The Daily Dish

The Economic War with China

DOUGLAS HOLTZ-EAKIN | AUGUST 18, 2017

Eakinomics: The Economic War with China

White House Political Director Steve Bannon has received plenty of attention in recent days. However, a lesser-noted portion of his now-famous interview with American Prospect editor Robert Kuttner was his comments on "economic war" with China: "To me," Bannon told the magazine in a phone call, "the economic war with China is everything. And we have to be maniacally focused on that. If we continue to lose it, we're five years away, I think, ten years at the most, of hitting an inflection point from which we'll never be able to recover." Bannon reportedly added: "We're at economic war with China. It's in all their literature. They're not shy about saying what they're doing. One of us is going to be a hegemon in 25 or 30 years and it's gonna be them if we go down this path."

It is catchy language, but it is worth pondering a bit on what it means to be at "war" economically; indeed, if we are, what would it mean to "win"? One notion, immediately raised by Bannon, was the notion of global hegemony. Since the fall of the Soviet Union, the United States has been the sole global superpower — essentially hegemony — but tempered by adherence to principles of individual freedom, democratic ideals, and support of fundamental rights. The continued ability of the United States to defend and spread its values absolutely hinges on the strength of the U.S. economy. But that just means that U.S. policy should be fundamentally pro-growth, regardless of whether it is at war, in a college tournament, or playing cards with China.

The second possible competition is between economic models. Certainly that was the fundamental clash with the Soviet Union. Which would prosper, survive and best serve humanity: market capitalism or government-driven socialism? The unambiguous answer of history is market capitalism. (Aside to American progressives: read your history.) This seems less relevant — but not irrelevant — vis a vis China. China has adopted market-driven growth; albeit an awkward (Central) committee-built version that short-changes private freedoms, has not disavowed government planning, and is moving only incrementally toward a real domestic market economy. If it fails to move more in that direction, it will inevitably fail (like the Soviet Union) but that is not something that will be determined by a competition with the United States.

The final possibility is that "winning" simply means getting a better deal with Chinese trade — protecting U.S. intellectual property, ensuring Chinese adherence to international obligations, and so forth. This is entirely desirable but hardly part of "war." It is instead part of trade that is undertaken by both parties and enhances the welfare of both countries (although not automatically the well-being of everyone in both countries). It would be a mistake to think of "winning" at trade; the goal instead is to have a trading system that benefits all participants.

In the end, the key lesson appears to be that the United States must improve its ability to grow and have the resources to meet domestic needs, defend itself, and project its values globally. That is fundamentally a domestic policy agenda of entitlement reforms that put the debt on a downward trajectory, pro-growth tax reforms, regulatory reforms, improved educational performance, and economically driven immigration reforms — not a war posture toward China or anyone else.