ITIF | INFORMATION TECHNOLOGY & INNOVATION FOUNDATION
HAMILTON CENTER ON INDUSTRIAL STRATEGY

Mobilizing for Techno-Economic War, Part 3: Transforming Financial Capitalism Into National Power Capitalism

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To avoid losing the techno-economic trade war with China, U.S. policymakers must rewrite the social contract at the heart of America's 50-year-old system of financial capitalism by rebalancing the incentives to drive long-term investments in U.S. national power industries.

KEY TAKEAWAYS

- The single most important policy area in the U.S. techno-economic trade war with China is influencing how firms make investment decisions. Policymakers must shift the balance between earnings that firms reinvest and profits that go to shareholders.
- Since the early Republic, the capitalist investment system has evolved through four stages, culminating in today's system of financial capitalism, which privileges short-term shareholder interests over long-term enterprise and national power interests.
- Progressives' preferred alternative to financial capitalism—and to neoliberalism writ large—is a quasi-socialist market system that maximizes redistribution. That would be even worse when it comes to supporting national power.
- To avoid losing the techno-economic war to China, policymakers should instead usher in a new system of "national power capitalism" that better balances shareholder interests with the national interest.
- That requires major tax reforms to incentivize retained earnings and investment, and to disincentivize profit payouts; spurring "double bottom line" investment behavior that values national power; and creating targeted public sector investment vehicles.

National Power Industry Series

This report is part of a series on China's predatory industrial strategies, their impact on U.S. technological leadership, and how to avoid losing U.S. and allied capabilities in advanced industries that undergird national power. For more, see: itif.org/power-industries.

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INTRODUCTION

The United States has been the world's dominant techno-economic power for over 125 years. That has induced complacency. As the Information Technology and Innovation Foundation (ITIF) has written, China is hungry and determined not only to displace American techno-economic leadership, but also to make America dependent on China.[1]

ITIF predicts that China will soon surpass the United States in what we have termed "national power industries": advanced traded-sector industries that are critical to national security or sovereignty.[2] (See box 1.) The inherent weaknesses of the U.S. innovation and production system (e.g., cuts in government research and development (R&D), limited STEM (science, technology, engineering, and math) skills, corporate short-termism, an overly strong dollar, institutional resistance to change, etc.) coupled with a Chinese Communist Party (CCP) hyper-focused on victory, suggests that, absent major structural change in U.S. policy, relative decline and loss of techno-economic competitive position and power are inevitable.

The first report in this series addressing the China national economic power industry challenge laid out the context for this, including what is at risk and the need radically new approaches in a host of key policy areas.[3] Not small steps, but big ones.[4] Not tinkering, but transformation. "Bold" is the operative term here. The crisis is at such a point that incrementalism will fail.

And while reforms in a variety of areas, including federal research policy, regulation, education and skills training, and budget, are important, the most significant reform needed is in the nature and operation of the U.S. capitalist system itself because it is the decisions firms make that will determine survival or defeat. Influencing how they do that, particularly in terms of the current social contract regarding how much of earnings firms retain and reinvest versus how much flow to owners (and workers), is the single most important policy area for Congress and the administration to focus on.

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This report discusses the evolution of the U.S. capitalist investment system, why the system has serious flaws when it comes to ensuring U.S. techno-economic power, and what alternatives experts consider. It then lays out a vision for a "national techno-economic power system of capitalism" and three complementary paths to get there:

1. Tax policies to ensure that more earnings are retained to invest in activities to boost national economic power industries
2. Actions to spur private sector investment supportive of national techno-economic power
3. Public sector investment vehicles to do the same

THE EVOLUTION OF AMERICAN CAPITALIST INVESTMENT SYSTEM

Despite what many free-market advocates claim, capitalism is not the same in all places and at all times. Different countries have different varieties. And those varieties evolve over time, as it has in the United States.[5]

Indeed, U.S. capitalism was not always the way it is now. As eminent business historian Alfred Chandler noted, capitalism in America has gone through major stages, and to avoid losing to China it must go through another.[6]

Market Capitalism: 1788 to the Civil War

At the risk of oversimplification, from the time of the revolutionary war to just after the Civil War, market capitalism dominated. For the most part, enterprises were small and local in nature, and owned and managed by individuals. Banks were one of the few sectors with publicly traded companies, with shipping and railroads later joining this list. Most companies were self-financed, or "angel financed," with expansion coming from retained earnings. "Wall Street" played only a limited role in the economy.

Owner Capitalism: the Civil War to the 1930s

After the Civil War as technology enabled the rise of large corporations that required substantial amounts of capital, companies became much bigger and relied more on equity markets. Even so, these companies were mostly still managed by their founders/owners and a small management group. Think of companies such as Carnegie Steel, Standard Oil (John D. Rockefeller), McCormick Harverster, American Tobacco Company (J. B. Duke), Singer Sewing Machine, New York Central railroad (Cornelious Vanderbilt), and later Kodak (George Eastman), Firestone Tire, Ford Motor, General Electric (Thomas Edison and Owen D. Young), and IBM (Thomas Watson, Sr.). While these companies were all publicly traded, their core strategic decisions were made by their founders, who largely ignored short-term investor concerns in favor of building unbelievably innovative manufacturing enterprises that enabled America to lead the world. They unabashedly put their firms' long-term interests first, and there was a vast overlap between their interests and the U.S. national interest.

Indeed, many owners/CEOs actively rejected the idea that shareholders come first. One article notes that "these industrialists verbalized their displeasure with shareholders who confused owning a business' stock for which they were due a fair return, with business ownership which meant prioritizing and balancing investments from earnings to ensure a firm's high performance and long-term survival."[7]

When Henry Ford announced the groundbreaking decision to pay his workers five dollars a day, he stated in response to Andrew Carnegie's assumption that he asked for his shareholders' permission, "I made the announcement without consulting the other stockholders … If the other stockholders do not agree … I will pay the money promised out of my own share of the profits."[8] Henry Ford even called his investors "useless parasites." As one article explains, "Ford noted they provided no value for his company, and they sucked out much of the profit, money that could benefit the company."[9] John D. Rockefeller agreed, stating, "I think a concern so large as we are should have its own money and be independent of the 'Street.'"[10] As Chandler often noted, American industrial greatness came from entrepreneurs and managers, not shareholders.[11]

In short, these pioneers that built American industry and American power put their companies first and their shareholders second. This did not mean shareholders got nothing—they certainly made good returns. But it did mean that growing the firm on a long-term, sustainable path came first. These corporations could do this because shareholders were largely dispersed and not institutionalized, and as such, had much less power than they do now. And because the widespread societal view at the time was that America needed to industrialize, doing so was more important for advancing the national interest than short-term shareholder value.

Managerial Capitalism: 1930s to Late 1970s

As companies got even larger and bigness spread to more sectors than core industrials after the 1920s, Chandler argued that managerial capitalism, wherein ownership was separate from management, gradually replaced owner capitalism. Most founder-managed companies realized that they needed to employ professional managers to run them, especially as founders retired.

This became expressed in Adolph Berle's articulation of the "separation of ownership and control"; the recognition that the corporation, while technically owned by shareholders, was run by its managers. Berle, a Columbia professor and FDR "brains truster," wrote in his 1932 book *The Modern Corporation and Private Property*:

> The stockholder is therefore left as a matter of law with little more than the loose expectation that a group of men, under a nominal duty to run the enterprise for his benefit and that of others like him, will actually observe this obligation. In almost no particular is he in a position to demand that they do or refrain from doing any given thing. Only in extreme cases will their judgment as to what is or is not to his interest be interfered with.[12]

Such a framing is almost unimaginable in today's era. Indeed, as one article describing the corporation and investors of the time notes, "Managers now had control of the corporate purse strings, and shareholders, who had been accustomed to masters' rights, were reduced to the status of hopeful and servile clients."[13] Now, if anyone is servile it is the CEO hoping that shareholders will not call for his or her ouster or attempt a hostile, extractive takeover.

Because many corporate leaders in the 1920s could think as capitalists, defending the overall system, as opposed to individual CEOs having to please the stock market mob, they would take the long view and share more with workers and other stakeholders.

The result meant that managerial corporations became attuned to more than just expanding and making profits for reinvestment. Indeed, in the 1920s, before FDR's New Deal, many corporate leaders were worried about growing labor radicalism. As a result, they cooperated to establish a movement of "Welfare Capitalism" wherein they agreed to boost wages and provide retirement benefits, paid vacations, employee stock ownership, and other benefits—something that today's shareholders would punish. They could cooperate to do that because shareholder power to resist was minimal. Indeed, the rational step for an individual company might have been to not go along with this. They would save money and gain market share, while the overall capitalist system would be saved from revolt.[14] But because they could think as capitalists, defending the overall system, as opposed to individual CEOs having to please the stock market mob, they would take the long view and share more with workers and other stakeholders.

As business professor Marina Whitman has noted, during the heyday of the corporate economy, between 1950 and 1973, America's large corporations became private institutions endowed with a public purpose.[15] They provided stable jobs, supported the arts, encouraged employees to become involved in their communities, and assumed leadership positions in civic organizations. There was a widely shared sense that the corporation was committed to the local community, that the corporation's goals, the workers', and the community's were in sync. Because managers had almost unlimited discretion, with less pressure both from financial markets and global competition than today, they could afford to view their role this way. As Michael Useem has observed, "Managerial capitalism tolerated a host of company objectives besides shareholder value."[16]

Financial Capitalism: 1980s to the Present

At least until the mid-1970s, capitalism was able to better balance multiple goals, including profits but also capital investment and worker and community welfare. Until the late 1970s, there was a general view held by corporate managers that their mission was not just to increase stock price, but also to serve other constituencies, including the workers, the communities in which the companies were located, and the nation as a whole. And before the 1980s, most U.S. corporations made investment decisions on the basis of expectations of long-term returns.

But by the mid-1970s, that system had come under sharp attack from two sources. Intellectually, the attack perhaps started with free market economist Milton Friedman and his highly influential essay, "A Friedman doctrine—The Social Responsibility of Business Is to Increase Its Profits." Published in 1970 by *The New York Times*, he wrote, "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception fraud."[17]

This soon became an appealing anthem to corporate leaders besieged by radicals, powerful unions, and liberals pressing for vastly more regulation and limits on corporations. Now they could justify ignoring and pushing back against this anticorporate movement on more than self-interested grounds. Boosting profits was indeed in the public interest.

On top of that, the shift in business schools and economics programs from training-enlightened leaders on the one hand and Keynesian economists on the other to neoclassical self-interested, market-orientated disciplines helped buttress this new intellectual consensus. Indeed, the rise of neoclassical economics in the late 1970s defined a well-functioning economy as one in which everyone pursued their self-interest in price-mediated markets, and the principal role of government was to get out of the way. And not only that, but corporate managers could no longer be trusted. As Professor William Lazonick wrote, "Rooted in the neoclassical theory of the market economy, MSV assumes that markets, not organizations, allocate resources to their most efficient uses. But lacking a theory of innovative enterprise, agency theory cannot explain how the 'most efficient uses' are created and transformed over time."[18]

Jensen and Meckling's seminal 1976 article "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" became the bible of agency theory.[19] Where Alfred Chandler had seen corporate leaders as almost heroic figures driving long-term growth and national greatness, Jensen and Meckling portrayed managers as self-interested rent seekers, playing with other people's money for their own aggrandizement. Indeed, Jensen and Meckling approvingly quoted

Adam Smith: "Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company."

This new intellectual consensus grounded in agency theory quickly became dominant in business schools across the nation. But it was not based on actual study of firms and managers confronting uncertainty and regulation, but rather on "the theory of agency, the theory of property rights, and the theory of finance" sprinkled with a dose of Pareto optimality. Now managers were villains, shareholders heroes. Astoundingly Jensen and Meckling wrote, "We seldom fall into the trap of characterizing the wheat or stock market as an individual but we often make this error by thinking about organizations they were persons with motivations and intentions."[20] In the words of U.C. Berkely Professor David Teece, the corporation came to be seen as an empty shell, simply a system of organizing people into a mechanism to turn capital into profits, especially net-present-value profits.[21]

And of course, people took the article seriously because it had complicated equations and graphs with all sorts of variables, describing in one case, "the market value of the stream of manager's expenditures on non-pecuniary benefits." Indeed, by the 1970s only highly quantitative work grounded in formal modeling was seen as "science." Older "institutional work" grounded in softer, more qualitative—and more accurate—assessments, analysis, and conclusions was rejected as mere opinion.

Maverick investors on Wall Street changed what had been a stable system, largely constrained by ethics and good-old-boy norms of supporting long-term capital formation and strong corporations, into a dog-eat-dog win-at-all-costs model.

Jensen and Meckling's key recommendation was to load up firms with debt so managers' discretion was limited, while giving managers stock options. For them, the only purpose of the corporation was to provide a structure by which capital holders could maximize their returns.

As Teece wrote, their intellectual advocacy led to the view that, "The modern corporation is merely a nexus of contracts. The corporation's only responsibility is shareholder wealth maximization. [and] Efficiency is paramount."[22] The "empty shell" theory of the firm. This is how the view of "potato chips, computer chips: what' the difference?" could be taken seriously.[23] Firms and industries do not differ except in their rate of profitability. Indeed, the logical extension of this view is "poker chips, computer chips, what's the difference?" In other words, the corporation is no longer an entity with which society organizes production to meet its citizens' needs; it is an entity through which owners of capital can earn returns.

The view that companies had any goal other than shareholder value was not only not rejected as strange, but was also actively embraced as genius—and anyone who didn't embrace it was either anticapitalist or a deluded moss back. This is also why so many free-market conservatives embrace unfettered globalization. Because in that world, there is no spatial divergence. Investing in China is no different than investing in Chicago; it was all about value extraction by owners of capital.

Adding fuel to the neoliberal fire, economic stagnation and increased foreign competition in the 1970s made the previous, broader view of corporate social responsibility seem impractical to many, leading to a focus on efficiency and short-term performance. Cost cutting, even if it did not raise productivity, was now a duty. Pleasing shareholders, an imperative.

At the same time, the Celler-Kefauver Act of 1950, which authorized antitrust prosecution for mergers of firms in related businesses, inadvertently triggered a wave of conglomerate mergers among companies in unrelated lines of work. Because antitrust law now made it much harder for companies to gain scale with horizontal or vertical mergers, managers seeking to grow their companies through acquisitions increasingly sought conglomerate mergers, which were allowed. So, much of the bad management that Jensen and Meckling described was actually spurred on by bad federal policy.

Perhaps most importantly, maverick investors on Wall Street changed what had been a stable system, largely constrained by ethics and good-old-boy norms of supporting long-term capital formation and strong corporations, into a dog-eat-dog win-at-all-costs model. Once a few mavericks broke out of the system, the dam gave way and now everyone had to push for short-term profits if they were to survive. Traders such as Ivan Boesky, Michael Milken, Victor Posner, Nelson Peltz, Carl Ichan, Harold Simmons, T. Boone Pickens, and Kirk Kerkorian all pushed the boundaries—often beyond what was legal—but in doing so, they broke the bonds that had constrained Wall Street.[24] Now if companies did not keep up their stock price by disgorging cash to shareholders or buying their own shares, corporate raiders would launch attacks. These investors cared less about the health of the capitalist system than they did about their own individual returns. This meant that CEOs that did not "get with the new program" were either thrown out by their board or fired when their firm got bought out by shareholder activists. And as anyone could have predicted because maintenance of the capitalist system was no longer the goal—benefiting a few individual investors was—anticapitalist sentiments mushroomed.

A few years later, the massive growth of institutional investors shifted power to them rather than mangers.[25] Indeed, large institutional investors nearly doubled their share of the common-stock market from 1980 to 1996.[26] And the average U.S. firm went from having 20 institutional shareholders owning 13 percent of shares in the early 1980s to 152 institutional shareholders owning 55 percent of shares outstanding by the early 2010s.[27] As Allen D. Boyer wrote in 1993:

> The size of institutional investment means that institutional investors have the power to dethrone corporate directors, upsetting the traditional regime of corporate governance. The investors' mandate to pursue high returns supplies them a motive to take such action. In these changed circumstances, shareholders' freedom to pursue their own interests is a divisive force. It opens the door for institutional investors to liquidate corporate wealth.[28]

How investment funds were structured and their managers were rewarded meant that funds moved money around in search of the quickest returns, regardless of where long-term value might be found. How managers were compensated—increasingly with stock options that were not always related to actual managerial performance—reflected this new view that a manager's job was to maximize value for the shareholders. And because managers themselves became key short-term stockholders (through the significant growth of stock options), they made even more

effort to enhance the welfare of short-term stockholders, including by boosting dividends and through stock buybacks.

Before this, the balance of power was more equal, especially as many shareholders were individuals. But with the rise of 401(k)'s and large institutional investors, the balance of power changed. Andrew Smithers has noted that "the growth of fund managers and the entire 401(k) system has really pushed short-term thinking within markets, and hindered growth producing innovation."[29] In theory, these institutions could have been a force for longer-term investing, but as each one sought market advantage, they all pushed for short-term results and their heft often overwhelmed individual companies.

The rise of the shareholder value movement and its later evolution into corporate short-termism, or what some call quarterly capitalism, meant that CEOs were rewarded for downsizing firms, limiting investment in capital stock (in order to maximize return on net assets), and paying attention solely to the bottom line. All this enabled the rise of the shareholder value movement—financial capitalism—which tolerates no other corporate purpose than producing short-term profits.[30]

But this was also enabled by a host of regulatory changes. Any regulations standing in the way of firms not efficiently maximizing share price were dismantled one by one. William Lazonick wrote:

> Fundamental to this reversal was the capture of the U.S. Securities and Exchange Commission (SEC) by free-market Chicago economists in 1981, following the election of Ronald Reagan as president of the United States. Reagan's appointment of E. F. Hutton executive John Shad as SEC chair put the agency that was supposed to eliminate fraud and manipulation from the nation's financial markets under the leadership of Wall Street banker for the first time since Joseph Kennedy was the inaugural holder [but Kennedy saw his role as policing fraud] of that position in 1934–1935. In the second year of Shad's chairmanship, the SEC promulgated Rule 10b-18, which gives a company a safe harbor against manipulation charges in doing open-market repurchases.51 Rule 10b-18 states that a company will not be charged with stock-price manipulation if, among other things, its buybacks on any single day are no more than 25 percent of the previous four weeks' average daily trading volume (ADTV). Under Rule 10b-18, moreover, there is no presumption of manipulation if the corporation's repurchases exceed the 25 percent ADTV limit.[31]

All this enabled the rise of the shareholder value movement—financial capitalism—which tolerates no other corporate purpose than producing short-term profits.

In 1993, the Clinton administration pushed for changes to executive compensation, concerned that CEO pay was excessive and poorly tied to performance. The result was Section 162(m) of the tax code, which limited corporate tax deductions for executive compensation above $1 million per year. But the law included an exception: "performance-based" compensation remained fully deductible with no cap. The intent was to encourage pay tied to company performance rather than guaranteed salaries. Stock options qualified as performance-based

compensation because they only have value if the stock price rises. The perverse result was that companies shifted massively from cash salaries to stock options to maintain tax deductibility.

Not surprisingly, with the rise of the shareholder value movement came a shift in the political role and orientation of the corporate community. Prior to the mid-1980s, many CEOs, such as GM's Charlie Wilson, GE's Reginald Jones, Hewlett-Packard's John Young, and DuPont's Irving Shapiro, saw their role not just as CEO but as corporate statesman. But around that time, the role of "business statesman" began to fade. Executives came under increasing pressure to focus ruthlessly on boosting profits and share prices. Those who didn't risked losing their jobs or seeing their companies swallowed up in hostile takeovers. This is not to say that some of today's CEOs don't try to play some broader role, but overall, U.S. corporate leaders have abdicated their roles as statesmen for that of CEOs alone. In his book, *The Fracturing of the Corporate Elite*, Mark Mizruchi observed:

> [After] World War II, American business leaders hewed to an ethic of civic responsibility and enlightened self-interest.... In the 1970s, however, faced with inflation, foreign competition, and growing public criticism, corporate leaders became increasingly confrontational with labor and government. As they succeeded in taming their opponents, business leaders paradoxically undermined their ability to act collectively.[32]

Indeed, a 2013 survey by the corporate organization Committee for Economic Development supported this observation, finding that the three biggest barriers to business leaders who took a more active role in public issues were "concern about criticism others have experienced; shareholder pressure for short-term results; and belief that a CEO should focus on his/her company."[33] For the CEOs, it became a collective action problem. Why step up and fight for corporations and the U.S. economy generally when it only meant taking valuable time away from your company that is constantly under threat by "activist" investors?

Policy neutrality means losing the techno-economic war.

As such, in financial capitalism, the main, if not only, factor determining investment (either to a firm or in a firm) is market-based return on capital. Any tax or other policy provisions that distort that are generally seen as bad because they violate that principle of policy neutrality. But policy neutrality means losing the techno-economic war.

Alan Boyer summed up the issue we face today:

> For too long we have approached problems of corporate governance by asking how shareholders can better protect their interests. We may get better answers, answers which deal more effectively with more aspects of the business corporation's role, if we ask a different question—how investment can best be used to finance technology. The rules which govern institutional capital should reflect this understanding of the firm's societal role.[34]

To be fair, this system produced benefits. It forced companies to focus on components of their business where they had competitive advantage. It forced them to reduce waste and not seek bigness for the sake of empire building. It forced them to seek out lower-cost options. It enabled

capital to flow to new, high-margin opportunities. And all that boosted market returns. But it came at a price, as we discuss next.

DIVERGENCES BETWEEN THE SHORT-TERM PROFITS AND NATIONAL TECHNO-ECONOMIC POWER

Many will argue that financial capitalism maximizes profits, and that itself is in the national interest. But sometimes it does and other times it does not. The answer depends. Doctrinaire views that unfettered capitalism is best or that capitalism is fatally flawed are distractions from real analysis. But overall, the current financialized version of capitalism, while possessing strengths, is not likely to enable continued U.S. strength vis-à-vis China.[35] The current model, where, at best, government intervention is episodic and on the margins, will not succeed in addressing the China challenge.

Why not just rely on the first bottom line—profits—to achieve national techno-economic power? The reason is that profit maximization can diverge from the goal of techno-economic power in at least six ways:

1. The overall balance between reinvesting in the firm and passing earnings to shareholders
2. Temporal considerations
3. High investment hurdles
4. Spatial location of investment
5. Sector and technology invested in
6. Organizational

The current financialized version of capitalism, while possessing strengths, is not likely to enable continued U.S. strength vis-à-vis China.

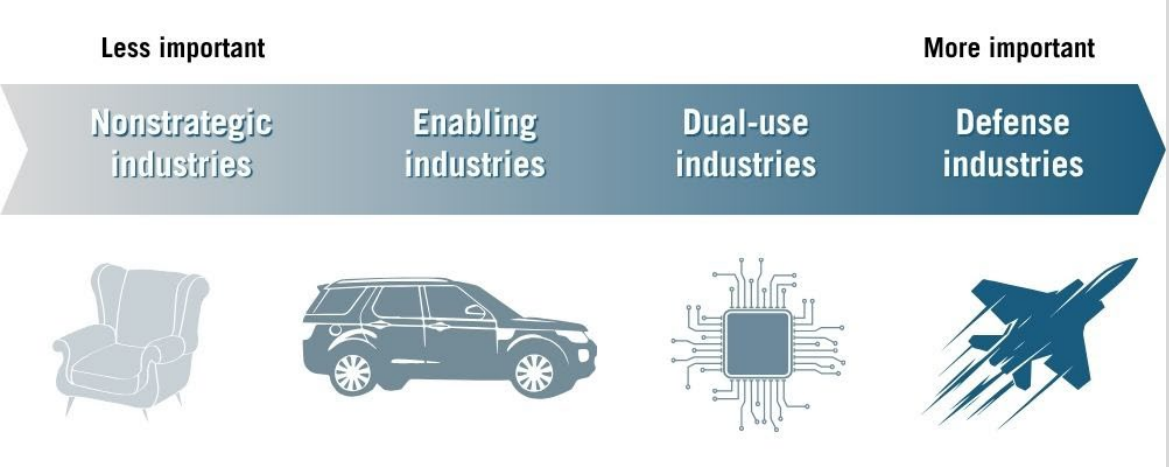
It is the national power interest for firms to prioritize more capital investment, with a focus on long-term firm capabilities, in the United States; on national power industries; and on production, but just design and sales. Relying on free markets alone to reduce these divergences is wishful thinking.

Box 1: Defining National Economic Power Industries

The conventional view is that the only industries that matter to national power are defense industries. But that is now vastly too limiting. As Corelli Barnett, wrote, "For munitions production for modern war is not primarily a question of specialized armament industries, as some suppose, but of all those varied industrial and scientific resources that in peacetime make for a successful and expanding export trade."[36]

With that in mind, ITIF has developed a classification of U.S. industries for their relevance to national power. This can be viewed as a continuum between defense industries on one side, nonstrategic industries on the other, and strategic industries and strategic enabling industries in the middle. See figure 1.

Figure 1: Industrial power scale



At one end of the continuum are defense industries. Clearly industries such as ammunition, guided missiles, military aircraft and ships, tanks, drones, defense satellites, and others are strategic. Not having world class innovation and production capabilities in these industries means a weakened military capability. Policymakers across the aisle generally agree that these industries are strategic and that market forces alone will not produce the needed results.

At the other end of the spectrum are industries in which the United States has no real strategic interests. These include furniture, coffee and tea manufacturing, bicycles, carpet and rug mills, window and door production, plastic bottle manufacturing, wind turbine production, lawn and garden equipment, sporting goods, jewelry, caskets, toys, toiletries, running shoes, etc. If worst came to worst and adversaries such as China gained dominance in any of these industries and decided to cut America off, we'd survive.

Next to defense industries dual-use industries are critical to American strength. Losing aerospace, pharmaceuticals, chemicals, semiconductors, displays, advanced software, fiber optic cable, telecom equipment, machine tools, motors, measuring devices, and other dual-use sectors would give our adversaries incredible leverage over America. Just the threat to cut these off (assuming that they have also deindustrialized our allies in these sectors) would immediately bring U.S. policymakers to the bargaining table.

Finally, there are enabling industries. If the United States were cut off from these industries, the immediate effects on military readiness would be small. And the U.S. economy could survive for at least a while without production. America could survive for many years without an auto sector, as we would all just drive cars longer. But because of the nature of these industries—including technology development, process innovation, skills, and supporting institutions—their loss would harm both dual-use and defense industries. That is because enabling industries contribute to the industrial commons that support dual-use defense industries.

Too Much Cash to Owners

Capitalism is not a universal constant. It is a form of economic organization societies choose. It is obviously better than all the alternatives, including socialism, communism, feudalism, small business capitalism, and anarchism. But a core issue for capitalism is how much of the benefits flow to shareholders versus the firm itself. There was a reason why Henry Ford called shareholders parasites: he believed that they wanted too much of the profits from selling cars,

while Ford believed that more of the profits should be reinvested into building an even stronger and more dynamic company. This tension is never resolved; it is always present, and must be managed.

If it resolved too much in either direction, problems emerge. A capitalist system that allows firms to retain too much earnings can lead to waste and reduced capital availability for new investment. But a capitalist system that over-privileges shareholders reduces investment in firm capabilities, resulting in weakened long-term viability and losses to national techno-economic power.

We see this with individual companies. Companies that were once darlings of Wall Street because they retained less earnings for the companies' future and gave much more to investors, including HP, GE, IBM, and of course, Intel. William Lazonick wrote that former Intel CEO Pat Gelsinger:

> recounted how, before taking the CEO job, he had written a strategy paper for Intel's board, for which he got their unanimous agreement. "I was concerned," Gelsinger said in the interview, "about how we get the process roadmap back in shape." He continued: We underinvested in capital. I went to the board and said: "We're done with buybacks. We are investing in factories." And that is going to be the use of our cash as we go forward. And they aggressively supported that perspective; that we needed to just start investing, and those investments would start creating a cycle of momentum that would get our factory teams executing better.[37]

A capitalist system that over-privileges shareholders reduces investment in firm capabilities, resulting in weakened long-term viability and losses to national techno-economic power.

Indeed, one can make a strong argument that the current financial capitalism version has tilted the balance too far in the direction of shareholder interests. Not that profits are too high, but investment is too low. According to one study:

> Total spending by all publicly traded companies on stock buybacks between 2010–2019 totaled $6.3 trillion, according to their 10-K and 10-Q public filings. Shareholder payments—stock buybacks plus dividends—have on average totaled 100 percent of nonfinancial corporations' corporate profits over the last decade.[38]

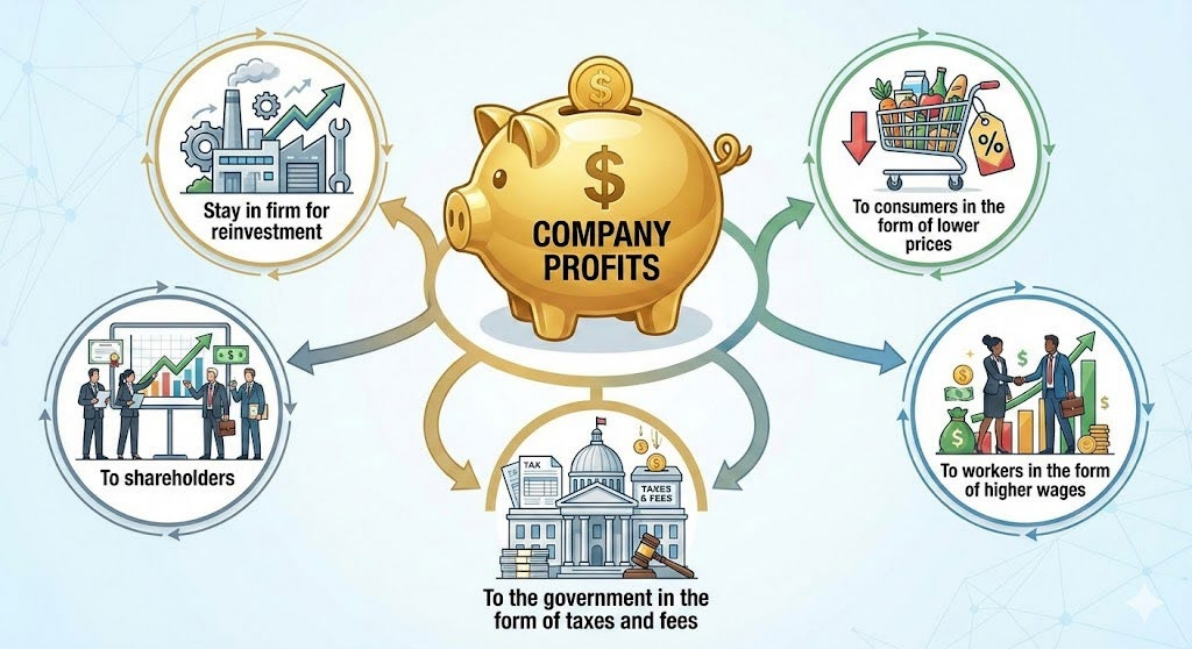
In 2014, in an open letter to Fortune 500 CEOs, Blackrock CEO Larry Fink reiterated this concern: "Too many companies have cut capital expenditures and even increased debt to boost dividends and increase share buybacks."[39]

Clearly, investing an additional trillion dollars on new business development, R&D, and capital equipment during this period would help American national economic power industry advancement.

Box 2: Where Should Profits Go?

If you accept capitalism, which an increasing number of progressives do not, then the $64,000 question is, where should profits go? As figure 2 shows, there are only five possibilities.

Figure 2: Five places where profits can go



1. Investors: As noted, in financial capitalism, shareholders, including executives with owning shares, deserve the lion's share of profits. To achieve that, firms should go "asset light," maximizing return on net assets by reducing the number of executives with owning shares.

2. Workers: Most opponents of financial capitalism, including progressives and national conservatives, want workers to get more. In their thinking, shareholders are too rich and workers too poor, so boosting wages and reducing profits is in order. This would reduce inequality. But it would have no different results on national techno-economic power than maximizing shareholder value. The money still would not be retained to fight for global market share, either by reducing prices or boosting investment. Even more problematic is if a company is highly productive, why should most of those gains go to workers rather than to consumers in the form of lower prices? This would mean that workers in a low-productivity company would make less than in a high-productivity one. If this were the case, blue collar workers in tobacco factories should be highly compensated. When unions force companies such as Boeing and Ford to boost wages far above normal market realities, that does not help competitiveness any more than these company-stock buybacks do.

3. Government: Many liberals want shareholders to get less, with the idea that government will get more. They want to do this by raising corporate taxes. There are several problems with this. First, doing so would make U.S. companies less competitive globally against foreign companies, especially People's Republic of China (PRC) companies. Second, at the end of the day, the main effect is to raise prices, as companies will largely pass on these tax increases to consumers. And of course, that certainly does not boost retained earnings and investment. If anything, it reduces them.

4. Consumers: Many liberals and progressives want to reduce corporate profits by boosting competition and presumably getting lower prices, a form of "pre-distribution" that helps middle-class and below Americans.[40] While lower prices can and often should be a strategy to not lose market share in global national economic power industries, low prices for the sake of low prices are just another vehicle to move money outside a corporation.

5. The Company: At the end of the day, it is companies (and other kinds of organizations) that determine living standards, innovation, and national techno-economic power. To the extent they can retain more earnings to reinvest in capital equipment, R&D, and lower-margin products to gain market share, that is in the national interest.

Short-Termism

It's not just the imbalance between retained earnings and shareholder payments; it's also the time horizon for company investment. Too many companies prioritize immediate earnings over longer-term benefits. This pressure to achieve short-term profits all too often has meant sacrificing long-term investment. The British CFA Centre for Financial Market Integrity and the Business Roundtable reported that "the obsession with short-term results by investors, asset management firms, and corporate managers collectively leads to the unintended consequences of destroying long-term value, decreasing market efficiency, reducing investment returns, and impeding efforts to strengthen corporate governance."[41]

In a survey of more than 400 financial executives, 80 percent of the respondents indicated that they would decrease discretionary spending on such areas as R&D, advertising, maintenance, and hiring in order to meet short-term earnings targets—and more than 50 percent said they would delay new projects even if it meant sacrifices in value creation.[42] McKinsey chairman Dominic Barton stated that foreign firms "are just working with timeframes of a totally different order. They simply do not have the same short-term pressures that American businesses do."[43]

Too many companies prioritize immediate earnings over longer-term benefits. This pressure to achieve short-term profits all too often has meant sacrificing long-term investment.

This is not a new concern. A 1991 study by the U.S. International Trade Commission commissioned by Congress in response to its prescient concern that the divesture of AT&T would reduce U.S. competitiveness states:

> The causes of this problem include the quarterly demands of stockholders, an overabundance of managers trained in finance rather than engineering, and differences in company structure. In general, members of the industry said that firms with long planning horizons and little pressure from stockholders for immediate profits would be more competitive in the long run because these firms would be able to invest more in research and development and would enjoy more flexibility in marketing strategies.[44]

It was prescient in that, a decade later, Lucent, the equipment spinoff from AT&T, was defunct, largely because of short-termism.[45]

To be sure, family capitalism and founder capitalism do better at this challenge.[46] Family-owned firms, as many small and medium-sized "Mittelstand" enterprises are in Germany, tend to take a

longer time horizon because they know that the next generation of families will need to be able to manage strong businesses. Likewise, many founder-run firms (e.g., Microsoft in the era of Bill Gates, Apple with Steve Jobs, Amazon with Jeff Bezos, Qualcomm with Irwin and Paul Jacobs) tended to take a longer-term view because it was "their" firm, just as Henry Ford and others of his era did.

It is in the national power interest if firms prioritize more capital investment now in the United States and on national power industries and technologies. Relying on free markets to optimize these three goals is wishful thinking.

High Investment Hurdles

Most firms and investors have excessively high investment hurdles and return expectations relative to what is in the national interest. If particular investments have a payback after a certain number of years, even if the net-present-value returns are positive, many firms will not invest in them. Similarly, companies have return expectations for parts of their businesses and, for many, if a company is not meeting that return on invested capital, even if it is still profitable, they may try to shed that business, either by selling it or shrinking it.

For the last three decades, the advice to corporate leaders, as well as pressure from investors, was to shed low-margin businesses and functions and specialize in core competencies. For example, in 1998, PWC advised CEOs to break up their companies: "Our research indicates that $1 trillion of extra value could be released in the United States and Britain alone by companies that embrace the breakup regime."[47] And when they did, the broken-off units were sold either to foreign buyers who were willing to accept lower returns or to short-term financial "vultures" who stripped the assets for a quick return, ignoring the long-term viability of the company.[48]

In 1983, former GE CEO and corporate guru Jack Welch famously declared, "Be number one or number two in every market, and fix, sell, or close to get there." That quickly become a market mantra. At the time, virtually no one pointed out that the emperor had no clothes and that this was a devastating strategy not only for GE but also for the nation as a whole. But as Thomas Gryta and Ted Mann wrote in *Lights Out: Pride, Delusion, and the Fall of General Electric*, this was not good for GE.[49] The company sold its appliance business to Chinese-company Haier, which itself received a $3.3 billion loan from the Chinese government-owned China Development Bank, and it now markets its products under the GE brand. Arguably the greatest U.S. company of the 20th century and founded by Thomas Edison, GE became a shell of itself.

Harvard Business School's Clayton Christensen has raised a related concern: the aggressive pursuit of short-term profitability—which is taught in American business schools mostly as profitability understood in percentage rates of return (because evaluating rates of return in percentages allows easy comparisons with other investment alternatives)—is actually harming American innovation. He's noted that many American firms focus on Return on Net Assets (RONA) as a key measure of performance. But doing so often leads them to focus on reducing the denominator (assets), as many U.S. companies have done in outsourcing much of their manufacturing plants to Asia. Another example, as Steve Denning has noted, is firms':

> pernicious methodology for calculating the internal rate of return (IRR) on an investment. It causes you to focus on smaller and smaller wins. Because if you

> ever use your money for something that doesn't pay off for years, the IRR is so crummy that people who focus on IRR focus their capital on shorter and shorter-term wins.[27]

Christensen has excoriated mainstream thinking about profitability in U.S. business schools and on Wall Street: "We measure profitability by these ratios. Why do we do it? The finance people have preached this almost like a gospel to the rest of us that if you describe profitability by a ratio you can compare profitability in different industries. This 'neutralizes' the measures so that you can apply them across sectors to every firm."[28] Christensen has noted that Asian enterprises explicitly reject this type of thinking and are much more focused on accumulating assets that can build future wealth, and that the outsourcing that has occurred in many U.S. manufacturing industries—from autos and steel to semiconductors and pharmaceuticals—has been driven in part by this overzealous and misguided focus on profitability measures such as RONA.

If there is one U.S. sector that is not succumbing anywhere near as much to high hurdle rates and short-termism as most firms are, it is "Big Tech."

Indeed, most U.S. companies have investment hurdle rates (the internal rates of return they require before making an investment) that are substantially higher than their costs of capital. A Morgan Stanley report notes that:

> about 80 percent of companies adopt a hurdle rate that is substantially higher than the cost of capital. In the period of easy money, for instance, the researchers estimate that the average hurdle rate was 16.8 percent, more than double the average perceived cost of capital of 8.3 percent. And when taking into account that not all projects meet expected returns, Morgan Stanley finds that in the U.S. do earn an ROIC in excess of the actual cost of capital. The average spread between the ROIC and WACC was 2.6 percentage points in the easy money era and 1.7 percentage points in the prior period. [50]

In contrast, it appears that more foreign firms are able to accept lower returns, in part because of government subsidies and more of them are more debt financed—and in the case of China, pressure and aid from the government. Favored Chinese firms can borrow at roughly half the cost of U.S. firms. Lower returns mean both more efforts to go after market share through price reductions and more investment in capital equipment since the hurdle rates can be lower.

However, to be clear, if there is one U.S. sector that is not succumbing anywhere near as much to high hurdle rates and short-termism as most firms are, it is "Big Tech." As ITIF has written, these companies invest massive amounts in R&D, and take big bets, many of which have not come to market fruition.[51]

Too Little Investment in National Power Industries

It is in the national interest for firms and investors to prioritize investing in national power industries. Investors might be able to maximize returns (at least in the moderate term) by investing more business services and accommodations than in aerospace and electronics. But the latter is more important than the former. And the current financial capitalism system makes

no real differentiation between the two: a dollar of profit is the same regardless of what sector it comes from.

And many firms and investors choose sectors with little national power while disinvesting in ones critical to power. Former CEO of GE Jack Welch, who helped destroy what was once the greatest company in America, wrote:

> My gut told me that compared to the industrial operations I did know, this business seemed an easy way to make money. You didn't have to invest heavily in R&D, build factories, and bend metal day after day. You didn't have to build scale to be competitive. The business was all about intellectual capital—finding smart and creative people and then using GE's strong balance sheet. This thing looked like a "gold mine" to me.[52]

And it was a gold mine, until it wasn't.

But unlike many digital ventures, deep tech demands high capital investment and extended timelines before returns, which is why there is a capital shortage there.

We see this dynamic play out in the current discussion of "deep tech": areas of technology more focused on the physical world rather than the digital world.[53] An MIT report notes that "deep tech ventures have emerged as a special type of startup venture dedicated to taking ideas from the lab bench to scaled global impact while recognizing the added time, capital, and risk required for the venture journey compared to their digital counterparts."[54]

But unlike many digital ventures, deep tech demands high capital investment and extended timelines before returns, which is why there is a capital shortage there.

Too Much Offshoring

Even if firms kept more retained earnings, had a long-term horizon, and invested in national power industries, it might all be for naught if they invested in other countries, especially China. To be sure, it can make sense for firms in the United States to invest outside the United States, including better competing with foreign firms, gaining local knowledge, and reducing costs. And this can boost innovation and productivity, and some of the foreign earnings flow back to the United States, not only in the form of profits but also to support U.S. corporate activity (e.g., design, marketing, executive functions).[55]

However, too much offshoring, especially when it can be avoided with slightly lower returns, is often harmful to the national interest. Foreign recipients for U.S. companies as a share of gross domestic product (GDP) has grown significantly since the mid-1970s (although it declined slightly after 2010).[56] The issue is not binary—offshore as much as possible or offshore almost nothing. Rather, more firms should seek to make domestic production profitable, including accepting lower rates of return. A number of years ago, when a group of Austrian manufacturing CEOs were asked why they didn't offshore more production to China, they responded that they did move some work there to cut costs, but they also worked to reengineer processes to better boost productivity and keep production in their home country. That is the kind of balance we need more of in the United States.

Too Little Investment by Firms in Production

Finally, even if firms invest in the United States, in national power industries, and with a long-time horizon, there can still be a disjuncture between shareholder interests and the national interest, which can play out in two ways. The first is the extent of investment in production. The second is the extent of investment at various levels of type of product based on degree of commodification.

For the first, U.S. firms tend to invest in either ends of the "smile curve." This is a hypothesis that suggests that it is the upstream and downstream parts of a product's value chain that are the most profitable. For upstream, these are activities such as R&D, product design, and conceptualization. For downstream, they include branding, marketing, sales, and after-sales services. The midstream activities such as the manufacturing and assembly phases typically generate lower returns, so American firms invest less in them. As many industry scholars have noted, that tends to reduce innovation, as production is separated from R&D and design.[57] Moreover, this midstream activity is key to national techno-economic power. For example, if the U.S. designs chips but they are mostly made in China, that gives the Chinese key leverage over us.

In contrast to Asia's bottom-up model, U.S. technology firms have focused on the upper ends of the value chain: system design, software, customer experience, etc. They have all too easily given up the lower and middle ends of the value chain, capitulating at the first sign of blood.

The second is where, in the overall product portfolio, companies invest. As IT expert David Mochella has noted, Japan, Singapore, South Korea, Taiwan, and China all adopted bottom-up industry strategies initially focused on low-end commodity products. This approach was particularly well suited to electronics-related markets, where there was a growing need for inexpensive keyboards, mice, printers, cables, modems, monitors, speakers, and similar commodities. The Asian Tigers then leveraged this diverse base of business to steadily move up the value chain into semiconductors, network equipment, storage devices, flat-panel displays, fully assembled smartphones, tablets, personal computers, and other forms of advanced, high-volume, higher-margin production.

Asia, especially China and Taiwan, now dominates most of these markets, with deep expertise in the complex minutia of advanced, large-scale manufacturing. This unmatched foundation of production capability is now transforming other strategic industries, as electronic components become the building blocks of electric vehicles, solar energy, robotics, drones, telecom, defense, and other sectors. This is the essence of China's hi-tech leadership challenge.

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Although this top-down approach has been extraordinarily successful in leveraging Asian manufacturing and dominating the most profitable market segments, it is inherently vulnerable to supply chain dependencies, ecosystem bottlenecks, manufacturing skill shortages, and intentionally imposed embargoes—weaknesses now obvious to all.

Unfortunately for the West, history shows that it's much easier for companies and nations to move up the value chain than down it. Asia's bottom-up approach was initially a humble one, with small profit margins and little market influence. But as businesses have moved up the value chain, they've gained confidence, ambition, skills, scale, and profitability. Moving down the value chain tends to generate the opposite dynamics. It's mostly done out of a sense of necessity, with lower levels of enthusiasm, confidence, know-how, and profitability. Students of disruptive innovation will recognize that the ease in which bottom-up strategies move upward versus the difficulty in moving downward is a classic Innovator's Dilemma, as famously articulated by Clayton Christensen back in 1997.[58]

Box 3: Chinese Competition and American Deindustrialization: A Financial Framework[59]

Different financial systems help determine the outcomes of the techno-economic war. China's system is designed to aggressively destroy Western company value. The U.S. system is designed to maximize short-term wealth creation and is agnostic toward national industrial power competition.

The U.S. Economic Model

Publicly traded corporations in capital-intensive sectors (e.g., industrials) optimize three key variables.

The first is economic value added (EVA). EVA equals return on invested capital (ROIC) minus the weighted Average Cost of Capital (WACC) times the amount of invested capital (IC). The weighted average cost of capital for U.S. firms is around 8–10 percent. ROIC equals net operating profit after tax Net Operating Profit After Tax (NOPAT) divided by invested capital.

Profit margins are calculated in various ways. Gross margin is sales minus the cost of goods and production labor. From an industrial standpoint, the most relevant profit margin is the gross margin. The others are influenced by a firm's overhead expenses and its tax, investment, and capital strategies.

The U.S. model is more financialized and focuses on higher, short-term returns than other capitalist economies do. But China is in a completely different model.

The Chinese Economic Model

Chinese firms systematically generate ROIC well below American WACC thresholds. The Chinese semiconductor firm SMIC, for example, posts approximately 4.5 percent ROIC versus around 12 to 16 percent global semiconductor industry WACC, creating negative EVA by American standards. Chinese EVA = (4.5% – 12%) × IC = -7.5% × IC.

In other words, Chinese firms can survive on ROIC that is less than the cost of capital in the United States. This economic value destruction manifests as the "China price"—aggressive pricing that destroys gross margins industry-wide. Chinese firms partially compensate through higher capital turns (sales/IC), enabled by rapid market expansion and debt-financed growth.

Chinese firms can do this because of overall financial repression in China. The PRC prevents savers from getting normal returns, and its capital controls on foreign investment preclude outside options. Both lower the cost of capital.[60] At the same time, Chinese companies are pressured by the PRC to accept low returns and provided with low-cost capital from state-owned banks in order to gain market share.[61]

American Industrial Response

Faced with Chinese "scorched earth" competition, U.S. firms can generally only pursue two strategies that make up essentially the mirror image of Chinese value destruction.

Strategy 1: Asset-Light Retrenchment

Given this unbeatable competition, one strategy is for U.S. firms to reduce their IC base through outsourcing of production assets to someone else's balance sheet, at the same time focusing on capital-light activities with higher margins, such as design, sales and market, and software. And they tend to limit expensive investments in capital equipment.

Strategy 2: Cost Reduction for Margin Protection

A second strategy is to offshore supply chains and production of lower-cost inputs in order to preserve gross margins, while at the same time being forced to press for lower prices from domestic suppliers and workers.

Capital Allocation Logic: Both of these strategies are additionally supported by a capital strategy that increases earnings per share. In particular, the companies use freed-up cash for share buybacks. Since earnings per share (EPS) equals net income divided by the number of outstanding shares, EPS can go up with stock buybacks.

With Chinese competitors destroying economic value while gaining market share, new productive investments cannot be justified. The rational response for these companies is returning cash to investors through share buybacks, inflating EPS even as the industrial base shrinks.

Deindustrialization Outcome

Both strategies hollow out domestic industrial capacity. Strategy 1 directly reduces the manufacturing base, while Strategy 2 degrades supplier ecosystems and workforce capabilities. The result is a self-reinforcing cycle wherein American firms lose the ability to scale innovation and compete in advanced manufacturing, validating Andy Grove's 2010 warning about the strategic risks of abandoning production competencies.

While some populists both on the Right and the Left decry U.S. industrial corporations for taking these steps, accusing them of being profit hungry, this is too narrow a focus. The standard rate of capital returns in normal market economies is above 8 to 12 percent, given the cost of capital. No company can survive earning less than the cost of its capital. As such, if these companies tried to do that in order to meet the China price, rational shareholders, including labor union pension funds, would invest in other sectors and companies that do not face this constraint, such as insurance and banking, logistics, and entertainment.

Rather than engage in emotionally satisfying and politically rewarding hectoring of selfish U.S. capitalists, a better strategy is to limit Chinese scorched earth competition while providing targeted incentives for national power industries to stay in the fight and keep investing.

ALTERNATIVES TO FINANCIAL CAPITALISM

The key question thus becomes, what version or variety of capitalism will maximize national techno-economic power? As long as elite opinion (and vested interests of many equity investors) favors a pure capitalist model—firms as processing units to transfer input capital into output earnings—change will be minimal. So what are the alternatives on the table?

Chinese Party Capitalism

China's one-party-directed capitalism has its attractions. Chinese state-owned enterprises and even many private companies are pressured/incentivized to reinvest heavily rather than distribute profits. Companies invest large amounts in automation, including robotics, and R&D. Companies are willing to accept lower returns on capital for strategic positioning globally. And the CCP channels capital and other resources into national economic power sectors, while other sectors, such as services and farming, remain far from the global modernization frontier.

But this cannot be the model for America, as it depends on an absence of rule of law and democratic processes. Not only is giving up these keys to freedom a stiff price to pay for national power, but it is also not necessary.

As long as elite opinion (and vested interests of many equity investors) favors a pure capitalist model—firms as processing units to transfer input capital into output earnings—change will be minimal.

Coordination Capitalism

A model that many favor can be called "coordination capitalism," as practiced by nations such as Germany and Japan.[62] This system involves more nonmarket coordination wherein firms coordinate through networks, industry associations, and collaborative relationships and don't just respond to price signals. There is a focus on stable, long-term connections between businesses, workers, and banks, with greater importance placed on commitments to employees (training, job security) and suppliers. And state-directed or influenced banks play a larger role in corporate financing, with more patient debt than impatient equity.

Such a system has numerous advantages, especially in enabling firms to compete more on the "high road" (more skills and capital equipment), but its main disadvantage is that it is less supportive of disruption innovation. The influence on companies of unions and the state can limit needed corporate restructuring—and compared with the U.S. system, less capital flows to high-growth start-ups. Moreover, transitioning to such a system in the United States would be difficult because of a lack of institutional culture and knowledge of its operations.

Worker Capitalism

For decades, critiques of the financial capital system—what many refer to as "neo-liberalism"—has been the province of the Left. Countless books, articles, speeches, conferences, and the like have railed against financial capitalism on the grounds of oligarchic inequality.

But even Republicans have responded to the excesses of financial capitalism, embracing, for the most part, not national power capitalism but worker and family capitalism wherein the goal is to disgorge profits not to shareholders but to workers so they can support strong families.[63] Emblematic is the work of American Compass as well as Sohrab Ahmari, whose book *Tyranny* claims that decades of neoliberalism have resulted in a "private tyranny" in which large corporations effectively dominate political and economic life.[64]

They both reject financial capitalism because they believe that the capitalists get too much money and power and workers and their families too little. Their concept is not that the current version fails core state interests of global power—an issue few even focus on—rather, it is that it

leads to inequality, disruption, climate change, and other socio-economic problems.[65] And a growing share of these critics have moved from reform to replacement—in other words, to anticapitalism and versions of socialism.

Indeed, when progressives use such terms as "rethinking capitalism" and other alternatives to neoliberalism, they actually mean a system that tilts in the direction of socialism.[66] Most advocates know that using the "s" word (socialism) would cause discomfort, so they use terms such as "people's democracy" to signal their socialist intentions and they aim "to set guardrails and rules for the market, to provide goods and services directly; [and] to set economic goals and catalyze change."[67]

But this framing of worker capitalism is wrong for two reasons. First, the solutions to the challenges critics articulate don't lie in radical restructuring or even overthrowing capitalism. China has higher income inequality than the United States does and vastly more carbon pollution, but theirs is not a financial capitalist system. The solution to these challenges is to change policy, not systems. This can include a higher minimum wage, higher taxes on the rich, a carbon tax, more funding for health care, and the like. But the Left understands that, in a divided Congress, with a conservative Right focused more on ideological commitments to small government than national compromise, achieving this agenda is all but impossible, so they seek system change.

The debate over financial capitalism is whether the firm and investors get the money or consumers and workers. But that is the wrong debate. The debate should be whether the firm gets more of the profits to use for investment or the other claimants—investors, workers, and consumers—get more.

Second, and more importantly, replacing financial capitalism with socialism or a quasi-socialism based on so-called "worker capitalism" that many now support—such as worker ownership, state ownership, price controls, corporate codetermination, ESG (environmental, social, and governance) mandates, big company breakups, strangling regulation of markets, and the like—would stifle growth and innovation. Americans would become poorer and the nation would become weaker.

Third, the core problem with the Left's critique of "neo-liberal" financial capitalism is that it crowds out rational considerations of alternatives. If the choice is between financial capitalism and progressive capitalism, many people will default to the former. If the Left had put its efforts into reforming capitalism for more long-term investment and business dynamic capabilities, as opposed to anti-capitalist attacks that alienate moderates and conservatives, we'd be farther along with needed reform.[68] Indeed, attacks on capitalism only serve to have defenders of financial capitalism dig in even more. We see this with how the U.S. Chamber of Commerce talks about this. In her keynote at the Chamber of Commerce State of American Business Remarks, Chamber CEO Suzanne Clark argued that "this is a year for choosing between capitalism and socialism."[69] She went on to say, correctly, that "free enterprise isn't a perfect system, but it's the best one we've got—the best one that's ever been tried." The polarization in American politics has forced each camp into its corners; one seeing any expansion of the role of government into corporate activity as socialism at best, Marxism at worst; and the other, well,

looking at New York City Mayor Mamdani as the future. That makes consideration of a variant of capitalism, national economic power capitalism, as a threat to all sides.

In short, the debate over financial capitalism is whether the firm and its investors get the money or consumers and workers do. (See box 2.) But that is the wrong debate. The debate should be whether the firm gets more of the profits to use for investment or the other claimants—investors (including CEOs), workers, and consumers—get more of the money. In fact, what difference does it make who gets the money, investors, consumer, or workers? In all three cases, it leads to more consumption and less investment. The most important question is whether the firm gets more than it gets now and if it invests to support the national interest, including productivity and national economic power.

TOWARD NATIONAL POWER CAPITALISM

What is needed is a new variety of capitalism fit for the new age of China competition and the unique capabilities and strengths of the U.S. system, including entrepreneurial dynamism. The U.S. financial capitalist system does a good job on enabling entrepreneurial creative destruction. But as noted, it is not as well aligned with the goals needed to enable national economic power as it should be. In particular, it does a less-good job at enabling domestic scale-up, especially of national power industries. We need something along the lines of "nudge capitalism" wherein the state, and other actors, nudge capitalist firms to take state techno-economic power concerns more into account.

Another way to put this is that we need double bottom line (DBL) capitalism in which investors don't just prioritize profits, but also take into account national techno-economic power and building what Teece refers to as dynamic capabilities, in this case the capabilities to constantly innovate to avoid losing to PRC firms.[70] In other words, we want firms that see their job as to not maximize shareholder revenue but rather to balance long-term net present value creation with national economic power interests. In this ideal world, some capital would go to shareholders (in the form of stock buybacks and dividends), but less than what is now the case. And conversely, more of the earnings would be retained for the battle with Chinese firms, either to lower prices or boost capability-increasing investment.

The problem, of course, is that once the Pandora's box of anything more than single-line capitalism (pursuit of profits alone) is opened, out will swarm the hordes that say that *their* second bottom line should prevail: labor interests, consumer welfare, climate change, small business, domestic businesses over foreign, and the like.[71]

Still, the challenge is such that the Pandora's box needs to be opened, but with a strong consensus around key players, including the White House, that the second bottom line needs to be national power. This means that what national economic power capitalism seeks to do is achieve a balance between free markets and the pursuit of shareholder value and national interest related to techno-economic power.

There are three main possible ways of increasing alignment: regulation; public investment, and changing capitalist financing and incentives. Regulation, such as banning stock buybacks or limiting worker layoffs, is a blunt instrument that not only would lead to a host of negative unintended consequences, but would also be extremely difficult to achieve politically.

Public investment, such as the CHIPS Act, is more promising. Why not just copy the CHIPS program and provide direct grants to firms in key industries? Two reasons: First, unlike tax incentives, grants bring with them a host of federal regulatory constraints, including prevailing wage rules (Davis Bacon), National Environmental Policy Act (NEPA) rules, and the Fly America Act. These rules accrued "brick by brick" in an era when few cared about U.S. competitiveness. But they simply don't work for industrial competitiveness initiatives.

Second, operating grant programs is expensive. The CHIPS program office had a mind-boggling administrative budget of $780 million, which means that each award costs at minimum $23 million to administer.[72]

Third, programs get politicized. Democratic administrations want these programs to achieve other goals in addition to competitiveness, such as good wages for construction workers or DEI (diversity, equity, and inclusion) advancement. Republican administrations (as we see with the Trump administration) don't support grant programs. And companies rightly wonder about uncertainty, including the federal government coming in later with new conditions or scrapping the programs altogether.

Fourth, grant programs come with a massive amount of federal regulatory strings attached, as, over the years, Congress has added law by law a multitude of rules to accomplish what at the time seemed like worthy goals. The problem is that not only do some, if not many, of these goals now act counter to a national economic power strategy, but also the applications of the rules are like sand in the gears.

This leaves changing the incentives for what firms invest in. And that means moving away from the current 50-year-old system of financial capitalism to national economic power capitalism.

At its core, doing that requires addressing the fundamental tension: whose money is it? Shareholders argue that they own the company and deserve access to profits. But is an activist investor who forced a company to shell out earnings to boost stock prices really an owner? They did not start the company and build it. They did not put up the original capital. They simply played the "Wall Street casino" to make a fast buck.

In a world with existential competition between systems—the democratic West and the Marxist-Leninist authoritarian China—this tilt to shareholder interests has gone too far.

Society might argue that those profits should be reinvested for broader economic benefit. Most tax systems try to balance these competing interests rather than strongly favor one side. However, in the last half century, U.S. federal policy has decided to favor shareholders more—not simply because of self-interested lobbying by wealthy shareholders, although that has played a role, but more importantly because it was widely believed that this was the way to maximize growth. For the sake of argument, let's assume that was correct. But in a world with existential competition between systems—the democratic West and the Marxist-Leninist authoritarian China—this tilt to shareholder interests has gone too far.

As such, there are three broad paths, all of which should be used, to move to a system of national economic power capitalism: using the tax code to shape corporate investment, spurring private investment vehicles, and expanding and reforming public investment vehicles.

Using the Tax Code to Foster National Power Capitalism

The tax code can make it more profitable for firms to invest in key national power building blocks such as R&D, international standards setting, and machinery and equipment. Those are tools to make it more likely that firms will retain and reinvest earnings than send the earnings to a share folder.

But the tax code can and should also help by making it more expensive to send capital to shareholders.

Under current tax law, when a company earns profit, it pays corporate income tax on that income. The federal corporate tax rate is currently 21 percent, with the average state rate around 6 percent.[73] What remains becomes retained earnings: after paying corporate tax, the company can either distribute profits to shareholders as dividends (or stock buybacks) or keep the money in the business (retained earnings).

If the company later distributes those retained earnings as dividends, shareholders pay personal income tax on the dividends they receive, thus leading to double taxation, a cardinal sin among conventional economists who prioritize allocation efficiency. In 2003, Congress passed tax reform to reduce this so-called problem by reducing taxes paid on dividend payments to 20 percent. But this encouraged companies to pay dividends rather than reinvest in growth-enhancing activities.[74]

The better solution would have been to reduce the taxes companies pay on profits so they would have been more likely to retain them. This should have been done by telling companies that if they invested in building blocks of innovation, productivity, and national power, particularly R&D and machinery and investment, they would have received generous tax credits. This could have been paid for by imposing higher taxes on dividends and capital gains.

The tax code can and should also help by making it more expensive to send capital to shareholders.

The economic rationale for the R&D tax credit is that companies do not capture all the benefits from their research and therefore underinvest in it from a societal welfare maximization point of view. But even if there were no externalities, policy would want to spur more business R&D because otherwise, U.S. firms would lose to China, an externality in itself. Unfortunately, the U.S. R&D credit is quite small. **To match China's incentive generosity rate, the federal rate would have to be raised by 2.7 times, increasing the Alternative Simplified Credit (ASC) from 14 percent to 38 percent.**[75] Doing so would cost approximately an additional $25 billion to $30 billion annually. **Congress could also allow expenditures on workforce training and global standards setting to also qualify for the credit.**

At the same time, if first-year expensing in the Big Beautiful Bill were retained and a 25 percent quasi-incremental tax credit on new capital investment (modeled after the ASC) were created, this would cost approximately $90 billion per year. An alternative would be for Congress to **institute a national power industry tax credit, modeled on the CHIPS tax credit law, that would only apply to national economic power industries.**

But it's not enough for there to be incentives to retain and invest capital; we need negative incentives for distributing capital. **Congress should start by taxing dividends as normal income.** At the margin, this would make dividend payments less valuable to shareholders, and would raise another $60 billion to $70 billion in tax income.

One effect of increasing taxes on dividends is that it would lead companies to expand stock buybacks. Congress needs to do the same for capital gains from stock buybacks. To address that, **Congress should boost the capital gains tax rate and extend the time horizon for lower returns.** For assets held for more than one year, gains are taxed at a maximum of 23.8 percent. Congress should boost the top rate to 45 percent for taxpayers earning more than $1 million a year for assets held less than two years, with that rate going down 7 percentage points each year until the top rate is 20 percent. This would not only increase patient capital, but also raise approximately $70 billion to 80 billion per year. At the same time, it would effectively close the carried interest loophole, as this income would be taxed at a higher rate. This would bring in additional tax revenues (perhaps $30 billion).

Congress should also reduce the incentives for companies to buy back their own stock by increasing the buyback tax rate. Currently there is 1 percent excise tax on stock buybacks. A 5 percent stock buyback tax would generating approximately $30 billion–$40 billion annually (accounting for behavioral responses). A buyback tax could theoretically push companies to reconsider marginal projects or lower hurdle rates somewhat. If the alternative to a 12 percent return project shifts from "return cash via untaxed buyback" to "return cash via 5 percent taxed buyback or higher-taxed dividend," that 12 percent project looks relatively better.

It's not enough for there to be incentives to retain and invest capital; we need negative incentives for distributing capital.

At the same time, incentives need to shift to encourage companies to pay executives more in cash and benefits, and less in stock. The 2017 tax reform actually eliminated the performance-based pay exemption so that stock options are also subject to the $1 million deduction limit. But, by then, the equity-heavy compensation culture was already deeply entrenched. **Congress should instead allow corporate tax deductions for executive compensation above $20 million per year.** Doing so would help make CEOs less focused on short-term stock price performance.

Combined, these proposals are close to neutral revenue, but companies would have more capital and investors less, at least in the short term. But it would lead to significantly more investment in capital equipment and R&D, which in turn would boost innovation, productivity, and competitiveness. It would also lead to a fairer system in which most taxes would be levied when an entity receives income, not on paper profits sitting in a corporation. Provisions would likely need to be put in place to limit tax avoidance through living off of loans secured by stock holdings in order to defer capital gains.

Of course, this set of proposals would face resistance from both the Right and the Left. Most shareholders would oppose it because they'd earn less money, at least in the short term. However, it would boost economic growth, thereby increasing stock valuations in the long run. And it certainly would boost national techno-economic power.

Free market supporters would say that the government would be distorting the free flow of capital. Indeed, business tax policy remains shaped by neoclassical economics and the passage of the 1986 Tax Act, which, like many tax bills since, worked to reduce the statutory rate while eliminating specific tax incentives. Business tax policy remains guided by the framework of "lower the rate and broaden the base." Guided by a view of economics that holds that market forces should predominate in allocating investment, the idea is that the tax code should be neutral when it comes to different firms and industries. There is, however, one exception and it's to favor small firms, which are seen as inherently deserving.[76] This system might work in a world without great power competition. But it would fail in today's world.

In contrast, progressives would love the higher taxes on investors but hate the idea of using the money to lower net business taxes. They would argue that such provisions benefit executives and shareholders, and moreover don't increase wages.[77]

Both would be right: neither workers nor investors would benefit in the short run. The nation, however, would.

Spurring Private Vehicles to Support National Power Capitalism

Another way to better align company interests with the national interest is to encourage investors to prioritize national power goals.[78]

Use the Bully Pulpit

One way to do that is for the president and others to **use the bully pulpit to encourage investors and investment managers to take into consideration national economic power goals.** There are already a host of organizations and companies that state that they promote DBL investing, including the U.S. Impact Investing Alliance, Principles for Responsible Investment, the Institutional Investors Group on Climate Change, Impact Capital Managers, Global Impact Investing Network, Intentional Endowments Network, Climate 50, ImpactAssets. Some venture capital firms do something similar now, although their focus tends to be on the DBL of social and environmental policy to attract investors who want to make money but also "improve the world."[79]

Similarly, one of the arguments made for why investors should invest in "Deep Tech" is because it can help the planet. A recent MIT report on deep tech argues, "Deep tech ventures may help to drive sustainability goals and support corporate aims to significantly enhance ecological performance."[80]

The problem is that these focus on social policy, equity, and environmental concerns and are not only agnostic about the location of investments, but also often prefer investments outside the United States to help disadvantaged populations in the developing world. It is time for leaders to challenge these organizations to also take into account national power when making investment decisions.

The bully pulpit of leading policymakers can also help, especially to press firms to keep more retained earnings and invest them in activities that spur national economic power. President Trump's recent statement regarding defense contractor Raytheon is an example of that. Trump threatened Raytheon with reduced military contracts if it did not invest more in plant and equipment and spend less on shareholders via stock buybacks and dividends.[81]

In addition, **patriotic, high-net-worth individuals should be encouraged to target more of their investments to firms in national economic power industries and take a longer-term investment horizon.** This is the case in some other nations. Sweden is an example. As recently as 2000, while Ericsson was 51.4 foreign-owned, foreigners had only 1.2 percent of the votes, and today the bank and the Wallenberg family own most of the company's voting stock.[82] This let Ericsson focus on long-term value creation. Indeed, as one study of the Wallenberg family notes, "They act in the long term and have not succumbed to chasing after profits for each quarter of the financial year."[83] The study goes on to say that "the Wallenbergs could cash in their chips at any time, as most other wealthy and powerful families have done. Nothing stops them from selling off and moving somewhere with a better climate than Sweden, and lower taxes."[84]

But they don't because they and the bank are committed to the economic welfare of Sweden. This is presumably why, when asked in 1996 if his family has too much power, family head Peter Wallenberg said, "What is bad about that? Is there not value in somebody hanging around when times are poor."[85]

The problem is that these focus on social policy, equity, and environmental concerns and are not only agnostic about the location of investments, but also often prefer investments outside the United States

America needs more "Wallenbergs." The problem is that most wealthy Americans either are agnostic toward the national interest, or to the extent they care about a DBL, they are focused on social and environmental goals. As such, the president and other leaders should ask high-net-worth individuals such as Bill Gates and Warren Buffet to fund a Wallenberg investment fund rather than give away all their money to left-wing charities. Elon Musk has been doing that to some extent with his investments in hard-tech industries such as space exploration.

Fortunately, there are steps already being made in this direction. One example is the American Frontier Fund, established by several patriotic high-net-worth individuals to invest in companies and start-ups that will help the United States maintain its lead in advanced technologies.[86] While the funding is mostly private, there are public monies involved, including from the U.S. Small Business Administration's Small Business Investment Companies (SBIC) program. JPMorgan Chase recently announced a $1.5 trillion security and resiliency initiative to boost critical industries.[87] It will make equity investments and provide debt financing across four areas: supply chain and advanced manufacturing, including critical minerals, pharmaceutical precursors, and robotics; defense and aerospace, including defense technology, autonomous systems, drones, next-gen connectivity, and secure communications; energy independence and resilience, including battery storage, grid resilience, and distributed energy; and frontier and strategic technologies, including AI, cybersecurity, and quantum computing.

These are important steps forward, but more is needed, including greater investment in technologies and firms that are not "Silicon Valley cutting-edge firms" but rather more traditional advanced industry firms. The president can play a role using the bully pulpit. In addition, **the federal government should provide at least some support for strategic capital funds, or make subsidiary investments to support firms backed by strategic capital funds.**

Redefine Fiduciary Duty for Institutional Funds

Duty is currently interpreted narrowly as "maximize financial returns." It could be made clearer that this means long-term, net-present-value returns. In addition, considering that 30-year national competitiveness is consistent with fiduciary duty, **rules could be established to prohibit measuring pension fund managers on quarterly or even annual performance and instead on longer-term performance (e.g., three or more years).** This would be similar to how some state pension funds have in-state investment requirements and ESG mandates. **Congress could tie federal funding to states based on whether their state pension funds include some kind of national economic power investment mandates. The same could be done with the Federal Thrift Savings Plan.**

During the Biden administration, the Department of Labor issued a rule allowing retirement plan fiduciaries to consider climate change and other ESG factors when selecting investments and exercising shareholder rights such as proxy voting. The rule clarified that ESG factors could be considered if they were financially material. This made little sense for several reasons, including that there was virtually nothing an individual firm could do to materially affect global greenhouse gas emissions. Under the Trump administration, the Labor Department stated it would cease defending the 2022 rule and initiate new rulemaking. But the point is that governments can make it easier for retirement funds to consider issues behind the immediate bottom line.

As noted, a number of "blue" states, including California, Oregon, New York, Colorado, Connecticut, Maine, and Maryland and the District of Columbia have all imposed green mandates. **Congress or the administration should limit federal funding to states that do not have a national economic power mandate for their government pension funds.** And they should work collectively to press companies to prioritize R&D over buybacks and to push for long-term capital investment.

Duty is currently interpreted narrowly as "maximize financial returns." It could be made clearer that this means long-term, net-present value returns.

Reduce the Power of Extractive Investors to Press Companies to Disgorge Cash

The rise of institutional investors should have led to long-termism. But it did not. And the reason is that individual managers have strong incentives to beat the market each quarter. Reducing the power of institutional investors to press for profit transfer would go a long way toward giving executives more leeway to think long term.

In his book *Investing in Innovation,* professor Willian Lazonick wrote:

> In 1992 and 1999, SEC amendments to its proxy regulations enabled asset managers to communicate freely among themselves and with corporate management concerning issues of corporate control. As a result, it became much easier for hedge funds to form de facto cartels for activist campaigns.[88]

Congress should take steps to limit the power of hedge funds to force short-termism and capital extraction. Again, as Lazonick wrote:

> The NSMIA augmented the regulatory power of the federal government, and especially the SEC, vis-à-vis the states in amending the Investment Company Act

> and Investment Advisers Act, both of 1940, and removed the size restrictions on hedge funds and private-equity funds that had previously been limited to ninety-nine investors to be eligible for exemption from regulation under these Acts. As a result, assets under management by unregulated hedge funds (and private-equity funds) soared from the late 1990s, augmenting the financial power of hedge-fund activists to engage in predatory value extraction while giving fund managers of pensions and university endowments, among others, stakes in activist campaigns in their quest for higher yields on their financial security portfolios.[89]

He went on to note:

> In 1988, the US Department of Labor issued what has become known as the "Avon letter," which deemed it a fiduciary obligation for pension funds to vote the shares in their asset portfolios. In 2003, a ruling by the SEC extended this fiduciary obligation to mutual funds,171 thus making it much easier for a hedge fund activist with only a small percentage of a company's shares outstanding to line up a large block of proxy votes for board elections and thus pose a credible threat to incumbent management's strategic control. In mobilizing the proxy votes, the activists can get help by lobbying the two major proxy advisory services companies, ISS and Glass Lewis, which emerged, unregulated, to dominate this specialized segment as a result of the 2003 SEC ruling, to recommend to institutional investors a slate of value-extracting candidates for election to the corporate board. [90]

Congress should reconsider these legislative and regulatory changes.

Congress should also pass legislation to penalize organizations that allow their investments to be used in the service of "activist investors" who own a small share of a company's stock but enlist institutional investors to join their demands for the corporation to transfer cash from the corporation to the shareholders. States whose pensions funds side with these kinds of aggressive investors should lose federal funding—the same with university endowments. Any university that allows its endowment to side with short-term extractionist investors would see its federal funding cut. The goal is to reduce the asymmetry in power wherein activist investors can own a small share of a company's shares but convince institutional investors to pressure management for short-term returns.

Have CFIUS Review Hostile Takeovers in National Power Industries

The Committee on Foreign Investment in the United States (CFIUS) can review acquisition of U.S. firms by foreign firms for national security considerations. The U.S. government did that with regard to Broadcom's attempted hostile takeover of Qualcomm in 2017–2018. President Trump issued an executive order blocking it in March 2018 before Broadcom could complete its move to redomicile from Singapore to the United States. The order cited national security concerns—specifically that the takeover might reduce Qualcomm's R&D spending in 5G technology, potentially allowing China (specifically Huawei) to gain leadership in 5G standards.

This was notable because it was essentially a preemptive block of what would have been a domestic deal (since Broadcom was planning to redomicile to the United States). The

government used CFIUS authority even though it was stretching the "foreign" aspect, arguing that Broadcom was still technically foreign at the time of review.

But **Congress should make it clear that, in national economic power industries, CFIUS should be able to block domestic hostile takeovers if there is a risk that they would weaken firms' dynamic capabilities, especially vis-à-vis China competition.**

Spurring Public Vehicles to Support National Power Capitalism

Finally, there is a role for more public kinds of investment vehicles to support national power industries.

Early Stage Capital Investors

There are already several early stage investing organizations focused on national security, including InQTel, the Defense Innovation Unit's National Security Investment Capital program, the Air Force's AFWERX Stratfi-tacfi program, the War Department's Office of Strategic Capital, and DOD's Accelerate the Procurement and Fielding of Innovative Technologies program.[91] These programs are all a step in the right direction, but they are mostly focused on early stage capital for start-ups and are somewhat narrowly focused on defense technologies and industries rather than national economic power industries more broadly. Nonetheless, **Congress should provide funding to expand all these programs.**

Industrial Development Bank

There also need to be public vehicles that provide patient capital for existing firms in a broader array of national power industries, including enabling industries, and for production, not just R&D. This points to the need for a national industrial development bank or banks.

Such a bank would fill gaps in the financial system by providing financing that commercial banks typically won't offer due to long payback periods, higher risks, or lower profitability. It would focus on sectors considered crucial for economic development such as manufacturing, infrastructure, technology, and exports. Many other nations have long-standing industrial development banks, including South Korea (Korea Development Bank), Germany (KfW), and Japan (Japan Finance Corporation).

One bill introduced in Congress in 2021 proposes an Industrial Finance Corporation.[92] Congress would make a one-time appropriation to the corporation, which would then make more patient capital investments in national economic power industries. The legislation would provide it with the authority to issue and guarantee loans, purchase equity stakes, issue bonds, acquire assets, create investment facilities and enterprise funds, and securitize its investments.

Others have argued for a more distributed model with perhaps 9 regional industrial development banks—one for each Federal Reserve Region. One advantage of this is that it would ensure that funding is widely distributed geographically.

Either way—one national bank or multiple regional banks—there would need to be strict accounting rules built into the legislation and governing structure so that the bank is not whipsawed in its expected investments depending on who is in the White House—and that deals are based on national power, not political interference or mission drift. Moreover, the enabling legislation should make it clear that the scope of firms able to be supported is quite narrow and limited only to national economic power industries.

Why not sovereign wealth funds? Some nations, such as Norway and Singapore, have established sovereign wealth funds, often out of mineral-extraction royalties. These explicitly balance financial returns with national strategic interests, and take a long view on investments.

Some, including President Trump, are considering such funds for the United States. It's not clear that this would be the right vehicle to support national techno-economic power. First, many of these funds come from dedicated revenue sources, which the United States does not have. Using general fund revenues for such a bank would make little sense. Second, nations with them appear to have more Right-Left consensus for competitiveness and how to achieve it than the United States does.

CONCLUSION

System change is hard and usually only occurs not only when the current system has not been performing but when there is a crisis. That was the case with the rise of neo-liberalism with the slow growth and stagflation of the 1970s and the serious economic recession of the early 1980s.

So far, financial capitalism has limped along (notwithstanding the perfectly avoidable 2008 Great Recession), certainly still producing high returns for shareholders and low unemployment rates—the only factors now used to judge economic policy success. But when it comes to competitiveness—especially in national economic power industries and against China—and productivity growth, the current system has underperformed. Productivity has been anemic for at least 15 years, and as ITIF has documented in numerous places, the United States is losing ground to China. One could imagine any number of crises that might spur more appetite for more serious reform, including a Chinese invasion of Taiwan with losses to U.S. defense forces, and a federal budget default.

But even with a crisis, arguments against the kinds of change proposed will be powerful: the system is working fine and any deviations are suboptimal; these proposals violate shareholder rights; the role of companies is to maximize profits; this is picking winners and inappropriate government involvement in private decision-making; the China challenge is irrelevant; other challenges (e.g., climate, economic opportunity, etc.) are more important; and more.

What we need is a capitalism that supports national power. … Whether Washington and the business and intellectual leadership of the nation can effectively advocate for this remains to be seen.

The reality is that many of these reforms are not about substituting political judgment for market signals in capital allocation. Rather, they try to change the time horizon and reinvestment incentives within which market actors make decisions, so that firms with genuine competitive advantages in national power industries are not systematically stripped of investment capital by financial extractors who are indifferent to productive capacity.

As long as the debate is about maintaining the current system of financial capitalism or moving to a more quasi-socialist worker, family, and small business capitalism, needed change will not happen. Companies still won't be investing internally the way they need to in order to not lose to China.

In conclusion, it's time for a renewed pragmatic approach to rethinking capitalism. Unfortunately, the free-market Right would say that they want capitalism that maximizes investor freedom. What we need is capitalism that supports national power. The redistributionist Left would say that they want capitalism that creates warm, personal security. What we need is a variety of capitalism that creates cold, national security. Whether Washington and the business and intellectual leadership of the nation can effectively advocate for this remains to be seen.

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