Common Good Capitalism: An Interview with Marco Rubio

THE EDITORS

Senator Rubio, in a recent speech on "Common Good Capitalism," you said that "Our challenge is not simply one of cyclical downturns or the wrong party being in charge. Our challenge is an economic order that is bad for America. It is bad economically because it is leaving too many people behind. And it is bad because it is inflicting tremendous damage on our families, our communities, and our society." How did you come to view these problems as systemic in nature? And does the depth of these challenges mean that we need a more ambitious policy discussion than we have had recently?

My entire life, I've been an unabashed believer in American exceptionalism and consistent evangelist of the American Dream. But when I ran for president, I learned that many Americans did not share my optimism. The places I needed to fundraise from and the places I sought to earn votes were like two different countries.

We have always had a political class, composed of politicians, donors, consultants, and media who make decisions about what our politics and campaigns should focus on. But never have the views of this political class and the rest of the country been so different. For our political class, the operating assumption has been that popular concerns, like families' cost of living and industries moving to China, are issues that are either simply inevitable in modern society or can be dealt with by a tax credit or a government program. I think one of the lessons of the 2016 election is that these are more fundamental issues that demand deeper political attention. We are no longer a society where a bartender and a maid could own a home and raise four children like my parents did.

The other thing that brought me to see these problems as structural is the rise of China. We should have been more skeptical when China joined the WTO, but it is now impossible to argue that simply increasing trade with China would increase their protection of basic human rights and alignment with American national security interests or adherence to international law on trade and commerce. The China challenge is not just a foreign policy or trade problem, but an indictment of an outdated and sclerotic political consensus.

The reason China reveals structural problems is because the premise that it was good to expose American workers to China was a structural belief. Losing industries to China was not an "unintended consequence" of liberal trade and financial policies; it was very often the goal. It required an assumption that middle-class American families would be better off with cheaper imported goods and better financing terms on consumer debt. It required the assumption that the American economy would be better off with financial services as its comparative advantage. The reason these assumptions are wrong is not because the changes they brought weren't managed properly, or not pursued consistently enough, but because the underlying belief about what makes for a good society is not true.

If a factory that employs recent trade school graduates in a small town or an urban center suddenly closes, it directly and immediately affects the entire community. The ability of a working father to provide for his family collapses. The likelihood that a young, unattached employee will ever get married and raise children in the first place plunges. Without productive jobs, Americans are far more likely to risk turning to substance abuse and crime.

The consequences of this way of doing things economically are playing out on a level many orders of magnitude greater than the individual. Failing to set an economic course has been ruinous for our nation, and the repercussions extend to every part of our society.

Your office has released two major reports on new economic threats to the United States: one on intensifying economic and technological competition with China and one on declining domestic investment. Why are these issues important?

They help us understand the economy and make long-term strategic decisions. By many traditional indicators, the economy is performing very well—we have low unemployment, a growing GDP, and record stock market highs. But there is real anxiety beneath the surface that these statistics miss. When economic growth is driven mainly by consumer spending, high levels of consumer debt can make the economy run hot but make families' financial stability more precarious. Likewise, when stock market gains are driven in part by financial engineering like stock buybacks, the stock market can do very well while companies spend less on developing better products and more productive, better-paid workers.

The reports I've released document two important and related trends that identify a singular challenge that we should be taking on regardless of what the S&P 500 looks like on a given day. The first is that capital investment—what companies spend on improving their products and workforces—does not play a central role in our economy the way it once did. The second is that China is competitive with, and indeed is beginning to exceed our capacity, in the most technologically advanced industries in the world.

While for most of American history large companies borrowed from the financial sector in order to make capital investments, today the American nonfinancial corporate sector borrows to lend money elsewhere. In other words, the way that American corporations make money today is more about earning predictable rents than it is investing in uncertain technological breakthroughs.

At the same time, China is moving up the value chain. The competition we face from China is no longer about cheap labor making McDonald's toys. China has the largest telecommunications equipment company in the world and has more global market share than U.S. companies in high-value goods ranging from solar panels to commercial ships and electric vehicles. China is the world leader in things we can no longer make at home even if we wanted to, from lithium-ion batteries to television panel displays.

This is not just populist hype. It occupies the concerns of military generals, the executives of American companies competing for market share with Chinese companies, and patriotic Americans of all occupations and incomes. We are declining in significant and quantifiable ways that require urgent attention.

You have already introduced a number of policy proposals to address these challenges: updating and expanding Small Business Administration programs, increasing tax incentives for corporate investment, and disincentivizing share buybacks. Why are these the right solutions? What more do we need to do?

I am currently the chairman of the Senate Committee on Small Business and Entrepreneurship, which is the committee that oversees the U.S. Small Business Administration. The SBA has historically played an important role in taking on exactly these kinds of challenges, so it's a natural place to start. However, the SBA also hasn't seen a full reauthorization in nearly twenty years; it was last reauthorized in 2000, the year before China became a member of the World Trade Organization.

My concept is simple. Big innovations in manufacturing often occur when the government partners with large companies to fulfill defense contracts that meet our national security needs. Small businesses and start-ups are essential to developing the technologies and commercializing the products that often come out of these contracts. Unlike the network-effect software start-ups that venture capital firms focus on, manufacturing technologies take significant time and capital to finance. The SBA already guarantees some debt and equity investments in these companies. I am proposing to reform and expand these programs so that the SBA functions closer to how it was originally created to work.

Guaranteeing financial investment in small business and start-up manufacturing would build a new capital market for innovation. Similarly, my proposal to change the tax treatment of stock buybacks would reform our existing capital markets to encourage physical investment over financial engineering. Shareholders would no longer see a tax break for seeing gains through a stock buyback versus a dividend of the same amount, and companies would pay no taxes on any of their capital expenditure. Together, these changes would change the financial calculation for many companies. It would better align the interests of shareholders to the existing interest workers and executives have in investing in product development and innovation.

The key insight of both proposals is that we should identify goals that achieve our national interest—providing for our national defense and creating good jobs for American workers—and organize our material resources to achieve them. This way of thinking has a bounty of possible applications. For example, I have proposed creating a national rare-earth mineral mining cooperative to counter China's hoarding of a supply critical to military parts. Similar policy institutions for investment could be created for agricultural machinery, advanced telecommunications, and additive manufacturing. As Randall Wray noted in the Spring 2019 issue of this journal, there is no shortage of finance; what we need is the political will to achieve common goals.

You have also introduced legislation that would force Chinese companies listing on U.S. stock exchanges to comply with American financial disclosure and other requirements. Have we allowed short-term financial incentives to obscure long-term national interests when it comes to China? What do you say to people who do not think that we are in a geo-economic competition with China?

Chasing short-term windfalls in China is exactly the kind of self-defeating behavior that we've engaged in and China has exploited for the last few decades. It absolutely has obscured a shared focus on the national interest.

One particularly emblematic example has been the recent decision of the Federal Retirement Thrift Investment Board—the body that manages the retirement savings plan for American service members and federal employees—to use the MSCI All Country World ex-U.S. Investable Market Index as a benchmark. What this means is that the retirement savings of Americans who have chosen to serve our country are now literally funding Chinese companies, including technological and defense firms that are actively developing the weapons of war Beijing could use to try to harm our nation.

The familiar rebuttal is that divesting from these funds would mean that we're not giving service members and federal employees the financial returns they deserve. But the solution is not to fund China's rise, but rather strengthen our own economy. After all, any short-term benefits these investment decisions may have are dwarfed by the long-term danger of giving China incredible leverage over the retirement funds of millions of Americans.

That we're in geo-economic competition with China is not a theory; it is a matter of fact recognized by Chinese leaders themselves.

Communist Party officials in Beijing spell this out in explicit terms. Huang Qifan, a prominent former central committee member, recently urged the Chinese people in a speech to shed any illusions and prepare for struggle. Framing China as the rising power and the United States as the straining hegemon, he declared that "the socialist road with Chinese characteristics is obviously more competitive . . . than the U.S. economic system."

These were the kinds of ambitions that Chinese political leadership once obfuscated to lull us into a sense of complacency. Now, they discuss their strategy to supplant us in open terms.

With regards to those who are still unable to heed these words or downplay them, where we do still see misunderstanding of Chinese intentions is on the part of businesses agreeing to deals with Chinese "companies." We need to make unambiguously clear that if you're entering a business agreement with a Chinese firm, you're entering an agreement with the Chinese Communist Party (CCP). Sending production to China is a dead end. You can and will be exploited—stripped for parts, in effect. We know the playbook: after sending production to the mainland, the Chinese will absorb your trade secrets and steal IP before they shut you down and install a subsidized Chinese competitor in your place.

China appears to be leading the way in rolling out 5G telecommunications networks globally. Dozens of countries have signed contracts with Huawei, including several NATO allies. Can anything be done at this point? Do we need an American 5G components company to compete with Huawei?

Huawei cannot be the only option for 5G infrastructure. At this point, we've seen that China's mercantilist model—with Huawei as its exemplar—works for the regime's purposes. These are firms backed by the central government, so they're not subject to domestic competition and possess a tremendous leg up internationally. China provides their domestic companies the ability to make investments that make no market sense in the short term, but are critical to their national and economic security in the long term. This makes it tough for everyone to compete. For as ambitious a project as 5G infrastructure, collective action is a significant problem.

The thing is, we talk about this stuff as being unfair, that it's not how the free market is supposed to work! And that's right—it's not. In the instances where we can try to reassert the historical rules of fairness where they're being blatantly broken (e.g., China's theft of American intellectual property, which costs our economy $600 billion annually), we have an obligation to do so.

But we also need to recognize that these are the new rules while dealing with Beijing, in a sense. And we can complain, but that's not in the end going to help the American economy—or the individual American workers and families suffering because of China's exploitation. If our philosophy in economic policy is solely to maximize "efficiency," our firms are competing with ones backed by the full weight of the Chinese government. In the long run, that is a competition that market fundamentalists won't win.

Long story short, yes—identifying important sectors like 5G and developing ways to organize American industry around them will be a necessary component of our strategy. We also need to engage our allies in this effort to ensure unaligned nations have a choice.

If we do not act on 5G, we may end up in the same position we find ourselves in with regard to rare earth minerals. It is a field dominated to so great a degree by China that neither domestic subsidies, tax breaks, nor regulatory relief alone is likely to spawn a domestic industry. That is why my office released legislation designed to spur the development of a domestic rare earth mineral market via a market consortium that could serve as a potential model.

Much of the media discussion around trade and China has focused exclusively on tariffs. Do we need to take other, more proactive measures to promote domestic economic development?

The depletion of America's manufacturing sector has left us with a tremendous national security vulnerability. I've already described several measures that have been on my mind: reverse the trend of declining business investment, reducing incentives for unproductive buybacks, full expensing, etc.

But in short, domestic economic development will in great part be contingent on our ability to develop a coherent, pro-American industrial policy.

American policymakers must pursue policies that make our economy more productive by identifying the critical value of specific, highly productive industrial sectors and spurring investment in them. Industries like aerospace, rail, electronics, telecommunications, and agricultural machinery—in essence, the same industries China is trying to dominate via their Made in China 2025 initiative—will create opportunities for dignified work and be vital to the national interest.

No one should mistake this as a call for politicians and unelected bureaucrats to take over our means of production. But policymakers and commentators should remember that, from World War II to the Space Race and beyond, a capitalist America has always relied on public-private collaboration to further our national security.

And from the internet to GPS, many of the innovations that have made America a technological superpower originated from national defense-oriented public-private partnerships.

A recent survey found that a majority of children in China thought "astronaut" was the most exciting future career choice, while the top choice among American children was "YouTuber." Is this a high-tech future we should look forward to?

No. But this is the future our culture is cultivating.

We celebrate the breakneck speed of new OS updates and social media apps that lead us to believe that we're going through huge tech breakthroughs with regularity, but we're really not. Instead of all of the lofty promises of Silicon Valley's "innovations"—which were supposed to bring us together and obviate geographic distances between family members and with old classmates—we see drags on productivity from constant internet distractions, self-segregation into internet communities with little face-to-face contact, and skyrocketing rates of bullying and mental illness among younger generations.

A large proportion of Silicon Valley's enormous intellectual talent ends up by default channeled into figuring out what next app idea can churn out the most seed funding before getting acquired by a bigger fish. We should be thinking bigger; it's possible to model exciting professions like astronauts for our next generation while also creating opportunities for productive work for everyone.

A smarter high-tech future would entail looking at developing industries like advanced space manufacturing, which are strategically important, offer dignified work, and use cutting-edge technology to move the ball forward. One notable beneficiary of the SBA's Small Business Innovation Research and Small Business Technology Transfer programs, Made in Space, serves as a great example: the company develops massive 3-d printers to build structures in microgravity and recently received a new contract to build solar arrays in space.

Jobs in "physical economy" sectors like advanced manufacturing have historically been highly productive because they create tangible products—whether that's an in-orbit solar array, an electric vehicle, or a home—that can be cycled or resold through the economy. Their value isn't immediately diminished or reduced to zero after use, but instead endures and multiples.

My point isn't to argue that every American child should aspire to be a builder or mechanic instead of a YouTube star; it's that our current economy fails even to model other options. They exist, but we need to work harder to make those roles available.

What is "dignified work," as you see it? Labor issues are typically associated with the Left. Why should people on the political right be concerned about ensuring the opportunity for dignified work? And have left-wing welfare policies also misunderstood dignified work?

Dignified work enables Americans to make a good living through steady, stable wages, so they can give their time and treasure back to their families and communities. It's the kind of work that has historically empowered the success of our nation, allowing families to raise kids to “do better” than their parents, opening up a world of new opportunities in education, work, and life.

I think of the experience of my own father. My dad immigrated to America in 1956 with little education to find a job and build a stable family life. He and my mother owned a home, raised four children, and cared for my grandparents on the annual wages and tips of a bartender and a maid. We could even afford for my mother to spend most of her time at home when I was young. It was a dignified life that I thank God for.

My parents’ story is also a lesson in contrast. The blessing of stability is no longer the norm for working Americans looking to start a family today. This can no longer be ignored. An America without dignified work available means the immiseration of the working class, the disappearance of our middle class, and political instability. But even more fundamentally, it would signify that our leaders failed to provide one of the most important foundations of our common good and promote our nation’s general welfare. Politicians all across the ideological spectrum should recognize this obligation.

Democratic welfare policies—even the most well-meaning ones—assume dignity is about how much you can buy as a consumer and fail to make the connection between the various components of the common good. These institutions, like strong families, close communities, dignified work, and living out the mutual obligations of citizenship, are mutually reinforcing and cannot exist in isolation.

A well-paying and stable job is the foundation of family stability and ultimately a healthy society. It teaches skills and creates social obligations that teach parents and children alike the importance of responsibility and hard work. Our economic policies should make good jobs as attainable as possible. Expanding, for example, the child tax credit is one way to make the existing jobs that are available pay more. Alternate proposals like simple cash payments sever the important connection between strong families and dignified work.

You have spoken about how your economic ideas are informed by your social views—by Catholic thought in particular. Have we made a mistake in too often separating economic and cultural issues in our political discourse?

As a Roman Catholic, I find great wisdom in the Church's teachings. Catholic social doctrine is very clear that economic and cultural issues are inextricably intertwined. Material resources are both a necessary condition for groups to fulfill their purposes—for parents to feed their families and contribute to churches and communities—and insufficient in themselves for supporting strong values. As Pope St. John Paul II taught, "the obligation to earn one's bread by the sweat of one's brow also presumes the right to do so. A society in which this right is systematically denied, in which economic policies do not allow workers to reach satisfactory levels of employment, cannot be justified."

A study by David Autor in 2018 found that areas of the United States that faced Chinese import saturation from 1990 to 2014 experienced drops in male employment and, even more concerningly, declining marriage and fertility rates. In communities that bore the brunt of "normalizing" trade relations with China—to put it euphemistically—we see similarly alarming jumps in suicide rates and substance abuse deaths.

The failure of our economic policymaking to pursue a common good has also precipitated disconcerting shifts in family development. To many working Americans, marriage now resembles a luxury good, precluding stable households from ever forming in the first place. Working-class Americans are marrying less and less frequently. The percentage of American children living with both biological parents was identical for affluent and working-class families—95 percent—in 1960, as Charles Murray documented in *Coming Apart*. By 2005, those rates had declined to 85 percent for the affluent and, shockingly, 30 percent for working-class families. For kids, an unstable environment at home translates directly to worse economic outcomes throughout life.

Is there an opportunity for new kinds of political cooperation to address the above issues? Can what you call "common good capitalism" reunite a polarized America?

Societal revitalization, I think, will necessarily start there. I've been pleased that the reception to some of my work has elicited interest from all across the political spectrum.

I do believe that there is a growing recognition of the shortfalls of our current approach to economic policymaking, which gives me hope.

We tend to frame today's economic debates as occurring between free market absolutists and socialists. But that's a false choice.

The Left wants more government programs and more taxes on everything to fund them. Market fundamentalists on the right want to juice the market for more record-setting days in the stock market above all else—even if it means our dependence on China continues expanding up the value chain.

An economics of the common good rejects this binary choice. After all, our nation does not exist to serve the interests of the market or the government; the market exists to serve our nation. If common-good capitalism proves to be politically ecumenical, that's great—we should welcome allies who acknowledge the obligation to orient our economy so it strengthens America and our people.