishing.

The notion that workers themselves, together, are capable of achieving justice in their workplaces without appeal to state adjudication is a profoundly conservative, not progressive, notion.

A labor market dependent on individual bargaining creates regulation and empowers bureaucracy, as it will increase the need for public surveillance of working conditions and for workers to turn to public authorities for justice when things go wrong at work, as they inevitably do. Ironically, the end result of a libertarian approach to labor looks much like the progressive agenda it claims to abhor: a larger, more intrusive state and the disempowerment of the American worker and citizen.

Conversely, labor’s traditional support of principles like a family wage was key to fostering the vital civil society of earlier eras—families could afford not only to support themselves, first and foremost, but also to give to churches, synagogues, and other civic organizations. They had the time and stability to participate in building and sustaining the institutions that in turn sustained them. The labor market’s current structure, in pursuit of efficiency, has delivered precarity that works against these goals of a freely organized America with strong families and strong communities.

To put it bluntly: At least at a conceptual level, apart from families, trade unions are among the institutions in America most aligned with conservative principles and capable of advancing conservative ends.

This argument sounds odd to many conservative ears because the current American model of labor organizing is so dysfunctional. Under the National Labor Relations Act (NLRA), which dictates the terms of virtually all private-sector organizing, a worker only has a choice between Union A (which is often not great, and often captured politically by the left) and no union at all. Most choose no union at all, at which point they are forced either to suck it up or head to the state for support and justice.

As I’ve noted elsewhere, this labor model was built in the economic hell of the 1930s, and in the face of an ascendant communist superpower. It works best in the large, bureaucratic environments that were present then. Unsurprisingly, it most often persists today in the public sector. Meanwhile, the labor market’s largest low-wage segments, generally in the service sector, have little access to the significant benefits that unions provide. This includes wages, yes, but also and importantly refers to the things required for stable communities and strong families—a predictable schedule and a voice in one’s work.

As the labor movement’s economic salience has waned, it has become primarily a political force, aligned closely with the Democratic Party. The result has been a decades-long failure of imagination by both political parties. Democrats and their union clients promote policies like “card check” as the means to increase union density and dues regardless of what workers themselves want. And Republicans in
turn watch unions almost exclusively supporting Democrats and, instead of addressing real issues like incredibly lax penalties for union-busting, see the purpose of labor policy as diminishing the financial lifeblood of their political opponents.

This delivers the worst of all possible worlds: an almost continuous decline of union density (the unions’ nightmare) alongside an ever-increasing and intrusive role for the state (much to conservatives’ chagrin).

America needs to recover the idea of labor as an organization of free citizens united around a common goal: justice in the workplace with the worker as an agent with a distinct voice that, combined with fellow workers, would be as powerful as the employers. This is entirely compatible—indeed, aligned—with conservative principles. Notably, policymakers who draw on religious traditions often find themselves best equipped to articulate the case.

Conservatives could lead the way in reimagining a labor model that accounts for modern economic realities and supports a plurality of ways that workers can organize to achieve agency in their workplaces. Achieving this will require a certain degree of policy entrepreneurship, with a goal of recognizing a spectrum of workplace organizations and functions. Studying the different models that exist around the world would help. Americans tend to assume their way is the only way, and so the dysfunction of American unions has led to the conclusion that labor organizing doesn’t work. Understanding the many forms that it can take, by contrast, leads quickly to the realization that there are options for everyone to like.

For example, policymakers could consider different labor codes for different industries or job classifications. The needs of both workers and employers in various service industries are very different than in construction, say, or manufacturing. The gig economy creates the need and the opportunity for a model more akin to “sectoral bargaining,” in which workers across employers (or, perhaps, working for many of them at once) bargain collectively with a coalition of all the firms. The prospect of broad representation across employers also underscores the importance of creating room for greater competition between unions and ensuring workers the freedom to exit one for another or to choose not to be a member at all.

Unions could also do many more things. In some industries, a union is the ideal institution for delivering training, policing safety, and providing benefits. Portable benefits tied to a union rather than an employer can make labor markets more dynamic. And for those interested in subsidiarity as a political principle, using worker organizations as benefits providers can help move public services closer to their recipients. A thoughtful approach to labor could rebalance the state and civil society and the citizen’s relationship to both. Conversely, unions could be constrained in their politicking—a realm from which workers consistently say they would rather see worker organizations steer clear.

Unions could become more cooperative. The NLRA, born from the violent labor conflagrations of the early 20th century, assumes that labor and capital are adversaries and focuses on channeling adversarial conflict into collective bargaining. As a result, it minimizes the role that employers can play in worker organizations and has had the unintended consequence of blocking innovative—and highly democratic—forms of organizing. Today, most workers say they would prefer a worker organization jointly run by workers and management.

Finally, whatever forms unions take, conservatives should be unanimous in their commitment to robust enforcement of the law. Both corruption within American unions and illegal union-busting by American corporations are far too prevalent. Complaints must be raised easily and adjudicated quickly, and penalties must be far harsher to deter violations.

Thinking in this way requires moving beyond the outdated Marxist idea of class domination as a motive for organizing. While there are clear instances where workers are being oppressed by their bosses, retribution should not be the motivating factor in labor organizing. A workplace is a community in which labor and capital have sometimes competing, but also highly aligned gifts of productivity and just reward for work. Conservative policymakers can recover the idea that a labor movement allows civil society to balance the power of an overweening state, and that providing workers with creative, fair ways to achieve the American dream is not hostile to, but constitutive of, American culture.

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In the years since President Ronald Reagan left office, conservative policymakers have had some success speaking to Americans as believers, as families, and as American citizens. But in the economic realm, their message has often spoken to Americans only as owners: especially small business owners, but also other entrepreneurs and even independent contractors. As conservatives grapple with the ways the economy has failed families in recent decades and build a broader coalition that draws heavily on the working class, they must remember how to speak to Americans directly as workers.

The key theme—both philosophically and politically—for conservatives to recover is agency, defined as participation in the charting of one’s life course. Broadly speaking, agency is not exclusively or even primarily economic; man does not live by bread alone. A truly conservative vision for human agency promotes the citizen’s ability to provide for himself and others as he desires, and encourages virtue to order those desires towards honoring God, forming and supporting a family, and building up his community.

Agency is bound up with self-government. Yes, self-government tends to be efficient economically, and it tends to be satisfying, but even more profoundly, it is edifying: It positions citizens to consider the common good of the polity alongside (and in relation to) their personal goods. As our American tradition has discerned, for citizens to value the common good, they need some share in influencing it. Sound public policy therefore protects the institutions by which individual influence becomes possible—restoring federalism; reviving the organs of civil society; respecting the autonomy of the church; protecting the integrity of the family.

Viewed through this self-government lens, labor policy is concerned with creating or reinforcing structures through which Americans as workers participate in the common good.

Conservatives have long appreciated that workers include working owners, especially small business owners and independent contractors. A healthy labor policy respects the agency of working owners and gives them substantial latitude to determine the ways in which their small businesses’ work will be done. To protect that agency, conservatives should push for a “small business tier” for federal regulations, to give smaller organizations—as well as state and local governments—more space for self-government. In the same vein, conservative labor policy should streamline access to working ownership, including: bright-line standards for independent contractor status; simplified rules for workers to buy into employee stock ownership plans; and association health plans or other civil-society-based “pools” through which working owners can access benefits often difficult to obtain outside of employee status.

But most working Americans today are not owners and do not aspire to be owners. For them, the policy focus must be on the structures through which they can participate in the common good as wage-earning employees. And “participate in the common good” is a capacious phrase: It means “seek good compensation” and “seek respect” and “influence the enterprise’s objectives” and “learn to appreciate how one’s own work contributes to those objectives.”

Conservatives already embrace at least two structures that support employee participation in the common good. The first is small business, simply because it operates at a scale where worker interaction with owners can be routine, and where each worker’s contribution to the joint enterprise represents a substantial share of the whole. The second is works councils, defined as workplace committees (sometimes employer-funded) where employee representatives are empowered to discuss issues of common concern with management, in a posture neither asymmetric, as with an individual employee approaching leadership, nor adversarial, as in collective bargaining. (In large public companies, that line of communication could be reinforced even further by letting employees select a representative to participate in meetings of the board.)

But what about labor unions? Conservatives rightly have long rejected the union as a constructive institution for...
labor policy, but it’s important to clarify why that’s the case. In principle, unions should present an opportunity for wage-earner participation in the common good. But in practice, modern unions in the American private sector are beset by serious agency problems that limit their effectiveness as institutions for individual workers to share in the common good. These problems thus present policy opportunities for conservatives who want to restore worker agency. First, American collective bargaining is too adversarial. Understandably, unions tend to be major pain points for employers; one prominent reason is that employers have little to gain from engagement. Federal and state employment laws have set a very high “floor” for the terms and conditions of employment, from which unions can only negotiate up. If those laws were amended so that, for unionized workplaces, workers and employers could agree to adjust regulations, workers would enjoy greater agency and employers would have something to discuss. In the spirit of self-government, workplace regulation could be brought down from broad one-size-fits-alls to rules tailored to local conditions. (For example, a union might assent to relaxing the overtime threshold to 45- or 50-hour weeks in exchange for more predictable scheduling of hours. Or labor-management grievance committees could adjudicate EEO complaints with only limited judicial review.) Another way to hem in adversarial positioning would be to expand unions’ legal latitude to administer benefits and social insurance, detaching some terms of compensation from any particular workplace. Rather than only impose, a union would take tasks off the employer’s plate and return them to workers’ control—likely still with employer funding. Once again, worker agency and self-government would grow. Second, unions are not accountable enough to their members. This disconnect is most obvious from unions’ political activity. The typical blue-collar union member’s voice is not reflected in the union leader who praises abortion access or job-squeezing environmental mandates; his desire for self-government is stymied by routing his dues to progressive war chests. The reasons for that all-too-common disconnect are complex, including unions’ internal incentive structures, the realities of coalition politics, and the fact that union leaders commonly regard themselves as adjuncts of the same managerial class that dominates big business, the administrative state, and the institutions of culture. Conservatives should explore structural reforms like heightened fiduciary responsibilities of leaders to union members, and expanding both public and private enforcement of those duties. They might also consider defining the scope of union activities to preclude such politicking, or else create an alternative form of apolitical union that workers would likely prefer. By approaching labor policy only in the negative, conservatives have lost a vital channel to engage workers and their aspirations. An agenda limited to getting workers out of unions, repealing Davis-Bacon, and watering down registered apprenticeships lacks broad appeal. And, understandably, it has yet to deliver reforms to the institutions closest to workers. If we think instead about labor policy as an opportunity to build, we can ensure that workers have the kind of freedom they need to flourish.

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As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

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