
Statesmanship for Political Economy in the National Interest

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As we emerge unevenly from the ravages of a global pandemic, the new world upon us is summoning statesmanship for political economy in the national interest. 2020 was apocalyptic in the true sense of the word. The depth of our dependence on Chinese manufactures for everything from face masks, respirators, ventilators, to basic pharmaceuticals was revelatory.¹ This emergency unveiled the gaunt figure of American industry. Yet, our industrial thinning-out was there for all to see during America's decades-long, neoliberal diet of globalized supply chains, offshored manufacturing, and international trade based on economic comparative advantage and specialization.

An optimist might object to this dire picture and point to Operation Warp Speed, the massive effort of industrial policy in pharmaceuticals and drug development, which produced vaccine formulae in record time by relying on a World War II model of public-private sector mobilization and on powers of the federal government in the 1950 Defense Production Act.² But that very success, hinging as it did on government direction and risk-bearing subsidies to domestic firms, demonstrates two truths many

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¹ For example, see reporting from, among many sources, Kate O'Keefe, Liza Lin, and Eva Xiao, "China's Export Restrictions Strand Medical Goods U.S. Needs to Fight Coronavirus, State Department Says," *Wall Street Journal*, 20 April 2020.

² Arthur Herman, "Why Operation Warp Speed Worked," *Wall Street Journal*, 1 February 2021.

Americans had forgotten: one, the government's power to orchestrate private sector innovation; two, the role of industrial policy to mitigate geopolitical danger from globalized supply chains. Now, the scales have fallen from the eyes of all except neoliberalism's true believers.

Twenty years after the United States made permanent normal trade relations with China, economists and free traders continue to defend as unambiguous "the longstanding geopolitical benefits of trade, including the [World Trade Organization's] role in preventing world war and the strong connection between trade and peace."³ Free traders repeat this centuries-old argument that trade—and an expanding commercial society—gentles political passions through pursuit of economic self-interest, and channels human vice to productive political outcomes, conducting peace.⁴ But our dependence on critical economic sectors in foreign markets should cause us to rethink globalization's *doux commerce* assumptions about mutual self-interest and peace. After all, trade can be an economic equivalent of war. As Benjamin Constant wrote during the Napoleonic wars, "War and commerce are but two different means of arriving at the same aim, which is to possess what is desired."⁵ And as Thucydides noted in his history of the Peloponnesian War, war can arise from fear, honor, or *interest*.⁶

Since the early 2000s, the health of the American-led liberal international order was at risk from an underlying condition: the geopolitical rise of China. How ironic that a virus from China delivered its terminal prognosis. Americans now, rightly, are crying out for foresight and wisdom from political leaders to steer our ship of state through a rising tide of danger. And yet, when the emergency of this pandemic subsides, believers in neoliberalism must return from lockdowns having answered a hard question: has *anything* changed about their views of free trade

³ Scott Lincicome, "Testing the 'China Shock': Was Normalizing Trade with China a Mistake?" Policy Analysis No. 895, Cato Institute, Washington, DC, July 8, 2020. <https://doi.org/10.36009/PA.891>, accessed 15 March 2021.

⁴ Albert O. Hirschman in *The Passions and the Interests: Political Arguments for Capitalism before Its Triumph* (Princeton, NJ: Princeton University Press, 1997) demonstrates how the original justification for capitalism was its promise to improve statecraft's predictability by balancing a ruler's passions for glory and war against his passions—later, "interests"—for enrichment. This justification for greater commerce and trade shifted into a conviction that interests outweigh passions, and later that economic expansion can improve the political order because of a commercial society's "gentling" (*doux*) virtues on the people.

⁵ Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Los Angeles, CA: University of California Press, 1945), 14-15.

⁶ Thucydides, *The Landmark Thucydides: A Comprehensive Guide to 'The Peloponnesian War'*, ed. Robert B Strassler, rev. trans. Richard Crawley (c. 455-400 BC; New York, NY: The Free Press, 1996), 43.

and globalization? Or should assumptions about the unambiguous geopolitical benefits of trade go undisturbed, because foreign economic dependence amid great power competition is nothing to worry about?⁷

I want to propose a more activist form of statesmanship for political economy in the national interest. Many readers—liberal and conservative—will balk, having grown up as I did in the halcyon 1990s of American power and the bipartisan, neoliberal “Washington Consensus.” Those days are long gone. Now, we must debate contrasting views of statecraft and the national interest, newly adjusted to the geopolitical challenge of our time, or else drift polarized and paralyzed into another decade of decline.

First, I will set the debate by contrasting two visions of statecraft as ideal types, articulated best by eighteenth-century rivals Sir James Steuart and Adam Smith, that define disagreements about the national interest. Steuart influenced our fledgling republic’s statecraft with an economic strategy of protection and trade in the national interest. Smith, more familiar to us now, influences liberals and conservatives with his arguments for free trade, but their reception of him refracted through a distorted mirror of American history has become doctrinaire and unrealistic. As a result, Americans have conflicting convictions about foreign affairs strategy and economic policy at this time of rising danger to our safety and independence.

Second, I will contest the notion that economic nationalism is a botched bygone policy by tracing America’s strategy of industrial development. By economic nationalism I mean: first, analytically, the primacy of the state and state interests in an anarchic world order, and the importance of power in foreign relations; second, normatively, a commitment to the national government, a national system of political economy, and the priority concern of a national government with the welfare of its citizenry.⁸ Protectionism was a primary instrument of our foreign economic policy that served the important purpose of building American power. Free trade was another instrument of policy and can be a valid strategy of economic statecraft, but in the 1990s it ossified into unbending doctrine.

Third, I will argue that learning this history should liberate our leaders to formulate economic strategy in the national interest to rebuild

⁷ China has led the way in recovering export volumes and increasing its share of global exports over pre-pandemic levels. Analysts believe it will keep the market share it has seized. See Paul Hannon, “Global Trade Roars Back From Depths of Covid-19 Pandemic,” *Wall Street Journal*, February 25, 2021.

⁸ Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, NJ: Princeton University Press, 2001), 14.

American power, which our neglect and naivete dissipated for three decades. Strategy for twenty-first century national economic development is about more than mere interest group protectionism. Government-led risk taking in high technology innovation and public venture capitalism that produces commercial spin-offs and competitive advantages for American companies in foreign trade are among our best traditions of economic statecraft. To expect any reversal in our country's fortune, our statesmen must study again this art of power.

I

Power considered comprehensively is the medium of exchange in international relations. Power is to statecraft what money is to economics, a means of conversion for things of value. But as mercantilist accumulation of money as the final object of wealth was wrong—because wealth is not in the money, but in real goods that can be produced—so is the accumulation of power as the final object of foreign policy. We only accumulate power to spend it on the real goods of political relations, the highest of which is the *tranquillitas ordinis*, the tranquility of order, in a just peace. The peace we now have, or what is left of it, came thirty years ago from the American-led victory in the Cold War. This is no abstract peace because it was *our peace*, the one our fathers and friends paid for, built, and won. But like the prodigal son, we cashed out our inheritance and spent it profligately, dissipating our power that undergirded the deep peace of the post-Cold War world. We have been power spend-thrifts through commitments to deeply insolvent foreign policies in theaters of actual and potential war and have spent ourselves on risky, ill-conceived projects that have gone bust and bankrupted our stock of power.⁹ Hence, we have undermined the source of our own peace.

If we value the peace our forebears won through victory over the Soviet Union, we must follow their frugality in practicing the first principle of foreign policy, which is to bring our commitments and capabilities into alignment. Only by doing so can we convert our insolvent foreign policy slowly into a solvent one. Hence, the agenda before American statesmen of the next thirty years is to apply this principle to a grand strategy of rebuilding our power to secure our peace.

Let us begin by considering our approach to world trade, the insol-

⁹ Fareed Zakaria in 2010 recalled a meeting he had with the deputy director of the policy planning staff of China's Foreign Ministry. The official said that China hoped America would send the whole U.S. Army into Iraq for another ten years, distracted, so China could continue building up its economy.

vency which COVID-19 starkly revealed. Our doctrinaire dedication to free trade has been sapping our power for thirty years as we single-mindedly pursued it for wealth creation. But like an isometric optical illusion—where an ambiguous shape appears to point in alternating directions—the point of foreign trade alternates between wealth and power too ambiguously to decide it only has one shape. During peaceful international relations, as appearances of power politics melt away, our eyes cannot help but see in trade the point of wealth. However, when power politics returns after a time of deep peace in foreign affairs, the point of power surprises us by inverting this initial view.

As the peace among nations erodes, a single-minded pursuit of wealth through trade takes on new dangers for a nation's position, because the global supply chains feeding domestic consumption begin to look more like the chains of foreign dependence. Deciding when this geopolitical shapeshift happens is the judgment of the statesman, who has in charge the safety and independence of the body politic.

A statesman may want to respond and use trade for something other than national wealth creation. When he does this, a new political meaning is foisted on foreign economic policy. Assessing that policy's success changes from a purely financial calculation to one involving power.¹⁰ An economist will conclude that a policy using resources this way drains wealth and will judge it a failure. But objections to power policies based purely on wealth miss larger aims of strategy, and it is why an economic view of the national interest is a partial one. The responsibility to interpret and discharge the national interest lies with the statesman, and him alone, because the definition of the national interest is fundamentally political rather than economic.

In American democracy, the winning coalition of a president's electorate guides his interpretation of the national interest.¹¹ Changes in electoral configurations of their winning coalition constrain or free statesmen to pursue different grand strategies in response to geopolitical change.¹² Therefore, those who subordinate the view of the statesman to that of the economist are failing to appreciate higher realities of statecraft and one of America's oldest strategies for political economy in the national interest.

¹⁰ David Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985).

¹¹ Peter Trubowitz, *Politics and Strategy: Partisan Ambition and American Statecraft* (Princeton, NJ: Princeton University Press, 2011).

¹² Kevin Narizny, *The Political Economy of Grand Strategy* (Ithaca, NY: Cornell University Press, 2007).

The familiar American schools of Hamiltonian and Jeffersonian political economy are two deeper traditions that started as a disagreement between the two Scotsmen, Steuart (*An Inquiry into the Principles of Political Oeconomy*, 1767) and Smith (*An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776).¹³ At heart, Steuart and Smith are debating the national interest in terms of political economy, with the former holding to the priority of politics and the latter—ambivalently—to economics. Steuart articulates what I call the “Statesman View” of the national interest and Smith what I call the “Economist View,” and both influenced American statecraft on political economy. The Statesman View of Steuart runs through Hamiltonian Federalists into the Whigs’ American System and finally into Abraham Lincoln’s Republicans and their Northeastern industrial base. The Smithian Economist View passes from Jeffersonian Republicans into Jacksonian Democrats and then to Southern agrarians.

The Democratic Party’s political economy was rooted in trade liberalization, and the Republican Party’s in trade protection, until World War II. Then, both parties embraced liberalization as part of America’s Cold War strategy. Their coalitions realigned in the 1970s with the dissolution of Cold War internationalism, making Democrats a Northeastern party with protectionist sentiments and Republicans a Southern and Western party with free trade commitments. U.S. victory in the Cold War merged the parties in the Economist View, as the Washington Consensus, when Bill Clinton embraced free trade. That 1990s consensus lasted until the Trump Administration, which sparked a bipartisan revival of the Statesman View, beginning with the Republican Party.¹⁴

II

The essence of the Statesman View of the national interest, as Steuart articulates it, is that *there is a statesman* at the helm of government building up the body politic for the good of the whole people.¹⁵ His

¹³ For scholarship comparing the relative influence of Steuart and Smith, particularly how their works were competing for policymaker attention in Britain, see Gary M. Anderson and Robert D. Tollison, “Sir James Steuart as the Apotheosis of Mercantilism and His Relation to Adam Smith,” *Southern Economic Journal* 51, no. 2 (1984): 456-68; and Salim Rashid’s reply in Rashid, “Smith, Steuart, and Mercantilism: Comment,” *Southern Economic Journal* 52, no. 3 (1986): 843-52.

¹⁴ The Trump Administration’s revival of economic statecraft tools—especially the heavy use of tariffs in a trade war with China, but also more aggressive use of national security reviews of foreign direct investments and merger and acquisition requests—has continued into the Biden Administration. See, Yuka Hayashi, “U.S. To Take Hard Line on China Trading Practices, Administration Says,” *Wall Street Journal*, 1 March 2021.

¹⁵ Sir James Steuart, *An Inquiry into the Principles of Political Oeconomy: Being an Essay Statesmanship for Political Economy*

statecraft forges national unity from sectional difference, reconciles private interests for the public good, and protects against political disruptions from foreign trade. Economics and politics are not divorced in the Statesman View because political economy is the union of a people's economic means and political ends. Economics (as such) is only the management of scarcity in our private affairs as we participate in larger society. *Political* economy is the concern of leaders to steward, reform, and preserve from disruption the established life of the people. A statesman thus is busy studying the body politic and devising schemes of political economy to advance its welfare:

The statesman (this is a general term to signify the legislature and supreme power, according to the form of government) is neither master to establish what oecconomy he pleases, or, in the exercise of his sublime authority, to overturn at will the established laws of it, let him be the most despotic monarch upon earth. The great art therefore of political oecconomy is, first to adapt the different operations of it to the spirit, manners, habits, and customs of the people; and afterwards to model these circumstances so, as to be able to introduce a set of new and more useful institutions.¹⁶

Responsibility to build up the body politic entails forging national union from sectional division. The way is to secure building blocks for the general welfare, such as conditions of subsistence and employment for the people to become an interdependent whole. This general welfare transforms private individuals into a *public* and welds the country's diverse sections into a *nation*. However, a statesman does this not through a ham-fisted command economy but prudential policy, a vision for the public good, and persuading the people to support his policy and vision.¹⁷

Sensitivity to this obligation makes those who take the Statesman

on the Science of Domestic Policy in Free Nations, in which are Particularly Considered Population, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit, and Taxes (1770), Archive for the History of Economic Thought, McMaster University. In Book 1, Chapter 19, Steuart says, "In treating every question of political oecconomy, I constantly suppose a statesman at the head of government, systematically conducting every part of it, so as to prevent the vicissitudes of manners, and innovations, by their natural and immediate effects or consequences, from hurting any interest within the commonwealth."

¹⁶ Steuart, *An Inquiry into the Principles of Political Oecconomy*, preface to Volume 1.

¹⁷ In the Preface, Steuart says, "The principal object of this science is to secure a certain fund of subsistence for all the inhabitants, to obviate every circumstance which may render it precarious; to provide every thing necessary for supplying the wants of the society, and to employ the inhabitants (supposing them to be free-men) in such a manner as naturally to create reciprocal relations and dependencies between them, so as to make their several interests lead them to supply one another with their reciprocal wants. It is the business of a statesman to judge of the expediency of different schemes of oecconomy, and by degrees to model the minds of his subjects so as to induce them, from the allurements of private interest, to concur in the execution of his plan," *ibid*.

View acutely aware of how foreign trade complicates the ongoing act of balancing interests. There are always political effects of trade rather than mere economic effects. Trade with foreign powers injects disruptions that might overturn interests that, shakily balanced, constitute the public good as deliberated by politics. The statesman therefore must watch if foreign trade is diverting private interests from the public good and harming the body politic. Specifically, statesmen must pay attention to what the people are consuming from abroad, because if consumer tastes and standards of living depend on cheap imports, domestic production of those goods will not arise.¹⁸ Dependence on foreign manufactures implies that foreign economic policy is indulging consumers and neglecting producers, in which case the statesman is failing to build up the whole people.

The proper response to foreign trade's political disruption, in the Statesman View, is a strategy of economic statecraft aimed at rebalancing domestic interests. This strategy is about stimulating internal economic development so consumer and producer interests can reconcile through eventual domestic supply. Producers are satisfied by the protection necessary to avoid collapse and consumers are satisfied with home manufactures as adequate import substitutions. Specifically, the object of this economic strategy is protecting home industry's ability to supply necessary goods that consumers would find more cheaply abroad, which entails government paying a premium until domestic producers are export competitive.¹⁹

¹⁸ In Book 2, Chapter 15, Steuart says, "Trade, therefore, and foreign communications, form a new kind of a society among nations; and consequently render the occupation of statesman more complex. He must, as before, be attentive to provide food, other necessaries and employment for all his people; but as the foreign connections make these very circumstances depend upon the entertaining a good correspondence with neighbouring nations, he must acquire a proper knowledge of their domestic situation, so as to reconcile, as much as may be, the interests of both parties, by engaging the strangers to furnish articles of the first necessity, when the precious metals cannot be procured; and to accept, in return, the most consumable superfluities which industry can invent. And, last of all, he must inspire his own people with a spirit of emulation in the exercise of frugality, temperance, oeconomy, and an application to labour and ingenuity. If this spirit of emulation be not kept up, another will take place; for emulation is inseparable from the nature of man; and if the citizens cannot be made to vie with one another, in the practice of moderation, the wealth they must acquire, will soon make them vie with strangers, in luxury and dissipation."

¹⁹ In Book 2, Chapter 19, Steuart says, "The ruling principle, therefore, which ought to direct a statesman in promoting and improving the infant trade of his people, is to encourage the manufacturing of every branch of natural productions, by extending the home-consumption of them; by excluding all competition with strangers; by permitting the

Steuart’s statement in 1767 of the original “infant industries” argument for protection illustrates the core logic of the Statesman View on foreign trade: it has power effects, and so it is an instrument of statecraft for political economy in the national interest. And political economy is not shop-keeping writ large. Political leaders intuitively grasp the domestic source of their power in terms of coalitions of consumers and producers. The Statesman View grants that leaders should wield foreign economic policy to defend the domestic interests of their coalitions, such as protecting home industry’s production of necessary goods. In this way, a statesman views trade with both eyes open—one to politics and one to economics—whereas a mere economist viewing trade turns a blind eye to politics.

III

The Economist View of the national interest is articulated in its best form by Smith because he grants important qualifications that nuance and harden it with realism. Smith was no doctrinaire free trader, naïve pacifist, or globalist who denied the rights of national defense or trade’s political power. Moreover, his critique of mercantilists’ theory of wealth creation is a valid one. Mercantilists said wealth was in money and the end of economic strategy was to gain it from a positive trade balance by way of restraining imports and promoting exports through means of tariffs, prohibitions, privileges, and colonies.²⁰ Smith explodes this strategy by discrediting its end—wealth consists not in stockpiles of gold but in a country’s production of consumable goods—and by demonstrating its ways and means are *unprofitable*. However, to ground this attack, he emphasized trade’s wealth effect over power and consumer interests over those of producers. The liberal school of economics Smith champions thus tend to subordinate politics to economics, especially as doctrinaire followers minimized his nuanced understanding, and to identify the national interest with consumer preferences.²¹

rise of profits, so far as to promote dexterity and emulation in invention and improvement; by relieving the industrious of their work, as often as demand for it falls short; and, until it can be exported to advantage, it may be exported with loss, at the expence of the public. . . . And when the natural advantages of other nations constitute a rivalry, not otherwise to be overcome, the statesman must counterbalance these advantages by the weight and influence of public money; and when this expedient becomes also ineffectual, foreign trade is at an end; and out of its ashes arises the third species, which I call inland commerce.”

²⁰ Adam Smith, *An Inquiry into to the Nature and Causes of the Wealth of Nations* (Amherst, NY: Prometheus Books, 1991), Book IV, Chapter 1.

²¹ Peter McNamara concludes that “Smith makes statesmanship subordinate to political economy, practice to theory” in *Political Economy and Statesmanship* (DeKalb, IL:

The priority of economics emerges in Smith's definition of political economy, which proposes "first, to provide revenue to the people, or to enable them to provide revenue for themselves; second, to supply the state or commonwealth with revenue for the public services. It proposes to enrich both the people and the sovereign."²² This emphasis on wealth as the purpose of political economy creates ambivalence about the statesman. Statesmen interrupt the enrichment of the people and the state by believing wrong things about wealth (e.g., mercantilism), catering to protectionist lobbies, and sacrificing the long view to current events.

The essence of the Economist View is that, excepting immediate national defense, *statesmen do not bring a unique perspective to political economy* that justifies raising costs to consumers. The Economist View casts a skeptical eye on the meddling statesman because the individual knows best his own interest.²³ Emphasizing wealth over power, Smith makes the statesman into a great shopkeeper, "What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."²⁴ Smith wanted to overturn a system that benefited producers, and he believed consumer interests should win on the basis that "consumption is the sole end and purpose of all production."²⁵ Thus, a preference for consumer interests underpins free trade policy and it defines the Economist View of the national interest.

Northern Illinois University Press, 1998), 147. Edward Meade Earle comments that "His followers were more doctrinaire free traders than Smith was himself, and they certainly were more ardent pacifists." See, "Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power" in Peter Paret, ed., *Makers of Modern Strategy from Machiavelli to the Nuclear Age* (Princeton, NJ: Princeton University Press, 1986), 222.

²² Smith, *Wealth of Nations*, 325.

²³ Smith says, "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it," *ibid.*, 352.

²⁴ *Ibid.*, 353.

²⁵ Smith says, "And the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. . . . It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to[.]" *ibid.*, 444-445.

Although the Economist View favors wealth and consumption over power and production, Smith nuances it with two important exceptions. Trade restrictions are justified first “when some particular sort of industry is necessary for the defense of the country” because “defense is of much more importance than opulence.”²⁶ Second, easing into a free trade policy and responding to trade wars justify temporary restrictions as matters of political judgment, although a trade war should aim at reopening a foreign market on reciprocal terms.²⁷

These exceptions grant that power politics lurk below the surface of world trade.²⁸ However, making this grant the *exception* rather than the rule gives space in practice for free traders to minimize and then ignore power considerations in world trade. Many who hold the Economist View do this simply by linking free trade, wealth creation, and world peace. But emphasizing wealth obscures that wealth and power are fungible. Trading partners can spend newfound wealth on military modernization programs, after all. Is it wise to depend on trade with foreign rivals, even for better markets, when a statesman’s deepest job is to position the nation so that advantages accrue to it when the next war comes? Statesmen who in peace think about foreign trade like shopkeepers can in war endanger the nation’s safety and independence. The fact that Smith neither raises nor answers this issue suggests that the Economist View need not express a naïve belief in perpetual peace to smuggle it as an assumption.²⁹

Smith’s refutation of mercantilist trade theory in 1776 was a compelling expression of the ways of wealth creation in a world that viewed wealth as finite. His emphasis on wealth over power and consumption over production define the core logic of the Economist View of foreign trade: it enriches the people and the state, and so a statesman should

²⁶ *Ibid.*, 359-361.

²⁷ But even allowing this, Smith reflects the cynicism of statesmen embedded in the Economist View: “To judge whether such retaliations are likely to produce such an effect, does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs,” *ibid.*, 363.

²⁸ McNamara sees Smith allowing statesmen a degree of discretion to deviate from a free trade policy and respond in kind to a hostile foreign commercial policy. However, he also questions “whether the exceptions [Smith] marks out really have the character of exceptions or are so numerous or so grave as to call into question the validity of the general rule” of free trade. See McNamara, *Political Economy and Statesmanship*, 87.

²⁹ Edward Mead Earle argues persuasively that Smith’s broad exception of national defense can save Smith’s own viewpoint with realist assumptions. It is a different story for free traders after Smith, however. See Earle’s essay in Paret, ed., *Makers of Modern Strategy from Machiavelli to the Nuclear Age*.

think typically like a shopkeeper. In this way, Smith ambivalently elevates economics over politics, denying statesmen their unique view of how a nation's political economy should configure its world trade.

IV

Looking in a distorted mirror of our past, many people think Smith won this debate for free trade in America. In fact, free trade lost out for most of our history.³⁰ America has limited or adapted trade to the national interest, and protectionism was the first and eventually dominant strategy of building economic power and independence. Reversing course on global free trade is thus not a betrayal of American tradition. Getting our history right is important for liberating convictions about free trade that otherwise inhibit creative economic statecraft in the face of our current geopolitical challenges.

This history can be divided into eras of protection from 1791 to World War II, strategic liberalized trade from the Cold War to 1991, and doctrinaire globalized trade from the 1990s until the late 2010s. Political coalitions representing our Hamiltonian and Jeffersonian traditions vied for primacy over American economic statecraft into the twentieth century, championing respectively the Statesman and Economist Views of the national interest. The Statesman View, however, set our economic strategy from the start.

Treasury Secretary Alexander Hamilton in his 1791 *Report on the Subject of Manufactures* argued that tariffs and other means of promoting domestic industry "will tend to render the United States, independent on foreign nations, for military and other essential supplies."³¹ Hamilton's *Report* anticipated objections from critics who, like Smith, said government should leave industry and capital to develop free from "artificial direction" and answered them by channeling Steuart's view that the statesman's responsibility is to build up the whole body

³⁰ E. E. Schattschneider wrote in the preface to *Politics, Pressures and the Tariff*, "Ever since the time of Adam Smith an important body of opinion critical of the protective tariff has flourished among economists. Though the literature produced by these critics has been at once extensive and scholarly, one has only to look about him to see that it has not made a great impression on the course of events." See E. E. Schattschneider, *Politics, Pressures and the Tariff* (New York: Prentice-Hall, Inc., 1935), vii. Records suggest that hindsight exaggerated Smith's influence on American political economy and his prestige in his lifetime. See Salim Rashid, "Adam Smith's Rise to Fame: A Reexamination of the Evidence," *The Eighteenth Century* 23, no. 1 (1982): 64-85.

³¹ Alexander Hamilton, "Final Version of the Report on the Subject of Manufactures (5 December 1791)," *The Papers of Alexander Hamilton*, vol. 10, ed. Harold C. Syrett (New York: Columbia University Press, 1966), 230-340.

politic by balancing domestic interests.³² For example, Hamilton argued that protecting manufactures promotes a harmony of interest with agriculture—because agrarians can gain productivity through domestic machinery—but free trade’s “substitution of foreign for domestic manufactures is a transfer to foreign nations of the advantages accruing from the employment of machinery.”³³

Furthermore, Hamilton takes the Statesman View of trade in the national interest, with eyes open to both its wealth and power effects. The *Report* is emphatic that protectionism is a good union of economic means and political ends. Protectionism in peacetime is about positioning the nation for advantage in the next war because the deepest job of a statesman is to protect the safety and independence of the whole body politic:

Not only the wealth; but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of *Subsistence, habitation, clothing, and defence* The extreme embarrassments of the United States during the late War, from an incapacity of supplying themselves, are still matters of keen recollection: A future war might be expected again to exemplify the mischiefs and dangers of a situation, to which that incapacity is still in too great a degree applicable, unless changed by timely and vigorous exertion.³⁴

Hamilton grants the benefits of free trade in a hypothetical world where all nations practice it but denied we lived in that world. In the world of the early American republic, “the United States cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim ‘Tis for the United States to consider by what means they can render themselves least dependent, on the combinations, right or wrong of foreign policy.”³⁵ In other words, having won political independence from the British Empire, America had yet to win economic independence from the British economy.³⁶

The Washington Administration and Federalist Party adopted Hamilton’s protectionism, creating a political base for domestic interests

³² Hamilton almost certainly read both Smith and Steuart and clearly favored Steuart, probably because he gave a practical theory of national economic development that Hamilton was looking for. See Forrest McDonald, *Novus Ordo Seclorum: The Intellectual Origins of the Constitution* (Lawrence, KS: University Press of Kansas, 1985), 120.

³³ Hamilton, “Final Version of the Report on the Subject of Manufactures,” *The Papers of Alexander Hamilton*, 230–340.

³⁴ *Ibid.*

³⁵ *Ibid.*

³⁶ Michael Lind, *What Lincoln Believed: The Values and Convictions of America’s Greatest President* (New York: Anchor Books, 2004), 79.

favoring internal economic development, independence from foreign entanglements, and national union.³⁷ These interests—regional to New England, the mid-Atlantic, and Western states—also formed the base of the Federalists’ successors in the National Republicans, Whigs, and finally the Grand Old Party of Abraham Lincoln. These parties served the cause of economic nationalism through the “American System,” a protectionist program opposed to the so-called British System of free trade. Free trade was championed by Thomas Jefferson’s Democratic-Republicans and then Andrew Jackson’s Democrats, however, to benefit Southern planters, farmers, and landed gentry reliant on British markets for cotton, tobacco, and textiles.³⁸

The American System was a grand strategy of domestic nation building pursued through the 1820s-1840s by John Q. Adams as secretary of state and then as president, and by Henry Clay as speaker of the house and then as senior senator from Kentucky.³⁹ Clay’s Senate speech amid debate over the 1833 “Compromise Tariff” gave the American System its name by defending the Adams Administration’s policies and the tariffs of 1816 and 1824.⁴⁰ More strikingly, Clay justified protecting home industry in peacetime because of the Republic’s need for safety and independence in war.⁴¹

By the 1840s, America’s success at achieving economic independence

³⁷ See Washington’s first annual message to Congress, in which he remarked, “[T]he safety and interest [of a free people] require that they should promote such manufactories as tend to render them independent of others for essential, particularly military supplies.” Protective duties were the second act of the First Congress.

³⁸ Lind, *What Lincoln Believed*, 77-78.

³⁹ Adams’s agenda rested on reinforcing policies of promoting domestic development, reducing foreign threats, and fostering social cohesion—in other words, of generating and conserving American national power. See, Charles Edel, *Nation Builder: John Quincy Adams and the Grand Strategy of the Republic* (Cambridge, MA: Harvard University Press, 2014), 219.

⁴⁰ In the speech, Clay vindicates how the tariffs built up American productive power and standard of living, just as Hamilton’s Report desired, and provided national rather than sectional economic benefits. In doing so, Clay took the familiar Statesman View of reconciling rival interests for the public good: “Now, the duty of the statesman is, to elevate himself above these petty conflicts; calmly to survey all the various interests, and deliberately to proportion the measure of protection to each, according to its nature and the general wants of society.” See, *The Senate 1789-1989: Classic Speeches, 1830-1993*, ed. Wendy Wolf, U.S. Senate Historical Office (Washington, DC: U.S. Government Printing Office), 101.

⁴¹ Clay said, “I have hitherto considered the question [of protective tariffs] in reference only to a state of peace; but a season of war ought not to be entirely overlooked. We have enjoyed near twenty years of peace; but who can tell when the storm of war shall again break forth? . . . The statesman, who justly elevates his views, will look behind as well as forward, and at the existing state of things; and he will graduate the policy which he recommends, to all the probable exigencies which may arise in the republic,” *ibid.*

attracted the praise of German-born Friedrich List, who sought to copy our economic strategy for Germany, then a disunited country. List in his *National System of Political Economy* points to the American System as a demonstration of the maxim of statecraft that power makes wealth. Thus, buying a nation industrial power for the long run is worth paying higher consumer costs in the short run:

Power is of more importance than wealth because a nation by means of power is enabled not only to open up new productive sources, but to maintain itself in possession of former and of recently acquired wealth, and because the reverse of power—namely, feebleness—leads to the relinquishment of all that we possess, not of acquired wealth alone, but of our powers of production, of our civilization, of our freedom, nay, even of our national independence.⁴²

The Republican Party completed the Whigs' American System by making protection national policy for over fifty years (starting with the 1861 Morrill Tariff) and birthing the industrial Northeast, which became the core of America's manufacturing might and the GOP's political bastion well into the twentieth century.⁴³ In 1861, President Lincoln declared that "I have always been an old-line Henry Clay Whig," and indeed Congressman Lincoln years before made the Whig case for both a national bank and economic infrastructure.⁴⁴ By means of industrial policy and the revenue surplus from exported manufactures, Republicans welded a continental coalition of domestic interests that stretched from the Eastern establishment of industrialists, merchants, and financiers to Midwest and Western farmers. This GOP coalition reduced the Democrats to a regional Southern party for a generation and forestalled for decades an insurgent alliance between Southern and Western agrarian interests on the periphery of the American political economy.⁴⁵ This domestic base allowed for power projection abroad beginning in the 1890s, notably with the creation of a world-class blue water navy, our brief foray into imperialism, and the tariff used as leverage to pry open foreign markets.⁴⁶

⁴² Friedrich List, *The National System of Political Economy* (New York, NY: Augustus M. Kelley Publishers, 1966), 46 and 102. List hammers Smith throughout his book on the point that he favors exchangeable value in the present for long term security of the nation's productive powers, and he gives mixed compliments to Steuart's work in Book 3, ch. 29.

⁴³ Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917* (Chicago, IL: University of Chicago Press, 1999), chapter 7.

⁴⁴ Lind, *What Lincoln Believed*, 88. Michael Lind, *Hamilton's Republic: Readings in the American Democratic Nationalist Tradition* (New York, NY: The Free Press, 1997), 254-257.

⁴⁵ Sanders, *Roots of Reform*, 217.

⁴⁶ Peter Trubowitz, *Defining the National Interest: Conflict and Change in American Foreign Policy* (Chicago, IL: University of Chicago Press, 1998), 31-96.

V

America in its Western leadership from 1946-1991 liberalized trade for political reasons, but it never lost sight of trade's power effect nor was doctrinaire about globalization. World War II taught America the ways of economic warfare, and our postwar economic statecraft continued to extend or deny trade based on a friend-enemy distinction.⁴⁷ Our policy was about promoting intra-alliance trade more than global trade. In the early Cold War, freer trade fortified the Western Alliance through a liberal international order that aimed to outcompete the Soviet bloc, serving a double pronged strategy that fused geopolitics and economics into geoeconomics.

On the one hand, American aid rebuilt Western Europe and cemented our influence there while our commercial policy integrated the Atlantic community (and eventually Japan) through international monetary institutions and the General Agreement on Tariffs and Trade (GATT). This was the seedbed of America's Cold War internationalism, which for *raison d'état* subordinated wealth to power. For example, Truman Administration officials such as George Kennan saw this internationalism in geopolitical terms, writing in a memo that "American effort in aid to Europe" was about redressing "the economic maladjustment which makes European society vulnerable to exploitation by any and all totalitarian movements and which Russian communism is now exploiting."⁴⁸

On the other hand, America and its allies waged a cold warfare of economic denial against the Soviet Union and its allies through an embargo of designated strategic items managed by a multilateral coordinating committee dubbed the Coordinating Committee for Multilateral Export Controls or COCOM.⁴⁹ Power policies therefore underlay the American effort to link trade's wealth effect on the free world to its power effect on our national interest.

To avoid fallacies about free trade in the Cold War, U.S. foreign economic policy must be understood by the ups and downs of this two-pronged geoeconomic strategy. With one arm we were extending the veins of our industrial bloodstream to friends and with the other arm were trying to choke economic life from our enemies. For example, America from 1947-1951 dispersed two percent of its gross national

⁴⁷ Alan Dobson, *US Economic Statecraft for Survival, 1933-1991* (New York, NY: Routledge, 2002), chapter 4.

⁴⁸ Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, MA: The Belknap Press of Harvard University Press, 2017), 163.

⁴⁹ Alan Dobson, *US Economic Statecraft for Survival, 1933-1991*, 87-112.

product annually to European allies and later tolerated their discrimination against our agricultural and manufactured exports.⁵⁰ Later, the U.S. in successive rounds of GATT negotiations—particularly the Kennedy Round (1964-1967) and the Tokyo Round (1973-1979)—reduced trade barriers on manufactures among members and extended *preferential treatment to exports from less developed countries*.⁵¹

Liberalization with developing countries on less than reciprocal terms for America served our national interest because the Third World was, after Europe, the main theater of U.S.-Soviet influence competition in the 1960s-70s. Meanwhile, the U.S. national embargo list for the Soviet Union and China diverged from COCOM's more lenient list, disadvantaging U.S. companies over time. Consequently, administrations from Truman to Nixon fought rearguard battles with domestic and European business interests over liberalizing East-West trade.⁵² President Nixon finally conceded to a liberalized U.S. embargo but linked it to Soviet commitments on strategic arms limitations as part of *détente*, and in 1971 he also lifted import controls on China to drive further the Sino-Soviet split.⁵³

Ironically, American economic strategy of rebuilding allies and opening our home market to their exports succeeded so well that West Germany and Japan by the 1970s were outcompeting American industry. This was allowing the deindustrialization of our manufacturing backbone in the Northeast and souring Americans there on free trade. The 1970s-80s witnessed a reactive surge of "New Protectionism" measures by the Carter and Reagan administrations, when nontariff barriers unforeseen by GATT, such as voluntary export restraints and other import quotas, mushroomed through the 1980s.⁵⁴ Deindustrialization also produced a series of changes that redefined the political economy of the Republican and Democratic parties, presaging the Washington consensus on the Economist View after the Cold War.

Foreign trade's penetration into the U.S. economy, eased by low tariffs, disrupted domestic interests balanced by Franklin D. Roosevelt. He had aggregated Northeastern urban and Southern agrarian factions into a winning Democratic coalition that became the bipartisan base for Cold

⁵⁰ Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), 58.

⁵¹ Gilpin, *Global Political Economy*, 220.

⁵² Dobson, chapters 6-8.

⁵³ *Ibid.*, 200-201.

⁵⁴ Gilpin, *The Challenge of Global Capitalism*, 80-82.

War internationalism.⁵⁵ This base rested heavily on the world supremacy of Northeastern industry and its postwar export competitiveness. However, liberalized trade produced new winners and losers in the South, West, and Northeast due to uneven patterns of economic integration with the world—different regions in the U.S. traded with different foreign markets—and it tore new sectional divisions across the old Democratic coalition.⁵⁶

The Northeast industrial core lost while the West and South won in what was the rise of the “sunbelt” and the “gunbelt.” Through massive Defense Department spending, the Cold War economy had industrialized Western and Southern states for the first time and built communities with stable military-industrial jobs across the West Coast, Southwest, Texas, Deep South, and Southeast.⁵⁷ New constituencies formed there from booming aerospace, electronics, agribusiness, construction, oil, and real estate industries that were export competitive in the 1960s-70s, which predisposed the West’s sunbelt and South’s gunbelt to free trade.⁵⁸

These disruptions realigned America’s political geography and reversed Republican positions on trade and the national interest. By the 1970s, the Northeast’s decline due to America’s GATT commitments unglued the old Northern-Southern Democratic alliance and created an opening for a new Western-Southern Republican coalition that in the 1980s emerged triumphant. Democrats became a Northeastern party, voicing that aging region’s protectionist instincts, while Republicans became a Southern and Western party whose new bastions profited from free trade.

As the party of Ronald Reagan championed liberalization more uniformly, Republican leaders espoused the Economist View of wealth and consumers as the objects of trade and the national interest. This completed a revolution in Republican statecraft on political economy, which for a century—from the GOP’s protectionist roots in 1861 until as late as 1961—had been guided by the Statesman View. President Dwight Eisenhower’s farewell speech in 1961 may be the last time a GOP president set forth explicitly the Statesman View of governing for the public good by way of balancing interests in the name of statesmanship:

But each proposal must be weighed in the light of a broader consideration: the need to maintain balance in and among national programs—balance

⁵⁵ Trubowitz, *Defining the National Interest*, chapter 3.

⁵⁶ *Ibid.*, 199.

⁵⁷ Ann Markusen and Joel Yudken, *Dismantling the Cold War Economy* (New York: Basic Books, 1992), 173-190.

⁵⁸ Trubowitz, *Defining the National Interest*, 232.

between the private and the public economy, balance between cost and hoped for advantage—balance between the clearly necessary and the comfortably desirable; balance between our essential requirements as a nation and the duties imposed by the nation upon the individual; balance between action of the moment and the national welfare of the future. Good judgment seeks balance and progress; lack of it eventually finds imbalance and frustration.

It is the task of statesmanship to mold, to balance, and to integrate these and other forces, new and old, within the principles of our democratic system—ever aiming toward the supreme goals of our free society.⁵⁹

Out of the Reagan Revolution came an array of conservative movement groups and libertarians united by doctrinaire belief in the *laissez-faire* gospel of wealth and consumption. The history of America's rise to industrial power through Hamiltonian, Whig, and Republican protectionism was rewritten with a Jeffersonian, free-trading gloss and justified by vehement gestures at the bad old Smoot-Hawley Tariff.⁶⁰ By the 1980s, free trade became policy doctrine for the Republican Party. The aftermath of the Soviet Union's collapse in the 1990s cemented it in the Democrats' mainstream policy.

VI

From the 1990s to the late-2010s, the American political economy privileged wealth and consumption over power and production as the Economist View of the national interest and trade triumphed. The deep peace of the world after America's Cold War victory was the utopia of which economists had long dreamed. America's enormous prestige submerged power politics and made anyone sound impolitic for recommending trade in the national interest, or alarmist for proposing protection to prepare for the next war, especially as foreign affairs scholars announced the "end of history" and the beginning of high-tech, information age competition. When President Clinton—the first "New Democrat" from the South—en-

⁵⁹ Dwight D. Eisenhower's Papers as President, Speech Series, Box 38, Final TV Talk (1); NAID #16972219. <https://www.eisenhowerlibrary.gov/research/online-documents/farewell-address>. Accessed December 3, 2021.

⁶⁰ The Smoot-Hawley tariff is a favorite bugaboo in the free trader retelling of American economic history. The law in 1930 raised the tariff to 48% from 37%, where the rate had been since 1925. While not an insignificant rise, a 48% tariff was within the historic norm of American tariffs, which had varied from 40-50% between 1863 and 1913. During the nineteenth century, America was the most protectionist country and one of the fastest growing economies in the industrialized world. See Ha-Joon Chang, *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism* (New York: Bloomsbury Press, 2008), 54-55.

dorsed free trade after a short stint of geoeconomic friction with Japan, the Democratic Party also committed to an open world economy of nationally deregulated and globally integrated markets, supervised by transnational organizations, and guarded by neoliberal suspicion of state agency on behalf of national economic autonomy.⁶¹

In the 1990s, the Economist View triumphed in a Washington Consensus favoring regional free trade agreements, globalized finance, and the rise of foreign direct investment and intrafirm trade by multinational corporations.⁶² This was the new world order. Its looming tower is the World Trade Organization (WTO), which emerged as an American creation by treaty from the conclusion of GATT's Uruguay Round in 1993. The WTO typifies commitment to international wealth and consumption over national power and production. Whereas the GATT's authority was relatively limited and its secretariat served to convene and facilitate multilateral trade accords—but did not prevent all forms of economic nationalism—the WTO has more extensive and binding rules contained in a 22,000-page treaty. The treaty produced by the Uruguay Round came into force in 1995, reduced tariffs further on manufactures, and succeeded the GATT as a transnational organization empowered to levy fines on countries that refuse to accept decisions of its dispute panel.⁶³ This transnational power invites politicking by member states that form regional coalitions and jockey to promote the candidate for WTO Director General who most aligns with their interests. All to advance free and fair trade, of course!

So, what is the legacy of all this liberalization? Free traders emphasize widespread consumer savings from reduced tariffs and economic efficiencies from globalized supply chains that hone specialization in a country's alleged comparative advantage. However, at possibly the zenith year of free trade and globalization in 2001—before the COVID-19 pandemic, Great Recession, and September 11 attacks—Princeton scholar of international political economy Robert Gilpin noted estimates that trade barriers lowered since the 1960s put an additional \$1,000 *annually* into the pockets of American consumers!⁶⁴ Gilpin meant this to demonstrate a net upside of free trade. But now consider the opportunity cost. If the American consumer pocketed only \$1,000 a year in exchange for the Northeast's deindustrialization since the 1970s, the offshoring of

⁶¹ Gilpin, *The Challenge of Global Capitalism*, 264.

⁶² Gilpin, *Global Political Economy*, 5-13.

⁶³ *Ibid.*, 221-223.

⁶⁴ *Ibid.*, 232. To be fair, Gilpin admits that calculating net gains from trade is difficult and probably impossible.

American industry in the 1990s-2000s, and our dangerous dependence on Chinese manufactures and supply chains in 2020, I submit we need a return of statecraft for political economy in the national interest.

VII

Recalling America's history of economic statecraft should liberate our statesmen from attachment to free trade as unbending doctrine and spark new thinking about strategies for rebuilding American power. Economic nationalism—exemplified by both protection and strategically liberalized trade—was not a botched bygone policy from the bad old days of the Smoot-Hawley Tariff. It was, from the beginning, a mainstay strategy for political economy in the national interest that built economic foundations of our military and other forms of power.

The problem we face is that too many elites dogmatically hold to the Economist View and are mystified about the reality of economic statecraft practiced in the real world. It impedes their ability to think about—and thus to detect and defend against—economic threats to the nation and it lulls them into a naïve expectation that other nations forswear geoeconomics because they do. Moreover, believers in neoliberal economics discount rival states' national interest interpreted by their statesmen in terms other than immediate wealth and consumption. This blinds them to political realities, such as a rival's use of trade for power effects or the utility of economic tools that might protect American interests. Gilpin confirms this elite myopia: “[economists] consider free trade to be the best policy for a country even if all other countries should practice trade protection, arguing that if other countries resort to trade protection, the economy that remained open would still gain more from cheaper imports than it would lose in denied export markets.”⁶⁵

This blindness naïvely fosters foreign dependence in peacetime that power politics later reveals as dangerous to our safety and independence. For example, the Economist View since the 1990s underwrote notions that enmeshing the American and Chinese economies would expose Beijing to political liberalization, as if the Chinese Communist Party could not control economics through instruments of political power. All we did was expose American high-tech intellectual property and advanced manufacturing knowhow in electronics and aerospace—our dominance in which is a vital national interest—to China's calculated geoeconomic predation.⁶⁶ China practiced geoeconomics very well, to the surprise of naïve

⁶⁵ *Ibid.*, 196.

⁶⁶ Michael Brown and Pavneet Singh, “China's Technology Transfer Strategy: How

American elites. In exchange for access to its market, China for years extracted a pound of flesh from U.S. firms—requiring technology transfers, joint venture restrictions, and localized production—then cloned their business DNA and subsidized homegrown corporate replicants that grew strong enough to push the U.S. firms out of China.

Mystified about these realities of statecraft, however, free traders and economists are agnostic or hostile to protecting American producers in industries threatened by geoeconomic competition. “It is big government picking winners and losers,” they cry. *Yes, and a big foreign government does the picking: their companies as winners and our companies as losers!* The truth is almost all governments except the United States have ministries for industrial policy to achieve desired outcomes in strategic economic sectors (although our federal government conducts industrial policy indirectly through, among other ways, Department of Defense contracting and procurement standards).⁶⁷ For example, the governments of France, Germany, Britain, and Spain heavily subsidized Airbus Industrie, founded in 1970 ostensibly as a commercial airline, to provide a European competitor to American giants Boeing and McDonnell-Douglas. American airline executives mocked, and economists decried, Airbus’s reliance on government, but Germany’s aerospace coordinator merely replied, “We don’t care about criticism from small-minded pencil pushers.” And from 1971-1991, Airbus increased its share of the worldwide airline market from near zero to 26%.⁶⁸ In 2020, Airbus was neck and neck with Boeing, and McDonnell-Douglas no longer exists.

The United States practices a decentralized form of industrial policy for sectors relevant to the military and for basic scientific research through the Defense Advanced Research Projects Agency, National Science Foundation, and Small Business Innovation Research program.⁶⁹ The problem is our public officials, policymakers, and

Chinese Investments in Emerging Technology Enable A Strategic Competitor to Access the Crown Jewels of U.S. Innovation Updated with 2016 and 2017 Data,” Defense Innovation Unit Experimental, January 2018, [diux_chinatechnologytransferstudy_jan_2018_\(1\).pdf](https://diux.chinatechnologytransferstudy_jan_2018_(1).pdf) (govexec.com), accessed 7 August 2021.

⁶⁷ However, for companies in such sectors, this distorts incentives to diversify lines of business and it militarizes the civilian economy and science. See Paul Koistinen, *State of War: The Political Economy of American Warfare, 1945-2011* (Lawrence, KS: University Press of Kansas, 2012), chapter 4.

⁶⁸ Edward N. Luttwak, *The Endangered American Dream: How to Stop the United States from Becoming a Third-World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy* (New York: Simon & Schuster, Inc., 1993), 27-34.

⁶⁹ Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, revised edition (New York: PublicAffairs, 2018).

political commentators avoid speaking forthrightly about industrial policy. This curious evasion misdirects the American public and distorts discourse about the reality of American industrial policy in our economy. Consequently, support for government spending on innovation programs, and credit due to them for important successes, is undercut.⁷⁰ The consequence of this misdirection is that a major tool of American economic statecraft is not well understood by statesmen who might correlate it to national policy. Even worse, basic foreign economic policy tools are subject periodically to ideological attacks and defunding attempts by libertarian interest groups and politicians.⁷¹

Opposition to state-led innovation and blindness to geoeconomics draw heavily on classical liberal economic assumptions about comparative advantage and perfect market competition. But conventional trade theories of location and perfect markets are obsolete in much of today's global political economy. American economic strength and independence in the twenty-first century hinges on sectors that break conventional rules of trade—5G telecommunications, artificial intelligence, biotech, advanced aerospace, quantum computing—because what matters is first mover advantage, increasing returns to scale, “learning by doing,” and long lead times of intensive R&D that only governments can supply usually. These and other industries exist where multinationals operate in oligopolistic sectors of imperfect markets and where competitive advantage is “not born but made” through industrial policy, technological innovation, intercorporate alliances, and intrafirm trade.⁷²

Consequently, free traders offer ideological arguments against economic nationalism, apparently unaware that case studies on strategic trade theory and competitive advantage have significantly qualified conventional trade notions on the ground that the world economy is organized in nation-based clusters of industrial excellence shaped largely by variable factors and national policy.⁷³ The idea that governments cannot successfully pick sectors for economic development and position industries for competitive advantage in foreign trade has been demonstrated false by the United States, Great Britain, and Germany in the nineteenth century; by Japan, South Korea, and Taiwan

⁷⁰ F. L. Block, “Swimming against the Current: The Rise of a Hidden Developmental State in the United States,” *Politics and Society* 36, no. 2 (June 2008): 169-206.

⁷¹ Kenneth Vogel and Burgess Everett, “How the Koch network created the Ex-Im fight,” *Politico*, 3 December 2015.

⁷² Gilpin, *Global Political Economy*, chapter 11.

⁷³ *Ibid.*, 299-300. Also see Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

in the twentieth century; and by China in the twentieth and twenty-first centuries.⁷⁴

VIII

Although trade policy is not solely responsible for America's dependence on foreign manufactures, doctrinaire rejection of economic nationalism left us complacent about its dangers. Our industrial powers came full circle, from infancy early on to an infantilized state of dependence now (William Shakespeare once said old age is a second infancy). Infant industries in 1791 grew to independence through protection in the 19th century. They matured to dominance by World War II, but weakened from the 1970s-1990s. After thirty years of historically low tariffs and globalization, critical sectors underpinning national safety and independence either are dependent on foreign suppliers or nearly decrepit.

We now have a badly eroded defense industrial and technological base that is causing the Defense Department to ring the alarm.⁷⁵ For example, the Commandant of the Marine Corps in 2020 warned that Chinese shipyards could outpace the U.S. in replacing naval losses during a war. The U.S. Navy's submarine supply base lost 12,000 suppliers since the end of the Cold War and awarded 75% of funding for material to single or sole suppliers for over two decades.⁷⁶ One could multiply examples of our foreign dependence. Tim Cook said that Apple manufactures iPads and iPhones in China because of the skilled talent there for advanced and precision tooling, whereas "In the U.S., you could have a meeting of tooling engineers and I'm not sure you could fill a room. In China, you could fill multiple football fields."⁷⁷

⁷⁴ For analyses of Germany, Japan, South Korea, and Taiwan, see Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002) and *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism* (New York: Bloomsbury Press, 2008). For historical studies of the United States and Great Britain, see List, *National System of Political Economy*. And for a case study of China's industrial policy toward information and communications technologies, see Lutao Ning, *China's Rise in the World ICT Industry: Industrial strategies and the catch-up development model* (New York: Routledge, 2009).

⁷⁵ "Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States," Report to President Donald J. Trump by the Interagency Task Force in Fulfillment of Executive Order 13806, September 2018.

⁷⁶ Paul McLeary, "In War, Chinese Shipyards Could Outpace US in Replacing Losses; Marine Commandant," *Breaking Defense*: <https://breakingdefense.com/2020/06/in-war-chinese-shipyards-can-outpace-us-in-replacing-losses/>. Accessed December 3, 2021.

⁷⁷ Tim Cook in Glenn Leibowitz, "Apple CEO Tim Cook: This Is the No. 1 Reason We Make iPhones in China (It's Not What You Think)": China is much more than a source of low-cost, low-skilled labor: <https://www.inc.com/glenn-leibowitz/apple-ceo-tim-cook>

The first step to rebuilding American power in 2020 and beyond is to affirm that statesmen, not economists, interpret the national interest. But they must be empirical, like American statesmen of old, in serving the national interest with strategies enhancing our country's power. Statesmanship requires seeing the world in terms of power flows much as economists see it in terms of money flows. These power flows, negative or positive depending on the balance of our commitments and capabilities, determine the solvency of our position in the world. Where does America have negative balances draining, and positive balances refilling, our reserves of power and prestige? Our statesmen must be about finding and fathoming these sink holes and fountains of American power. In calculating these balances, power comprehends economics, but economics does not comprehend power.

The next step to rebuilding American power is for our statesmen to keep one eye on our geopolitical position through sound foreign affairs strategy and the other eye on our general welfare through sound political economy. This entails statecraft—integrating foreign and domestic policies that reinforce a consistent, overarching national direction—and taking the Statesman View of the national interest. The object of foreign affairs strategy should be plugging the sink holes and channeling the fountains of our power through adjustments in our commitments and capabilities. But any foreign strategy must rest on a political base durable enough to provide statesmen a stable interpretation of the national interest.

Forming that coalition is the hard work of domestic statesmanship. The American political system operates on the principle that a national interest ought to be hard to delineate and deem permanent. The Constitution makes it difficult for the United States to define national interests and commit to coherent, well-coordinated national policies.⁷⁸ This design

[this-is-number-1-reason-we-make-iphones-in-china-its-not-what-you-think.html](#). Accessed December 3, 2021.

⁷⁸ Historian Ernest May argues that the Framers intended consultation and consensus to underpin any official commitment to a national interest, which makes defining and upholding a clear view of the national interest harder for the United States than for other governments. For example, the Constitution requires agreement between a president and two-thirds of the Senate to commit to a foreign treaty. Moreover, the legislative process of authorization and appropriation and the election and reelection requirements of presidents and representatives entails a constant review of commitments to national interests defined by previous officials. Consequently, the U.S. can quickly reverse (and has) on national commitments from previous presidents and Congressional majorities that do not have lasting popular and bipartisan approval. See Roy Godson, Ernest May, and Gary Schmitt, eds., *US Intelligence at the Crossroads: Agendas for Reform* (Washington, DC: Brassey's, 1995), 174-175.

protects the federal government from the intrigue and dominance of passing factions. Factions always want their partial and self-interested cause to be identified as a national cause, “and assuming the pretext of some public motive, have not scrupled to sacrifice the national tranquility to personal advantage or personal gratification,” as Hamilton said in *Federalist* no. 6. Businessmen, for example, can follow commercial interests to the detriment of the national interest if left to their own devices, and businesses dependent on foreign markets can become a commercial fifth column for a savvy power seeking to cultivate domestic political influence. Friedrich List noted the subversive danger of regions more economically integrated to foreign than home markets:

The market of the inhabitants of its coasts is, however, of great importance to every nation, both with reference to the home market, and to foreign commerce; and a nation the market of whose coasts belongs more to the foreigner than to itself, is a divided nation not merely in economical respects, but also in political ones. Indeed, there can be no more injurious position for a nation, whether in its economical or political aspect, than if its seaports sympathize more with the foreigner than with itself.⁷⁹

This gives the lie to the liberal notion that the public good arises spontaneously from businessmen following self-interest. Contra President Calvin Coolidge’s cool adage that “the chief business of the American people is business,” business interests do not equal the national interest.

Important U.S. multinationals, located in coastal states and integrated with foreign economies, favor free trade most because of corporate interests abroad, but geoeconomic rivals can manipulate them to political advantage. For example, Google infamously refused to renew contracts with the Defense Department on artificial intelligence research while maintaining contracts on similar work with the Chinese government that the Chairman of the Joint Chiefs of Staff claimed in 2019 directly benefitted the Chinese military. China has party organs—such as the United Front Work Department—that politically neutralize or manipulate foreign businesses to favor Chinese national interests. In the 1990s, China benefitted from U.S. companies lobbying Congress to uphold Beijing’s trading privileges because U.S. exporters gained from them. In one instance, China’s National Aero-Technology Import and Export Corporation negotiated a \$1 billion deal for McDonnell-Douglas aircraft that stipulated the company lobby Congress to issue export licenses necessary to ship associated machinery to China.⁸⁰ (Acquiring

⁷⁹ List, *National System of Political Economy*, 187.

⁸⁰ Darren Tromblay, *Political Influence Operations: How Foreign Actors Seek to Shape U.S. Policy Making* (Lanham, MD: Rowman & Littlefield, 2018), 73.

and copying American aerospace designs and engineering is an objective of the Chinese government’s military modernization program.) While the Economist View is agnostic to aggregate political effects of commercial self-interest, those holding the Statesman View would—with Steuart and Hamilton—behold with horror the national implications of such laissez-faire indifference.

Multiplying these examples ten thousand-fold, you can see how doctrinaire globalized trade resurrects *sectionalism*; where a nation’s economic regions with export competitive sectors detach from and profit over regions without them, and then political blocs form with competing definitions of “the national interest” based on their underlying, opposed sectional interests. Without a statesman balancing, molding, and integrating domestic producers and consumers—in short, reconciling divergent interests—a national political economy begins to disintegrate. There is now renewed economic sectionalism in America pitting areas enmeshed in global markets against areas enmeshed in the home market. City and state economies dependent more on foreign than home markets foster cosmopolitan attitudes as they detach economic and societal ties from the interior nation, while city and state economies most connected to home markets and without export competitive sectors foster nationalist and populist attitudes.

This sectionalism manifests in globalist sectors—high technology, aerospace, financial services, and multinationals—with interests opposed to economic sectors interior to the home market. Doctrinaire globalized trade since the 1990s ripped deep sectional fault lines in America, which in the 2016 election erupted most obviously as populism against cosmopolitanism. But in 2021 and probably beyond, America’s political geography is ripe for realignment by a statesman skilled enough to forge a domestic basis of statecraft for political economy in the national interest. The question for domestic statesmanship is: how to weld a winning coalition sustaining a new consensus on the national interest that frees statesmen to pursue a different grand strategy in response to geopolitical change?

A logical approach—from the Statesman View—would be an effort of economic nationalism—to build up the union of the body politic over its sectional divisions. As a strategy, this project would wield trade as an instrument of economic statecraft for the general welfare of the country; reconciling and rebalancing producer and consumer interests for the public good; and intervening on behalf of nationally important economic sectors that have been disrupted by foreign trade and eroded by our

neglect. The argument to press on skeptical free traders is: if American industrial and manufacturing powers necessary to twenty-first century economic independence have been reduced to an infantile state, and we are dependent for national safety again on foreign manufactures, then the original reasoning for protecting infant industries applies again. In other words, the descriptive case Hamilton made in his 1791 *Report* could be updated for 2021, but his normative case stands in principle now as then.

The ends of this strategy would be development of economic sectors vital to the national interest, for the purpose of reshoring and rebuilding independent productive powers for national safety when the next emergency and war comes. The means to achieve those ends are familiar instruments of national power—trade policy (e.g., tariffs and export controls), investment policy (e.g., national security reviews by the Committee of Foreign Investment in the United States to approve, modify, or deny foreign mergers or acquisitions of U.S. companies), subsidies for domestic innovation, financial and monetary policy—but the *ways* our statesmen connect those means and ends need not repeat the past.⁸¹

In the final analysis, practicing statecraft for political economy in the national interest is what our statesmen must do. Anything less is a failure of duty. As fiduciary agents of the nation, it is their responsibility to keep the interests of the nation squarely in view. The only alternatives are serving sectional interests (i.e., domestic factions), which is less than statesmanship, or foreign interests, which is betrayal. And this statesmanship is conservative in character, almost by definition. It is a task of national conservatism with a vision to the future.

The interest in conserving the productive powers of future generations of citizens is a task beyond any individual or a private company's lifetime of effort. We may expect people to serve the private welfare of their own children, and their investments to pay off for their generation. But only the nation—the political community in its national whole—serves the children of the society of strangers in our midst, our fellow citizens. Only the nation, outlasting the life of individuals and private companies now present, is the proper vehicle for conserving the general welfare. Preserving the means for future generations to become more safe, inventive, prosperous, and happy is the only justification for imposing on private interests in the name of a national interest. This national conservatism transcends liberal time conceptions, which span only the lives of those presently walking about.

⁸¹ See Blackwill and Harris, *War by Other Means*, chapter 3.