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National Developmentalism: From Forgotten Tradition to New Consensus

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In response to the rise of "populism," members of the Washington establishment have adopted a reassuring way to frame the question of America's proper relationship to the world.[1] As they see it, Americans are divided into two camps—open or closed, globalist or nationalist, interventionist or protectionist. In this framing, the closed, nationalist, and protectionist camp voted for Trump, and the open, globalist, and interventionist group for Clinton. From this basic dichotomy about America's role in the world, views about America's role in the global economy can be deduced.

If only it were that simple. In reality, five distinct schools with different views of how America should fit into the world economy and govern its own can be identified: global libertarianism, progressive localism, national protectionism, global neoliberalism, and national developmentalism. Each of these contemporary schools of American political economy has its own vision of the good society, expressed in its own preferred combination of policies toward firms, trade, and immigration.

Of the five schools of American political economy, three of them—global libertarianism, progressive localism, and national protectionism—are so extreme in their rejection of existing arrangements that they are unlikely to attain the level of dominance that global neoliberalism has enjoyed since the end of the Cold War. Each of these schools has influenced policy, however, as libertarianism did beginning in the late 1970s with the emergence of the flawed model of supply-side economics, and as progressive localism appears to be influencing the Democratic presidential race today.

Of the five schools of American political economy, national developmentalism is the school which should guide American economic policy at home and abroad. As described below, it holds that the key role of the state is to foster industrial and economic development and that international economic policy, including immigration policy, should be crafted to maximize U.S. economic competitiveness.

Libertarian Dreams and Dystopias

The moral and social vision that informs libertarianism is a radical theory of cosmopolitan individualism. Individuals should be free to engage in contractual relations with one another, without being restricted by political boundaries. Libertarians have long been divided between "anarchists" who want no states at all and "minarchists" who believe in a minimal, "night-watchman" state limited to keeping the peace and defending private property and commercial contracts.

When it comes to firm size, libertarians naturally take a laissez-faire attitude. They tend to oppose antitrust law as an interference in transactions among consenting adults. At the same time, they oppose government aid to businesses, large or small, which they denounce as "crony capitalism."

For all libertarians, national borders are an infringement on liberty, as are tariffs, fiat currency, and, of course, anything that smacks of industrial policy. They favor unlimited immigration and free trade—including unilateral free trade with countries whose governments protect and subsidize their own national industries. The libertarian answer to the danger that combining open-borders immigration policy with a national welfare state could turn a country into a welfare magnet is simple: abolish the national welfare state for everyone, natives and immigrants alike!

In the early twentieth century the founding fathers of contemporary libertarianism, like Friedrich von Hayek, Ludwig von Mises, and Lionel Robbins, welcomed the worldwide equalization of wages by offshoring and mass immigration, including a downward movement in developed nations. As the British economist Lionel Robbins wrote 1934, in the post-national world market a capitalist would be able to "close down his works in Lancashire to commence operations in Japan," where labor was cheaper.[2] Mises predicted that "English and German workers may have to descend to the lowly standard of life of the Hindus and coolies to compete with them."[3] More recently, libertarians see all immigration—skilled and unskilled—and all trade and offshoring, as unalloyed goods, with the more the better, maximizing individual freedom.[4]

Something like the vision of Mises and his allies was realized briefly in the years following the fall of the Berlin Wall. With the establishment of the World Trade Organization (WTO) in 1995 and the accession of China to it in 2001, global trade dramatically expanded. U.S. administrations of both parties went full out to promote it. In the early 2000s, the Bush administration's Commerce Department went so far as to hold workshops to assist U.S. corporations to move work to China, under the mistaken view that this would help them, and therefore the U.S. economy, become more competitive. Liberalized immigration policies meant that the number of immigrants in the United States rose dramatically from around fourteen million in 1980 to around forty-five million today, a rate of growth unprecedented in American history.[5]

For libertarians, borderless globalism was to be combined with a limited state, with most government responsibilities devolved to U.S. states, which because of interstate competition for jobs and the need to offer the best business climate, would oversee limited government functions. The political result of the trade and immigration policies favored by libertarians and neoliberals alike has been the populist backlash that has benefited Donald Trump and other nationalists and populists in Europe.

The Enduring Appeal of Progressive Localism

The philosophical roots of the rival school of progressive localism run deep in the tradition of Jeffersonian agrarianism in American politics. This tradition of “yeoman republicanism” holds that only an economy in which most citizens are self-reliant small producers like family farmers or artisans can be a democratic republic. The evolution of mass production industries and the conversion of most Americans into urban and suburban wage earners rendered this tradition anachronistic a century ago. Nevertheless, throughout the last century, progressive localists have constituted a vocal minority, denouncing chain stores like A&P in the 1920s and 1930s, Walmart in the late twentieth century, and Amazon today. For them, large, unregulated corporations are fundamentally coercive, dehumanizing, and antidemocratic.

Economic crises often inspire progressive localists with the hope—inevitably thwarted—that Americans will finally see the light and abandon big firms and soulless suburban life in order to return either to authentic small towns or to inner-city, Jane Jacobs–like neighborhood life and a small-producer economy. The shock of the Great Recession may explain the latest revival of progressive localism, in the form of what we term in *Big Is Beautiful: Debunking the Myth of Big Business* (2018) the neo-Brandeisian revival. Supreme Court justice Louis Brandeis rose to fame on his repudiation of industrialization and the rise of large, multidivisional corporations. The fact that this most recent crisis was caused by Wall Street, abetted by an elite class of economists and regulators that denied reality and turned a blind eye to financial abuse (which was eminently preventable), made the progressive reaction only that much more intense.

On the question of firm size, the school of progressive localism is clear: big anything—big aviation, big broadband, big pharma, now big tech, and of course big oil and big tobacco—is to be reviled. Progressive localists seek to create an alternate economy, predominantly made up of small firms. Where economies of scale make large enterprises necessary, progressive localists would prefer that they be heavily regulated "utilities" or government-owned enterprises. And for innovation industries like biopharmaceuticals, progressive localists would like government to assume the lead role in drug development. Agreeing with the economist E. F. Schumacher that "small is beautiful," many progressive localists, including Robert Reich and Senator Elizabeth Warren, have called for breaking up big banks, big tech companies, and big firms in general. Not only will their profits supposedly shrink, with the resulting output going to working people, but they will have little or no role in politics and policy.

The latest flavor of progressive localism, misleadingly called “democratic socialism,” builds on this but goes even further, calling for worker-controlled companies and government job provision. At first glance, the “Green New Deal” championed by Representative Alexandria Ocasio-Cortez might seem to belong to a different school, with its call for a crash national mobilization along the lines of World War II to radically restructure the U.S. economy in order to combat climate change. But the end result of the proposed restructuring is the familiar utopia of progressive localism: a decentralized economy of small, owner-operated firms and local co-ops, powered by a distributed, highly localized renewable energy system based on solar panels and windmills, with passenger rail and other mass transit connecting pedestrian-friendly, village-like neighborhoods.

Inspired by the motto “Think global, act local,” progressive localists want to return to a world in which most goods and services are produced nearby, ideally by small businesses, whose interests they see as aligned with workers, not big corporations. This implies economic autarky for nations, and even for local regions within a nation—every region will have its own local broadband providers, its own local credit unions, and its own local farms.

Progressive localists tend to oppose globalization because it is dominated by transnational firms with supply chains in multiple countries. They are willing to sacrifice the low prices that efficient, large, dynamic national and global corporations provide because they reject consumerism as a moral vice and a blight on the global environment. If locally grown, GMO-free arugula costs more, so be it; it's good for the masses. They also largely reject the notion that economies compete because accepting that premise means that government power to regulate and tax business must be constrained for the sake of an internationally competitive business climate, which leads to a destructive "race to the bottom."

As a result, for them, economic development is based largely on redistribution from the rich to the rest, including a higher minimum wage, universal health care, and more public spending on social services. By embracing a hardline Keynesianism that holds that consumer spending, not supply-side factors like R&D and entrepreneurship, is the major or sole driver of growth, they justify redistribution as a growth agenda.

Like libertarians, progressive localists reject the idea that nation-states are economic units that compete with one another. For progressive localists and libertarians alike, the economic role of the government is mainly to enforce rules. But whereas libertarians have no problem with big firms defeating small rivals in fair marketplace competition, progressive localists, in the interest of the virtuous yeoman republic, want to rig markets in favor of small firms and against big firms by various means, including small business exemptions from laws and regulations and small business subsidies, and of course aggressive antitrust enforcement.

Most progressive localists also differ from libertarians in favoring the large-scale redistribution of income from the rich to the rest of society, by means of entitlements (including free college tuition) or cash subsidies like a universal basic income. Being dependent on checks from the government might seem to be at odds with the Jeffersonian ideal of the self-reliant small farmer or artisan or shop-owner. But in *Agrarian Justice* (1797) Thomas Paine squared the circle of left-Jeffersonianism by arguing that wealth derived from unearned rents like those extracted from the ownership of land belongs to everyone and should be redistributed in the form of monetary payments to all citizens. For progressive localists, wealth derived from both rents and capital gains is unearned and therefore belongs to the people.

On immigration, progressive localists have more in common with global libertarians than with the Democratic Party of a generation ago. Until the turn of the twenty-first century, the Democratic Party, dominated by private-sector labor unions, favored more restrictions on immigration than Republicans, who represented business interests seeking cheap labor. In recent years, however, progressives have adopted a no-enforcement, open-borders immigration policy indistinguishable from that of libertarians. For them, immigrants have common economic interests with American workers, as both are united in their struggle with global capital. These progressives also believe that promoting demographic diversity is a moral value in its own right, just as libertarians believe that maximizing individual liberty is an end in itself.

The Return of National Protectionism

The third school of American political economy is national protectionism. Members of this school were largely ignored by the American elite until Donald Trump tapped into their anger.

National protectionism comes in conservative and left-wing versions. Conservative national protectionism, of which Trump is the leader, is a compound of two schools of thought—national protectionism and libertarianism: the former for international economic policy, and the latter for domestic policy.

For national protectionists of the Right, America can be great again by resurrecting the 1920s: immigration restrictions, high tariffs, and a very small federal government—with limited taxes and a hollowed-out state (a "shallow" rather than "deep state")—with the exception of national defense.

Left-wing national protectionism, meanwhile, is associated with the industrial unions of the afl-cio and their allies. They are close to the Trumpian view of the world when it comes to globalization, but support a more interventionist government, especially around things like investment in skills and infrastructure.

Unlike libertarians and progressive localists (and neoliberals), national protectionists believe that nations as well as firms and individuals compete in the global economy. And unlike progressive localists, who denounce large corporations as examples of what Brandeis called "the curse of bigness," conservative and liberal national protectionists alike have no objection to large, successful companies. Liberal national protectionists in particular tend to see big corporations as a largely progressive force—albeit one to be tamed by regulations—in part because these firms are more likely to pay higher wages and to be unionized.

National protectionists are less concerned about the size of corporations than about their loyalty. National protectionists support firms of any size as long as they are strongly identified with the United States. But they are suspicious of global multinationals that don't owe loyalty to the nation and, in turn, don't see a reason for U.S. policy to defend those companies' interests internationally.

In contrast to libertarians and neoliberals, national protectionists reject open borders in both immigration and trade policy. Their chief concern is the protection of American workers from low-wage foreign competition, both in the form of offshoring and immigration. Today's nationalist-populist rebellions on the right, including the election of Donald Trump and Brexit, are largely motivated by popular anger at policies promoting large-scale, low-skill immigration and the offshoring of manufacturing enabled by free trade regimes that did little or nothing to constrain unrepentant and systematic mercantilist economies like China.

In recognizing that nations as well as firms and individuals compete in global markets, national protectionists are more attuned to reality than libertarians and progressive localists. Their support for large, efficient firms in industries with increasing returns to scale, and their recognition that most Americans will continue to be wage earners at large firms, renders them immune to the nostalgia for Jeffersonian agrarian republicanism that defines progressive localism.

But national protectionism, Right or Left, has limited relevance to the challenges America faces in this century. Its adherents tend to be defensive rather than proactive, focused on preserving present-day jobs rather than expanding export markets for American businesses and workers in the industries of the future. Most of the growth in demand for goods, services, and intermediate inputs in this century will take place outside of America's borders, in Asia and Africa. And unless firms in America compete in those markets, their very existence is threatened.

Another challenge is to maintain American technological primacy in the deepening competition with China, a highly mercantilist state which is also a geopolitical rival. Competing with rivals like China and the EU for global market share, especially in advanced, technologically sophisticated industries, should be a priority, and it cannot be accomplished through cutting off all global supply chains, limiting trade, reducing high-skill immigration, and slashing the role of the state as an agent for development.

Trump owed his election to working-class voters in the Great Lakes region, where manufacturing industries were hit heavily by subsidized Chinese imports and offshoring in search of cheaper labor and government incentives abroad. These workers in some cases also feared competing in services jobs with low-wage immigrants. Trump's slogan "Make America Great Again" undoubtedly encourages in some of his supporters the hope for an economic restoration of the old-fashioned Midwestern factory economy and well-paying blue-collar jobs with limited labor competition.

This restoration, according to national protectionists, will be produced by more or less indiscriminate protectionism—potentially a return to the high-tariff import substitution strategy that the U.S. followed during its period of industrialization between the Civil War and World War II, coupled with immigration policies more like those that were in place from the 1920s to the 1960s. Trump himself seems inclined toward this view, given his insistence on tariffs rather than other instruments of trade and industrial promotion, and their application against U.S. allies like Canada and Mexico and the European Union as well as against mercantilist China.

The problem is that a crudely protectionist import substitution strategy and an indiscriminate severing of global supply chains that worked well for the U.S. as a developing nation in the nineteenth century does not serve either U.S. firms or U.S. workers well in the twenty-first century. In the nineteenth century, protectionism was a means to an end: the shielding of American infant industries from British and Western European competition, until they were strong enough to compete without government support. Today the challenges faced by the United States are different, however.

Indeed, Trump has much more in common with prewar Republicans like McKinley, Taft, and Coolidge than he does with post-Reagan Republicans, for while both embraced small government, at least rhetorically, Trump and the prewar Republicans saw tariffs as a key tool of national greatness. Both McKinley and Trump proudly called themselves "tariff men."[6] While McKinley's political support for tariffs and nationalism came from business, and Trump's comes from workers and small and midsize firms seeking a respite from foreign competition, both have the same focus. And like McKinley and his Republican counterparts of the time, Trump rejects a strong role for the national government in supporting an advanced, competitive economy. Trump proudly touts his tax cutting and deregulation prowess, while his budgets slash support for key national investments in building blocks like research and development, manufacturing support programs, infrastructure, and education and training.

The Rise and Fall of Global Neoliberalism

We are justified, then, in dismissing three of the five schools—libertarianism, progressive localism (and its new flavor democratic socialism), and national protectionism—as guides to U.S. public policy, on the basis of their political unrealism, their undeveloped and flawed agendas, or both. That leaves two rival schools of thought to dispute the future of American political economy: neoliberalism and national developmentalism. In the rest of this essay, we will compare and contrast their histories and views of economic growth, antitrust, trade, and immigration.

Neoliberalism is the consensus that was shared by Reagan, the Bushes, Clinton, and Obama, before Trump and Sanders dramatically broke with it in 2016. Among foreign policy experts and economic elites, global neoliberalism is the center-right and center-left consensus, uniting Clinton Democrats with Reagan Republicans.

Like libertarians, global neoliberals sing the praises of free trade and high levels of immigration, seeing globalization as a force almost totally for the good. Recognizing that liberalized cross-border flows of goods, capital, and labor can displace some workers or harm some regions, global neoliberals favor policies like retraining and relocation vouchers to help the "losers" of global integration with minimal interference in globalization itself. The neoliberal view tends to be a version of classroom Econ 101—trade and competition is among individuals and firms, not nations; free market–based competition is the norm; and all sides benefit from free exchange.

Neoliberals tend to minimize the problem posed by states like China which don't play by free market rules. In part this is because they believe that foreign mercantilism can be good for the U.S. economy; after all, if these nations are so misguided as to subsidize their exports, including through weakening their currency, American consumers benefit. In addition, they fear that acknowledging the problem of foreign mercantilism will only awaken the slumbering beast of popular protectionism in America. In fact it was this rigid denial, coupled with a lack of effective action, that woke the beast in 2016.

Moreover, they believe that any problems in the U.S. economy cannot result from trade, which by definition is welfare maximizing, and therefore must result from domestic failures, especially insufficient human capital. If only American workers were better, all our problems would be solved. As a result, the solution is almost always more education and training for the losers so they too can join the globalized knowledge class—a program which is less a realistic policy proposal than a fantasy in which everyone is above average.

The neoliberal ideal shared by Reagan and Bush Republicans and Clinton and Obama Democrats is better described as liberal hegemony under U.S. auspices, instead of the truly post-national world of libertarian fantasy. The theory of liberal hegemony, developed by political scientists and shared by much of the U.S. foreign policy establishment, holds that deep economic integration among sovereign states is ideal, but unlikely except in conditions of international peace. International peace, in turn, is best secured by a hegemon—a great power whose military strength is so preponderant that no other power or alliance in the global system dares to challenge it.

During the Cold War, the American-led alliance was a hegemonic alliance, not a traditional alliance of equals. The countries in the Western alliance with the two largest economies after the United States, Japan and West Germany, agreed to be demilitarized American protectorates. Post-1945 Japan and West Germany, as well as other protectorates like South Korea and Taiwan, were encouraged—and actively assisted with U.S. foreign aid—to develop robust, advanced civilian industrial production, including in vanguard industries, that ultimately came to threaten U.S. industries and jobs. When these countries, in different ways, pursued export promotion policies that harmed U.S. manufacturers, the U.S. government looked the other way (or in some cases, provided active support for these policies), in the interest of a unified alliance against the Soviet Union.

Following the Cold War, the United States sought to extend this system worldwide to create a Pax Americana and lock it in through a system of rules enforced by the World Trade Organization. In the Pax Americana, the United States would be the only military superpower. As the global hegemon, it would provide economic public goods in addition to unreciprocated military protection. America would enjoy the benefits of holding the world's reserve currency, the dollar, at the expense of American exporters, including manufacturers, which were harmed by a strong dollar. The U.S. government would devote a significant share of its R&D budget to defense technology, while allowing other nations to focus their government R&D on advancing commercial technologies. Most important, the United States would commit itself to keeping its consumer markets open to the exports of other countries, even if they used nontariff barriers, currency manipulation, and other means to protect their home markets from U.S. exports. According to neoliberal ideology, the United States was the biggest beneficiary of the Pax Americana, and it was therefore reasonable for it to pay a disproportionate share of the costs, not only in terms of lost export markets or shrunken domestic production, but also in terms of blood and treasure spent defending other nations rather than America itself.

This is why neoliberals go to such great lengths to deny the truth that a significant share of U.S. manufacturing job loss in the 2000s and early 2010s was due to global competition and trade, not productivity growth as they claim.[7] If Americans understood that truth, which many Trump voters did, neoliberals fear that the entire Pax Americana and free trade project would be in doubt. But Trump gave voice to all this discontent. And to advance the national protectionist agenda, he has worked to reduce America's foreign involvement in defense, including pressing allies to pay more, questioned America's commitment to the WTO and the global trading system, and argued against a strong dollar. Indeed, Trump constantly repeats the refrain that other nations have played America for suckers, and that these nations were the big beneficiaries of the Pax Americana.

The Pax Americana bloc in the Cold War was looser than a federal nation-state but much more integrated than a traditional arm's-length alliance of sovereign countries. A division of labor emerged within the American-led bloc, with Germany, Japan, and the Little Tigers (Singapore, South Korea, and Taiwan) focused on manufacturing while the United States viewed its "comparative advantage" as high-end service industries like finance, software, insurance, and entertainment. The declining share of domestic manufacturing, coupled with a growing U.S. dependence on foreign manufacturing, was not a security threat because of the military dependence of Germany and the East Asian allies on Washington. This is why the head of a leading international policy think tank in Washington, when asked how much manufacturing America could safely lose, felt confident to reply: "all of it."

Following the Cold War, the United States offered membership in the Pax Americana bloc to China on terms similar to those accepted by Japan, South Korea, Taiwan, and the now unified Germany. In return for accepting the legitimacy of U.S. hegemony in East Asia and the world, and not challenging U.S. military primacy, China, often in partnership with U.S., European, or East Asian firms, would be allowed to engage in mostly low-end manufacturing for the U.S. market. Not only was low-end manufacturing (and the workers who worked in it and communities where it was located) seen as expendable and a relic of a bygone "Norma Rae" era, it was assumed that America was so superior at innovation that it could always stay a rung or two ahead, even if China moved up the ladder of the value chain. Besides, there was no way, the neoliberal Washington Consensus held, that any nation could be innovative unless it was like the United States, and clearly China was not. So when that gap began to close, and China began to make products more advanced than Happy Meal toys, it was not because China was innovative—a view that most Washington elites continue to hold—it was because American firms were not trying hard enough and because we had systemic domestic policy failures, with K-12 failures always being at the top of the list. Larry Summers spoke for most global neoliberals when he wrote that anyone who worries that unfair Chinese practices, including intellectual property theft and coerced technology transfer, might harm the United States is an "alarmist," and that any economic solutions had to start with K-12 reform.[8] And finally, it was believed that a growing middle class in China would bring about the gradual liberalization and democratization of the Chinese regime. They would become like Japan.

One by one, the premises of this American strategy of incorporating China into the Pax Americana have been revealed to be illusions and their unwinding has threatened the entire intellectual edifice. Unlike America's NATO and East Asian allies, China has not been content to be an American protectorate but has rapidly modernized its military to directly challenge U.S. primacy in East Asia. Starting with its 2006 "Medium- and Long-Term Plan for Science and Technology" (along with its companion plan for defense technology) and more recently with its "Made in China 2025" plan, the regime signaled its determination to not only catch up to the United States in terms of innovation but to dominate high-value-added, innovation-based industries that the global neoliberals assumed were naturally America's. And, in recent decades, the Chinese have made enormous progress toward these goals.[9] But instead of evolving into a liberal democracy with a free market economy, China has become increasingly authoritarian and state-capitalist under Xi Jinping.

The evolution—or devolution—of China has plunged the trans-Atlantic neoliberal establishment into confusion in domestic as well as foreign policy. The premise of neoliberal domestic policy, after all, has been the idea that the United States could shed most manufacturing to other countries, mostly in East Asia, and specialize in high-end services and a few high-tech sectors like aviation, biotech, semiconductors, and software. Many if not most Americans would work in the advanced "knowledge economy," sharing the lucrative intellectual property rents that flowed in, along with cheap manufactured imports from abroad and low-priced domestic services provided by low-wage immigrants. But it is one thing to lose significant industrial production to military satellites like Germany and Japan, and quite another to do so to a potential adversary and competitor for geopolitical supremacy. And, of course, China is now challenging the United States for supremacy in aviation, biotech, semiconductors, and other advanced industries.

Moreover, American elites were willing and able to at least mount a modestly effective challenge to Japan and other protectorates to limit the most egregious components of their mercantilist tool kit, as Reagan did with the voluntary trade restraint agreements with Japan for semiconductors and autos, and with the Plaza Accord that forced key nations to raise the value of their currencies. China, it turns out, is not so easy to sway. Furthermore, the intellectual property (IP) rents that Silicon Valley entrepreneurs and investors were supposed to get and share with a growing American middle class were significantly reduced because China decided it was easier and more lucrative to steal U.S. IP than to pay for it.

As we have seen, the theory of liberal hegemony itself holds that a single hegemonic power is necessary to have a deeply integrated and rules-based transnational market. Military rivalries and commercial rivalries can only be separated in a system in which one power polices the world while the rest compete in a global market. But if unipolarity gives way to a bipolar or multipolar world, then national military policy and national economic policy can no longer be separated. In a world of great-power rivalries, military policy, trade policy, and industrial policy must be coordinated as part of a single national strategy, something libertarians see as Soviet-style planning, something neoliberals see as inappropriate industrial policy, and something progressive localists see as crony capitalism.

For neoliberals and libertarians, in particular, any attempt in this direction must be quickly and forcefully rebutted. We have seen this in the attempts to discipline Senator Marco Rubio after he had the temerity to release an important and groundbreaking report, "Made in China 2025 and the Future of American Industry." The report argued that not only had the global neoliberals turned a blind eye to the China challenge, it called for a strategic national industrial strategy in response. The attack was swift. Case in point, an op-ed that the *New York Times* must have taken great delight in publishing, written by George Mason University research fellow Veronique de Rugy, framed Rubio's sensible policy interventions as some kind of Soviet-style Gosplan initiative, stating that America had only two choices: "China's command-and-control playbook" and "markets."[10]

No, as Rubio correctly pointed out, we do not have to choose between hands-off neoliberalism and state socialism. This is the lesson of the fifth school of American political economy, the one to which we subscribe: the tradition of national developmentalism.

Rediscovering National Developmentalism

National developmentalism rejects the moral vision of libertarianism—a global market of individuals with no significant local or national attachments—as alien to human nature. It also rejects the moral vision of progressive localism, with its self-reliant yeoman farmers and artisans and shopkeepers, as anachronistic in the industrial era. Local communities are important, but in the modern world military security and economic efficiency can be secured only by national economies anchored by large corporations.

Unlike global neoliberals, libertarians, and progressive localists, but like national protectionists, national developmentalists see national economies in direct competition with one another for high-value-added production and the well-paid jobs it makes possible. This is of central importance because most citizens in developed nation-states are and will remain wage earners. Unlike in Marxist theory, in national developmentalist thought a strong nation-state can moderate conflicts among workers and capitalists, in the interest of national economic strategy with military security and widespread prosperity as its objectives.

The national developmentalist school views the big firms that can marshal the scale needed to compete as critical national resources. For this reason, the national developmentalist school extends a cautious welcome to efficient global oligopolies, American and foreign, as long as they are genuinely private corporations and not de facto agencies of foreign governments.

Unlike progressive localists and national protectionists, national developmentalists see deeper global economic integration as beneficial in many ways—but only if the U.S. federal government works to obtain maximum benefits for American workers and regions. To maximize foreign export markets for high-value-added U.S. exports, there must be an active developmental state in America that partners with companies both large and small to help them innovate, boost productivity, export, and compete globally. Unlike neoliberals who would not object if all U.S. manufacturing were offshored or destroyed by foreign competition, or national protectionists and progressive localists who reflexively oppose any offshoring of supply chains, national developmentalists need not object to offshoring some tasks and supply chains to other countries while retaining high-value-added, technology-intensive production in sectors with global markets like aerospace, automotive, biotechnology, machine tools, semiconductors, and software. While only a modest share of workers will be employed in these sectors, they have a multiplier effect that raises productivity and real wages throughout the rest of the national economy. The idea that a modern economy can forfeit manufacturing to its rivals and specialize in finance, entertainment, tourism, and natural resource industries like farming is a neoliberal delusion.

For neoliberals, as for libertarians, the government should be an umpire, not taking sides in the competition for global market share among national and foreign firms and countries. (Indeed, most neoliberals reject the very notion that national economies compete.) For progressive localists, the government should be a biased bully, punishing big, successful firms and favoring small businesses. For national protectionists, the government should be a caretaker, preserving existing industries and jobs.

For developmentalists, however, government should be a coach, helping U.S. firms compete globally, innovate, and boost productivity, while attracting foreign high-value-added production. This includes protecting firms in the United States from unfair foreign competition and actively promoting research, innovation, and investment in strategic sectors. For national developmentalists, with their eyes on global market share in a world in which nations as well as firms compete, the ideal government is the developmental state.

"The developmental state" is the name given by scholars like Chalmers Johnson, Alice Amsden, and Robert Wade to governments which engage in a coordinated national economic strategy. Although the term was first used in the study of late twentieth-century Asian countries like Japan, South Korea, and Taiwan, developmental states are as old as European civilization. As Erik Reinert and other historians have shown, some version of developmentalism has been practiced by Renaissance city-states and early modern European mercantilist empires like those of Britain and France.

The major capitalist nations of our time—the United States, Germany, and Japan—were all developmental states during the period of their industrialization, and Germany and Japan never abandoned it (although both have modified it as their economies have evolved). Inspired by Treasury secretary Alexander Hamilton's *Report on Manufactures* (1791), the "American School" of economic nationalism was later embodied in Henry Clay's American System, which united tariff protection for infant industries with federal support for national infrastructure projects like canals and railroads. The Hamiltonian approach also included a coherent national banking system, in the form of the First and Second Banks of the United States and the national banking system created during the Civil War, coupled with the establishment of a system of land-grant technical colleges. On top of that was military funding to develop not just weapons, but new technologies and production systems, like the development of interchangeable parts at the Springfield Armory in the 1820s.

The intellectual tradition of national developmentalism is deep and influential. The German-American economic thinker Friedrich List spread the developmentalist ideas of the American system to Germany and the rest of Europe, influencing the late nineteenth-century German historical school of economics, which in turn fertilized American institutional economics in the early twentieth century (e.g., Thorstein Veblen and John Commons). Austrian-American economist Joseph Schumpeter's work on innovation also aligns with this tradition, which in the late twentieth century experienced a renaissance under the names of "evolutionary economics" (Richard Nelson) and "innovation economics" (Robert D. Atkinson).

As the incorporation of the term "development" in the name suggests, the national developmentalist school rejects a one-size-fits-all approach to economic policy, believing that policies should differ based on levels of technology and other circumstances. This is counter to the neoliberal view, as expressed by Larry Summers, that "the laws of economics are like the laws of engineering. One set of laws works everywhere," and presumably at all times.[11] Just make sure the market can let the supply and demand curves meet in blissful equilibria, and all will be well everywhere and always.

From the perspective of developmentalism, the widely repeated statement "almost all economists agree that free trade always benefits both sides" makes no sense. Besides ignoring the fact that many of America's trading partners practice anything but free trade, the reality is that the same country (such as the United States) may benefit from infant industry protectionism when it is trying to catch up with more advanced economies, and then, at a later stage, may benefit from liberalized trade when its industries are competitive enough to vie for foreign market share. To be indifferent to the national sectoral mix—to believe that there is no difference between "computer chips and potato chips," in the phrase attributed to Michael Boskin of George H. W. Bush's Council of Economic Advisers—is antithetical to the national developmentalist school. And even Adam Smith recognized that "defense is more important than opulence"—that is, freedom of trade, investment, and the movement of people must be sacrificed when necessary to national security.

The idea that states and alliances are and should be legitimate actors in markets, not simply an umpire enforcing rules for interactions among self-interested individuals in a free global market, distinguishes national developmentalism from both global neoliberalism and libertarianism. It is impossible, both politically and practically, to disentangle states from markets. And, therefore, when neoliberals want the U.S. government to be disentangled, other than providing support for human capital, the result is not only one-sided deindustrialization but lower rates of global innovation and productivity growth.

The Nature of Economic Growth, Innovation, and Competition

Another point of contention is the issue of what causes growth. Both classical economics and its successor, neoclassical economics (the formal economic theory adopted by global neoliberals), assume that competitive markets naturally tend toward equilibrium and that the natural rate of growth is fixed and beyond the influence of policy. Because the economy tends toward equilibrium in the neoclassical view, the main task of economic policy is simply to reduce artificial barriers and impediments to market equilibrium, particularly by ensuring that prices are aligned with costs. Any actions beyond that risk distorting equilibrium, bringing about suboptimal economic outcomes. But if the natural state of economies is equilibrium, where does technological progress come from? Joseph Schumpeter's answer was "creative destruction"—by which he meant not the mundane taking of market share of some firms by others but the destruction of entire firms and industries by new firms and industries—the replacement of typewriters by PCs and of landlines by cell phones, for example.

In fact, in a world of rapid technological change where innovation drives dynamism—clearly a description of the U.S. economy since the Republic was established—market equilibrium is almost never achieved. The reason is that some new product, service, or business model, or new market, is always emerging, disrupting existing products, services, business models, and markets. As Eric Beinhocker, author of *The Origin of Wealth* states, "Equilibrium systems by definition are in a state of rest, while growth implies change and dynamism."[12]

Moreover, creative destruction, Schumpeter and his intellectual disciples have argued, is not continuous and incremental, but takes the form of successive waves of technological innovation or "techno-economic paradigms," each based on one or a few "general purpose technologies" like the steam engine, steel, the electric motor, the internal combustion engine, electronics, and the silicon chip.[13] Instead of a placid landscape characterized by equilibrium, the economic world is constantly being reshaped unexpectedly by exploding volcanos of technological innovation and diffusion, all of which the state has enormous influence over.

In addition to rejecting the idea of market equilibrium—and by extension a minimalist role for government lest it lead to perturbations of such a wonderful condition—developmentalism rejects the idea that hypercompetitive markets are the best for economic progress. On the contrary, in a purely competitive market, profits are so close to the cost of capital that there is little to be spent on the R&D needed to power innovation. Following Schumpeter, who argued that corporate research labs had replaced individual inventors in the age of "trustified capitalism," the late William Baumol argued that what really has driven technological innovation in the modern era has been oligopolistic competition between big firms with deep pockets and hefty R&D budgets. The firms compete not only to sell similar products at lower prices but also to create entirely new product lines which they can hope to dominate, at least for a while, before they are disrupted.

This analysis has implications for antitrust and competition policy. According to progressive localist anti-monopolists, corporate concentration and even business scale itself is a danger. In contrast, according to the libertarian school of antitrust associated with the University of Chicago, even near monopolies are not a problem, because a rival can always enter a sector to compete with the incumbent.

Both of these schools are wrong, from a national developmentalist, Schumpeterian perspective. The libertarians get it wrong because, while firms can and do get disrupted, many firms, particularly in technologically stagnant sectors, do not. On the other hand, what anti-monopolists regard as inherently bad—pricing power by oligopolies or monopolies—may be good, if it results from an innovative firm's temporarily dominant market share and if the innovator uses a lion's share of the profits to invest in the next round of innovation. In time, the innovation may become commoditized and prices may fall. But as long as the firm recycles its temporary innovation rents into R&D, something best done by large firms with market power, the public interest in technological progress is served.

Unlike product and process R&D, the fruits of early-stage and precompetitive scientific and technological research cannot be hoarded by firms to compensate them for research costs, so these functions are best provided by government and universities. Together, government, universities, large firms, and small start-ups capable of scaling up rapidly form the innovation ecosystem which is the basis for national success in the modern era. And yet the United States, under the influence of both global neoliberals and now national protectionists, has let federal support for R&D (as a share of GDP) drop to levels last seen prior to the wake-up call of Sputnik.[14] And both schools have made it virtually impossible to pass robust national innovation support policies in Congress.

The first four schools have little to say about technological innovation and the productivity increases that it makes possible. Progressive localists, including the self-proclaimed democratic socialists, distrust innovation and productivity because of their effects on the small firms they idealize and the workers whom they seek to protect from any and all disruptions. Besides, they focus on redistributing of the gains from growth, not the actual sources of long-term economic growth which they take for granted. For their part, national protectionists tend to ignore innovation altogether and think of trade as a zero-sum competition for traditional manufacturing, agricultural, and natural resource producers.

Neoliberals and libertarians assume that innovation is inevitable—or as Robert Solow once said, "manna from heaven"—and that government plays little role, especially compared to private entrepreneurs. Moreover, their growth models perversely assume that, in the words of former Clinton economic advisor Alan Blinder, "Nothing—repeat, nothing—that economists know about growth gives us a recipe for adding a percentage point or more to the nation's growth rate on a sustained basis. Much as we might wish otherwise, it just isn't so." Just don't mess with allocation efficiency, they argue; that's the best we can hope for.

For the school of national developmentalism, however, technology-driven productivity growth should be the primary objective of national economic policy. Moreover, from the perspective of the American developmentalist school, the productivity that policy-makers should want to maximize is the relative productivity of their own national economy, not the absolute well-being of the global economy. If multinational corporations were to transfer all high-value-added activities from the United States to other countries, leaving America with only low-value-added industries like tourism and wastepaper exports, many American consumers and the world as a whole might conceivably be better off by some abstract measures. But policymakers and economists should view a country's residents not just as consumers but also producers. This is something which the national developmentalist school shares with progressive localists and national protectionists, but not with global neoliberals and libertarians.

Should dynamic, competitive oligopolies in industries with increasing returns like manufacturing and software be global, or should they be "national champions"? In other words, does the United States have a stake in ensuring that a significant share of its high-value-added goods be produced domestically? As long as it appeared that the future would see a global free market under the protection of the U.S. military, it was reasonable to speculate about the emergence of truly global corporations—detached from any particular country.

To date, however, most so-called global corporations retain distinct national identities. Of the top ten multinationals by foreign assets in 2016, three were based in the United States (Chevron, General Electric, Exxon Mobil), two in the United Kingdom (the oil companies Royal Dutch Shell and BP), two in Japan (Toyota, Softbank), and one apiece in Germany (Volkswagen), France (Total), and Belgium (Anheuser Busch Inbev).[15] In the United States, foreign-born CEOs in 2017 accounted for only seventy-three, or 14.6 percent, of the top five hundred Fortune 500 CEOs. As of 2014, international revenue made up 37 percent of total revenue for S&P 500 firms, but the share of directors who were foreign nationals was only 7.2 percent. According to unctad, the typical large multinational has about 40 percent of its sales in its national home market.

In any event, the rise of China, with its state-owned enterprises (SOEs), may settle the question in favor of national champions or, in the case of trading blocs like the EU, bloc champions. We see this in the recent case in Europe where rail companies Alstom (French) and Siemens (German) sought to merge to better compete with the Chinese national, state-owned champion, the Chinese Railway Construction Corporation (CRCC).

In 2004, the Chinese Communist Party was not content to seek economic equilibrium; it sought global dominance in high-value-added industries, in this case high-speed rail cars and systems. China's State Council developed a railway strategy based on requiring, in violation of World Trade Organization rules, foreign rail companies to enter into joint ventures and transfer technology as a condition of market access. Given that China was building the world's largest high-speed rail system, no foreign provider could afford to sit out. The plan, coupled with massive state subsidies, paid off as Chinese producers rapidly gained market share. By 2016, CRCC had over two-thirds of global deliveries, taking significant market share away from prior market leaders Alstom, Bombardier, and Siemens. In fact, CRCC has a larger global market share than those three firms combined.[16] And while its sales were three times higher than Alstom's, it invested ten times the amount of R&D. But Europe, in the grip of global, neoliberal thinking, rejected this merger because it distorted allocation efficiency within the EU market.

In the United States, there is a revival of neo-Brandeisian, small-is-beautiful thinking, as evidenced by calls to break up U.S. national tech champions like Google, Apple, and Amazon. The United States, in the grips of such thinking, has gone down this path before, with disastrous consequences. Indeed, from the 1950s to the 1970s, U.S. antitrust authorities forced a slew of large companies like AT&T, RCA, IBM, GE, and Xerox to make available, for free or at a steep discount, key technologies. And in their zeal to limit market power and boost competition, U.S. antitrust enforcers succeeded, but often by boosting the fortunes of foreign companies like Hitachi, Panasonic, and Sony, while inflicting mortal damage on a number of U.S. advanced technology firms. In so doing, they seriously set back the U.S. economy, the effects of which continue to be felt to this day.

The AT&T case is illustrative. After inventing the transistor at its Bell Labs facility, the company faced pressure from antitrust regulators to make licenses to that technology widely available. And so, in 1952, AT&T licensed the technology for a small fee to thirty-five companies. On one level, that spurred innovation in some emerging companies, such as Texas Instruments and Fairchild Semiconductor, the predecessor of Intel. But because of government pressures, AT&T also licensed this technology to foreign companies, including Sony, and that was the key leg up Sony needed to propel itself to global leadership, taking market share from the leading U.S. consumer electronics firms.

The RCA case was even more damaging. Indeed, as historian John Steele Gordon has written, "Perhaps the best example of the harm antitrust has sometimes done to our economy is RCA." RCA was the Apple and Intel of its day, all rolled into one. Formed in 1919 under pressure from the U.S. Navy (because the dominant radio firm, American Marconi, was foreign-owned), RCA became the leader first in radio innovation, and then in television. Because RCA had a dominant share in the emerging color television industry, achieved by its own superior internal R&D, the Justice Department required RCA to provide its valuable patent portfolio to U.S. competitors at no cost. The company was, however, allowed to license the patents to foreign companies for the usual royalty arrangement. Because RCA had long relied on licensing revenue, it now was essentially forced to license its technology to foreign firms, in this case predominantly Japanese firms, which had been seeking to break into the color TV market, but heretofore with little success. As James Abegglen, a leading technology historian, has written, "RCA licenses made Japanese color television possible." Armed with this valuable technology, produced through years of research and engineering that cost RCA billions of dollars, the Japanese TV manufacturers, which were protected from foreign competition by the Japanese government (its antitrust authorities took national economic competitiveness seriously), soon took over the U.S. market, and an industry invented in America was destroyed. What was the real cost to consumers of this RCA "monopoly"? One study found that it raised the price of televisions by just 2.26 percent.[17]

Unfortunately, this kind of reverse industrial policy in the name of antitrust continues. In 2016, the FTC required that the semiconductor maker NXP divest its RF (radio frequency) power business as a condition for its $11.8 billion acquisition of U.S.-based Freescale Semiconductor Ltd. While this was done with a focus on the consumer, it opened up the business for acquisition by the Chinese investment company Jianguang Asset Management Co. Ltd. (which has financial backing from the Chinese government). Just like that, thanks to an action undertaken by the U.S. government, critical U.S. technology capabilities went to China.

This kind of "big is ugly," "competition is king" thinking might make sense in closed national markets where the loss of a major firm is not a problem, because other national firms will come in to take market share. But in a deeply integrated global economy, particularly one where other nations are engaged in predatory state capitalism, such an approach is economic suicide.

The recent behavior of the large companies themselves, however, has added fuel to antitrust movements. Pressured by Wall Street and under the sway of neoliberal thinking, major U.S. companies have increasingly preferred to boost their stock prices through financial engineering rather than reinvest profits in the next innovation, all the while publicly rejecting any duty they might have to work with the U.S. government or support any national interest. Although these companies usually do invest more than small businesses in R&D and future growth, they could be investing a lot more of their monopoly rents rather than myopically focusing on inflating returns for financial markets participants. Corporate research centers like Bell Labs, for example, have largely ceased to exist.

Toward a New Consensus

While America has five major schools of political economy, under U.S. plurality voting rules, which discourage third parties, they have to be shoehorned into only two major parties. At present the Democrats are divided among global neoliberals of the Clinton-Obama wing and progressive localists.

Until recently, center-right neoliberals dominated the Bush wing of the Republican Party, sharing a consensus on free trade and high immigration with the libertarian Right. With the election of Donald Trump, national protectionists who found leaders in Ross Perot and Patrick J. Buchanan in earlier decades have a president of their own and represent a substantial, if still weak, nationalist and populist wing of the GOP, augmented by support from disaffected left-wing national protectionists.

The school of national developmentalism we favor, distinct as it is from Trumpist national protectionism, is not even a wing of one party. Nevertheless, we believe that in time it can serve as the basis for a new consensus. Progressive localism and libertarianism are not just unrealistic, they are recipes for national decline. Neoliberalism presupposed a world in which the U.S. was the sole superpower, permitting the separation of national security concerns from economic policy—a world already shattered by the rise of China. As a response to the rise of a predatory China and a multipolar world order, national protectionism makes sense only in narrowly defensive terms. It is inferior to a more sophisticated national developmentalist strategy, which would use many instruments other than crude tariffs and which would seek to secure America's share of the markets of the future outside of U.S. borders.

Just as the revival of national protectionism represents a legitimate desire to find an alternative to the discredited neoliberalism that has been identified with both parties for the last generation, so does the revival of progressive localism. We share that desire, but the plausible alternative to mainstream neoliberalism is national developmentalism, not national protectionism or progressive localism.

Fortunately, the tradition of national developmentalism has deep roots in American soil. From the days of Alexander Hamilton's *Report on Manufactures*, through the Lincoln administration's investment in the transcontinental railroad and the A&M universities, to the Defense Department's role in fostering the computer revolution, American policymakers have successfully worked together with inventors, entrepreneurs, corporations, investors, and workers to promote technological innovation and create a more competitive and prosperous American economy. To succeed in a multipolar world in which nations as well as firms compete for global market shares, we do not need to choose among liberty, prosperity, and power. National developmentalism, if done right, can give us all three. Developmentalism is not alien to American tradition. It has always been an American tradition—and deserves to be the dominant strain once again.

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