Section Four

THE ECONOMY

The next Administration must prioritize the economic prosperity of ordinary Americans. For several decades, establishment "elites" have failed the citizenry by refusing to secure the border, outsourcing manufacturing to China and elsewhere, spending recklessly, regulating constantly, and generally controlling the country from the top down rather than letting it flourish from the bottom up. The proper role of government, as was articulated nearly 250 years ago, is to secure our God-given, unalienable rights in order that we might enjoy the pursuit of happiness, the benefits of free enterprise, and the blessings of liberty.

Finding the right approach to trade policy is key to the fortunes of everyday Americans. In Chapter 26, president of the Competitive Enterprise Institute Kent Lassman and former White House director of trade and manufacturing policy Peter Navarro debate what an effective conservative trade policy would look like. Lassman argues that the best trade policy is a humble, limited-government approach that would encourage free trade with all nations. He maintains that aggressive trade policies involve an increased government role that future leftist Administrations will utilize to push "climate change" and "equity"-based activism. Focusing more on gross domestic product (GDP) growth than on median income, he writes that "people mistakenly believe that U.S. manufacturing and the U.S. economy are in decline" when in truth "American manufacturing output is currently at an all-time high." Meanwhile, we continue to experience "record-setting real GDP" despite our "long-run decline in manufacturing employment."

Lassman does not think that an aggressive U.S. trade policy would lead to more manufacturing jobs. Rather, he writes, "Federal Reserve research shows" that the

Trump Administration's steel tariffs, and the retaliatory tariffs levied by other nations in response, "have cost about 75,000 manufacturing jobs while creating only about 1,000 jobs in the steel industry." Furthermore, he writes that "protectionism and similar progressive policies tend to weaken American security." Lassman maintains that "trade creates peace," and if China weren't so reliant upon trade with the U.S., it would be "much more unstable and dangerous." He thinks American influence in China—"Internet memes, fashion, movies"—can "play a vital role in helping to turn China from an authoritarian threat into a freer and less hostile power."

Ultimately, Lassman believes that we should lower or repeal tariffs—including eliminating "the destructive Trump–Biden tariffs"—in order to make goods more affordable for Americans. He thinks free trade will improve our economy, enhance our national security, and keep future left-leaning Congresses from insisting that future left-leaning Presidents "negotiate for as many trade-unrelated provisions as possible to benefit labor and green constituencies."

Navarro disagrees with Lassman almost across the board. He writes, "Trade policy can and must play an essential role in an American manufacturing and defense industrial base renaissance," which he says is crucial to our country's future. But two forces in particular "are pushing America in the opposite direction." First, the World Trade Organization's (WTO) "most favored nation" rules encourage our trade partners to adopt high tariffs, which lead to our "chronic" trade deficits and make us "the globe's biggest trade loser and victim of unfair, unbalanced, and non-reciprocal trade." For example, Navarro writes, tariffs on imported automobiles are 2.5 percent in the U.S., 10 percent in the European Union, and 15 percent in China. Second, China's "economic aggression" in the form of "tariffs, nontariff barriers, dumping, counterfeiting and piracy, and currency manipulation" further weakens our "manufacturing and defense industrial base even as the fragility of globally dispersed supply chains has been brought into sharp relief by the COVID-19 pandemic."

In contrast to Lassman, Navarro thinks that "trade deficits matter a great deal." He writes that "offshoring not only suppresses the real wages of American blue-collar workers and denies millions of Americans the opportunity to climb up the rungs of the ladder to the middle class," but it also "raises the specter of a manufacturing and defense industrial base that, unlike our experience in World Wars I and II, will not be able to provide the weapons and matériel that would be needed should America enter another major world war." Also, China controls "much of the world's pharmaceutical production and supply chains." It is therefore essential, he writes, that our trade policy be guided by "the principle of reciprocity," whereby we coax other countries into lowering their trade barriers if possible and raise ours as necessary. Moreover, he says we should "decouple" our economy from China's.

China's goal, Navarro says, is "to shift the world's manufacturing and supply chains" to its soil, thereby strengthening its "defense industrial base and associated warfighting capabilities." He writes, "Every year, more than 300,000 Communist Chinese nationals attend U.S. universities or are hired at U.S. national laboratories, innovation centers, incubators, and think tanks." Huawei, "an instrument of Chinese military espionage," is now partnering with UC Berkeley on research with "important future military applications." China is also engaged in what Warren Buffett calls "conquest by purchase," as it uses revenues from its trade surpluses "to buy American real estate, companies, and financial assets." In sum, Navarro believes our current trade policy enriches our allies and adversaries while hurting us, weakens our industrial base while strengthening China's, and shortchanges "Main Street manufacturers and workers." Such non-reciprocal "free" trade is slowly undermining our capabilities and our freedom.

A small component of trade policy involves the Export–Import Bank, and Jennifer Hazelton and Veronique de Rugy debate its merits in Chapter 23. In support of the bank, Hazelton writes, "EXIM provides financing only when the private sector will not." She says, "Export credit is a strategy weapon in China's whole-of-government approach to enhance its global power." China provided an estimated "$500 billion in export credit" in 2018, "approaching in that one year the total amount of financing EXIM has provided in its 90-year history." Hazelton argues that when large American companies can get a loan from EXIM rather than having to meet the demands of export credit agencies in Europe or elsewhere, it helps American small businesses, too. She writes that the U.S. "would be foolish to abandon this field of play."

Opposing the bank, de Rugy writes, "EXIM operates in effect as a protectionist agency that picks winners and losers in the market by providing political privileges to firms that are already well-financed." She denies it promotes exports and argues it hurts small businesses, which often have to compete against large businesses that are able to get the loans. She writes that it also helps foreign companies, such as state-run China Air, that buy U.S. exports from American companies such as Boeing. The bottom line, she says, "is that the Bank should be abolished."

In Chapter 21, former assistant secretary of commerce Thomas F. Gilman describes the Department of Commerce as dominated by career staff who are uninterested in implementing the President's priorities. The department clearly needs far more political leadership, including at the Census Bureau, as Gilman notes. The Census Bureau, unlike much of the federal government, has a constitutionally required mission. Yet the 2020 Census was at least somewhat compromised by overly risk-averse COVID policies that prevented census field representatives from going door-to-door for much of that year. The Census Bureau's website, one of the worst in the federal government, buries crucial statistics where only academics or advocates are likely to find them. In addition, Gilman writes that a new Administration should ensure that the Bureau of Economic Affairs, also housed at Commerce, "conducts its statistical analysis in a consistent and objective manner."

Moreover, the International Trade Administration—which "is centrally placed to craft and implement U.S. trade policy"—should counter "the malign influence of China and other U.S. adversaries" and strongly "defend against trade violations."

In Chapter 22, William L. Walton, Stephen Moore, and David R. Burton note that under the Biden Administration, the Treasury Department has failed to achieve any of the agency's core objectives. Under the leadership of Secretary Janet Yellen, Treasury has placed "equity" and "climate change" among its top five priorities. The next Administration must act decisively to curtail activities that fall outside of Treasury's mandate and primary mission. Treasury must refocus on its core mission of promoting economic growth, prosperity, and economic stability. The authors add that "Treasury should make balancing the federal budget a mission-critical objective."

The authors propose legislation to reform the tax code, writing,

> Tax policy has a powerful impact on the economy. The Treasury Department should develop and promote tax reform legislation that will promote prosperity. To accomplish this, tax reform should improve incentives to work, save, and invest. This, in turn, is accomplished primarily by reducing marginal tax rates, reducing the cost of capital, and broadening the tax base to eliminate tax-induced economic distortions by eliminating special-interest tax credits, deductions, and exclusions. Tax compliance costs will decline precipitously if the tax system is substantially simplified. The Treasury Department should also promote tax competition rather than supporting an international tax cartel.

Chapter 22 includes proposals to reduce the intrusiveness and increase the accountability of the Internal Revenue Service.

The chapter also explains how the interagency Committee on Foreign Investment in the United States (CFIUS), chaired by Treasury, should realign its priorities to meet the United States' current foreign policy threats, especially from China. It explains how Treasury's Financial Crimes Enforcement Network, which manages the anti-money laundering/countering the financing of terrorism (AML-CFT) programs, can be improved to reduce the burden on small firms and improve the effectiveness of the AML-CFT regime.

In Chapter 25, Karen Kerrigan describes the Small Business Administration (SBA) as a "sprawling, unaccountable agency" replete with "waste, fraud, and mismanagement" and guilty of "mission creep." Moreover, its "initiatives aimed at 'inclusivity' are in fact creating exclusivity and stringent selectivity in deciding what types of small businesses and entities can use SBA programs." According to Kerrigan, the Office of Advocacy "is one of the bright spots within the SBA that a conservative Administration could supercharge to dismantle extreme regulatory policies and advance limited-government reforms that promote economic freedom and opportunity." She recommends that it receive a big increase in funding and staffing and then undertake "a research agenda that includes measuring the total cost that federal regulation imposes on small businesses." This would be one important step in making sure that "the SBA under a conservative Administration would meet the needs of America's small-business owners and entrepreneurs, not special interests."

Former White House director of the domestic policy council Paul Winfree writes in Chapter 24 that the Federal Reserve actually causes "inflationary and recessionary cycles." He says, "A core problem with government control of monetary policy is its exposure to two unavoidable political pressures: pressure to print money to subsidize government deficits and pressure to print money to boost the economy artificially until the next election." The Fed has also added a "moral hazard" due to its "history of bailing out private firms when they engage in excess speculation." At a "minimum," Winfree writes, "full employment" should be eliminated from the Federal Reserve's mandate, "requiring it to focus on price stability alone." The Fed should not be allowed to incorporate "environmental, social, and governance factors into its mandate." It should be compelled "to specify its target range for inflation." Its last-resort lending practices, "which are directly responsible for 'too big to fail,'" should be curbed. Its mission, and alternatives to the Fed, should be explored by a commission created for that purpose. And a central bank digital currency, which "would provide unprecedented surveillance and potential control of financial transactions," should be rejected.

Even more ambitiously, Winfree suggests that the next Administration should think about proposing legislation that would "effectively abolish" the Federal Reserve and replace it with "free banking," whereby "neither interest rates nor the supply of money" would be "controlled by government." Free banking would produce a "stable and sound" currency and a "strong" financial system, "while allowing lending to flourish." Alternatively, Winfree writes, the next Administration should "consider the feasibility of a return to the gold standard."