

- Speaker 1: Welcome to The Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists, and thinkers, fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.
- Bill Walton: Welcome to The Bill Walton Show. We've talked in past shows about the existential [00:00:30] issues, economic, military, and cultural, that China poses for the United States, but it's been unclear to me just what our lines of action should be. For example, imposing tariffs willy-nilly or beefing up our naval presence in the South China Sea seem shortsighted, not solutions. What we should be doing is confronting China across a broad range of economic fronts while at the same time promoting our own productivity and [00:01:00] economic growth. But it's not just a matter of the right actions; it's about how we think about the problems, and our domestic politics prevent clear thinking.
- Bill Walton: With me today is a brilliant man who has done some very clear thinking, and he does have solutions. Robert D. Atkinson is founder and president of the Information Technology and Innovation Foundation. Founded in 2006, ITIF has been named the world's top think tank for science and technology [00:01:30] policy. Dr. Atkinson coined the term innovation economics, and The New Republic magazine calls him one of our three most important thinkers about innovation. His most recent book, coauthored with Michael Lind, is Big is Beautiful: Debunking the Myth of Small Business.
- Bill Walton: Rob, welcome.
- Robert Atkinson: Thank you, Bill.
- Bill Walton: You founded ITIF in 2006. What led you to set that up?
- Robert Atkinson: Well, the main [00:02:00] reason was I thought then, and I continue to think today, that innovation is the most important driver of human progress, of American progress, and there were really no think tanks that were focused on that. It was a side line or a side thought at most of the other think tanks, and so I thought there needed to be a think tank that just focused pretty exclusively on innovation and innovation policy in a nonpartisan way. There's good ideas from both sides, but as you pointed out, our politics is making that hard to get that done. What's [00:02:30] striking to me is how much opposition there is to innovation today and how little understanding there is of it. That was really what our mission is.
- Bill Walton: I want to get to China, but I am interested in what you said about opposition to innovation. It seems like some on the left have given up the idea that growth is important. I know small is supposed to be beautiful, but who wants to shrink? We want to grow.
- Robert Atkinson: We want to grow. We don't want to be teenagers our whole lives; we want to be adults.

Robert Atkinson: Part of what happens [00:03:00] in Washington and in these debates is there's almost these urban myths that just get blown out of proportion, and one of them is that the average worker has seen no progress over the last 40 years. In other words, we've had innovation, we've had productivity, but the average person got nothing, so why would we bother with that? This is all pushed... not pushed, but its origins of Thomas Piketty in his book.

Robert Atkinson: Actually, when you really look at the data from the Congressional Budget Office and others, when you really look at the data, what you find [00:03:30] is the average worker has made progress, about a 35% increase over the last 25, 30 years. Not as much as the rich, but it's not nothing.

Robert Atkinson: You're absolutely right, the left appears to have given up on growth because they don't think it serves progressive goals. I think that's a huge mistake.

Bill Walton: Well, we have had some impacts on our growth and impacts on our jobs because of what's happened with China. President Trump just yesterday at the UN [00:04:00] gave a speech, and one of the things he pointed out, which he may have sourced you for the data, is we've lost 4.2 million manufacturing jobs and had almost \$15 trillion in trade deficits over the last quarter century. China. Where do we start with China?

Robert Atkinson: As Churchill once said about Russia, they're an enigma wrapped within a riddle, if you remember that. That's, somewhat, China.

Robert Atkinson: Where do we start with China? [00:04:30] We start with China with, I think, the simple concept of they're not a capitalist economy. Everybody thinks they're a capitalist market-based economy because they have a lot of private companies. They're not. They're a state-directed economy. They tell the companies what to do.

Robert Atkinson: On top of that, and more problematic, is they're a mercantilist economy. It's in their deep DNA. They don't let market forces work. The problem with that is that they use that to hurt American companies and American workers and the American [00:05:00] economy.

Robert Atkinson: Trump is right. They systematically steal our intellectual property. Under the WTO rules, you can't make market access contingent on technology transfer, but they do that. Massive subsidies. You look at industries like steel, rail, now semiconductors and biotechnology, the amount of money that the government is pouring into that. When our companies are trying to compete against their companies, [00:05:30] they have the advantage of they don't have to pay for most of their R&D. They get it from us. On top of that, they just get, really, cash handed to them by the government to go out and compete with us.

Robert Atkinson: Imagine in the U.S. if we had... I'm going to use this analogy. What if we had B corps and C corps? C corps are the normal types, but B corps, if you're a B corp,

the government gives you a negative tax rate of 10% and also hands out subsidies and also has discriminatory lawsuits against all your C corp competitors.

Bill Walton: [00:06:00] What about the view-

Robert Atkinson: That's China.

Bill Walton: What about the view that, well, when you get government involved in business, they're heavy handed, it's top-down direction, they're not responsive to markets, they're not innovative? China doesn't seem to fit that mold.

Robert Atkinson: No.

Bill Walton: What's the difference?

Robert Atkinson: Well, the difference is that the Chinese leadership learned... They went to school studying what Russia did wrong, and what they... China is all about, as Orville Schell, a famous China scholar, says [00:06:30] in the title of his book, wealth and power. That's China, wealth and power. They understand that to get both of those, they have to have vibrant businesses. If they get too interventionist, they know that they're going to kill the golden goose.

Robert Atkinson: What they do is they give their companies a certain amount of freedom, but then they back it up and they say, "Okay, we can steal some intellectual property for you," or "Oh, by the way, if you're competing against a foreign company, we can make them give you their technology," or "We can just hand you cash," or [00:07:00] "We can cripple your competitor." They're very astute about how they do it.

Bill Walton: I think one thing that's not often mentioned is that Chinese elite, the Politburo, many of the leaders, I don't know how many people in the 80-million strong Communist Party there are, they're overwhelmingly trained in STEM, science, technology, engineering, math. They understand technology issues, productivity issues, manufacturing issues in a way that our lawyers and other politicians do not. [00:07:30] They're unlike our bureaucrats in the United States, where they're trained in the industries that they're directing.

Robert Atkinson: Yeah. Our leadership is principally coming from a legal background, and the orientation is, how can we set up laws so that they're fair and open and just? You're right, Chinese leadership is trained in a technology background, and their view is "Okay, where we want to be in semiconductors, how do we do that? or "We want to be in the most advanced chemicals [00:08:00] in the world. How do we do that?" Very, very different orientation. You're absolutely right.

Bill Walton: Well, and they have domestic champions, and they're very specific. The Chinese say we want to end up with 80% domestic share in high-end computer-

controlled machines, 70% for robots, 60% for big data. They're not just saying, "Gee, go West." They're very focused in this.

Robert Atkinson: Right. Again, what's problematic about that... It'd be one thing if the Chinese just said, "Look, [00:08:30] we want to grow our economy, we understand innovation is the way to do it, and we're going to do things like support better science at our universities and increase STEM education, maybe do an R&D tax credit, have strong intellectual property." That'd be okay. Sure. They're competing. We're competing. It would make us better. That's not what they're doing. What they're doing is really systemically cheating in the innovation economy, what we call innovation mercantilism.

Bill Walton: You make a distinction between the Fifth Industrial Revolution, which is IT and computers [00:09:00] and the internet, and you talk about, and you've done a lot of work on this, in the emerging Sixth Industrial Revolution, based on AI, robotics, a lot of autonomous systems, and you think they may be gaining a lead in that sixth revolution.

Robert Atkinson: Yeah. What's really important about that, if you go back and you look at... Not everybody agrees with this classification system, but if you think about how innovation occurs, it tends to occur in these big 50-year waves. After World War II was electromechanical innovation and chemicals. [00:09:30] 1890s, it was metals and electricity. 1990s, it was internet. Each time we go through one of these things, the orientation of leadership shifts.

Robert Atkinson: If you think about from the '50s to the '90s, what happened? The U.S., really from the '50s all the way to the '90s, the orientation was East Coast. It was East Coast companies that dominated. The biggest software industry in the 1980s was General Electric. What happened is that we had this new paradigm-

Bill Walton: That's hard to envision.

Robert Atkinson: That's hard [00:10:00] to envision, but it's true. There's a famous story of Bill Gates when he was a young guy and he was on one of these business associations for software, and GE was dominating. He got so mad, he pulled out and he created the Business Software Alliance on his own.

Robert Atkinson: The point being, each time you have one of these, you have a restructuring, an opportunity, and now we're going into a new era, around AI, around autonomous systems, around Internet of Things. The Chinese have set [00:10:30] their sights there, and that's, to me, very, very worrisome. We can't let them win, essentially, because that's the big new frontier.

Bill Walton: Well, the real spark for China came, what, in 2001, when they were admitted into the World Trade Organization.

Robert Atkinson: Right.

- Bill Walton: The thinking was, if we let them into the world economy, subsidize them in ways that we can do through the WTO, they'll develop a manufacturing economy and they can make our, I think... What did you call it? The cookie boxes or [00:11:00] the-
- Robert Atkinson: Happy Meal toys.
- Bill Walton: Happy Meal toys. They'll be there, and they'll be satisfied with that, and as a result of being successful economically, they'll develop a liberal democracy and they will become a lot like us. They'll enter the world order. That didn't happen.
- Robert Atkinson: No. It was really striking, I think, how naïve most of the elite leadership was around China. They just assumed that was going to happen because in their mind there's only one recipe for economic [00:11:30] success, and it's our recipe. They said, "Well, if that's the only recipe, and China wants to go, then they have to use our recipe," which is liberal democracy, rule of law, intellectual property.
- Robert Atkinson: Turns out there's two recipes that you can grow, and they've shown that. I think now most China followers, most international trade folks, they understand that that was a mistake, and China is not going to become like us.
- Bill Walton: You've done some work, I think, with Caleb Foote of your shop that shows [00:12:00] that the prevailing wisdom was that the Chinese are not innovative, they're not creative, they're just going to copy other people's things, steal and copy, steal and copy. That's not true necessarily. They're showing some signs of real innovation.
- Robert Atkinson: Yeah. You look at the company that does the most R&D of any company in the world on a what's called purchasing power parity basis because their labor costs are lower, and it's Huawei, the big Chinese telecom company. They do more [00:12:30] R&D than any other company in the world.
- Robert Atkinson: Look at biotech, for example. The Chinese filed more crisper patents, these are patents around gene editing, than the U.S. did. People underestimate China.
- Robert Atkinson: Now, again, one of the big things... China isn't good at everything. They're not good at business model innovation, for example. We're really good at business model innovation, iTunes and the platforms. They're not good at [00:13:00] that. But you don't have to be first to the world to dominate. You could be second to the world. You can copy. Huawei is a copier, and now they're an innovator.
- Bill Walton: You're watching The Bill Walton Show. I'm here with Dr. Robert Atkinson, and we are talking about China, innovation, and the emerging threat that China poses to the United States and the sixth-generation industrial revolution.

Bill Walton: The [00:13:30] report I would really direct everyone to, if you get on the Information Technology and Innovation Foundation website, is a report they did that talks about 36 indicators of China's scientific and technological progress.

Robert Atkinson: Again, there's this really myopic view among the elites, which is "Well, there's only one recipe. It's ours. Therefore, China can't innovate. Therefore, we don't really have to worry."

Robert Atkinson: [00:14:00] Well, what we did is we looked at 36 indicators and said, "Where was China vis a vis the U.S. in 2007, and where were they or are they in 2017?" On every single indicator, dramatically shrunk the gap. On patents, for example, they were here; now they're here. On corporate R&D, they were here; now they're here. China is actually on pace to spend more on research and development as a country than we are by 2022. They have way more [00:14:30] scientists and engineers than we do. It's really a huge mistake to underestimate them.

Robert Atkinson: A good example is semiconductors. They're behind us in... The U.S. is the world leader in semiconductors, companies like Intel and Micron and Texas Instruments, great companies, but the Chinese are putting \$140 billion of government cash to subsidize that industry. I don't care how [00:15:00] good you are in the U.S., imagine \$140 billion you're trying to compete against that's just free, sitting there to your competitors. We've got to challenge China across the board on every single front, or else we're not going to win this competition.

Bill Walton: Well, that brings me to what I mentioned at the outset in the introduction, is that we have, I think, an intellectual problem, a political problem, a paradigm problem, a how-we-think-about-things problem. We've seemed to divide the country, [00:15:30] as you pointed out, into a couple of camps. We think of people as either open border, closed border, globalist or nationalist, interventionist or protectionist. The protectionist people voted for Trump, presumably, the open-border people voted for Clinton, and that's it, and they're always going to be beating heads against each other to decide how to deal with China. Yet you've parsed this into a little different set of categories. You [00:16:00] have five schools of thought. Do you want to talk about that?

Robert Atkinson: Yeah. Bill, you hit the nail right on the head. I think one of our biggest problems is just intellectual framing of these challenges. We tend to be in these very mania and black-white camps, and it doesn't get us where we need to be.

Robert Atkinson: We argue there's five major political economy camps in the U.S. today, if you will.

Robert Atkinson: What we call the liberal and conservative neoclassical camp, which are basically free-traders. This would be [00:16:30] people at the Cato Institute, total free trade. It's why Cato doesn't like what Trump's doing on immigration. In the Cato

world, anybody can move to the U.S., it'd be great so no borders, total free trade.

Robert Atkinson: Then you have a liberal version of that, say the Larry Summers version, which is free trade is good; we might have to have a few parts of government.

Robert Atkinson: Then you have the emerging progressive camp, if you will, people like Bernie Sanders, where they really fundamentally [00:17:00] don't like globalization because one of the things of globalization is it makes it harder for you to keep these distortions into your economy. You have to compete, and that means you can't just have really, really heavy-handed regulations all the time because you're competing. In their world, they would just like to have a national economy, heavy regulations, high wages, all the like.

Robert Atkinson: Then you have Trumpism. I think what people forget is that you have to go back to William McKinley to, I think, understand who Trump [00:17:30] really is. The Republican Party before Wilson was a tariff party. It was a small-government, tariff party, and that was the idea. You had a national economy, you helped your big industries by tariffs, but you had really small government. That's Trumpism.

Robert Atkinson: What we argue is all four of those are... They're not really very good guides to where we need to go. They're failures. What Mike Lind and I talk about is national developmentalism, which essentially says, "Yeah, globalization is here, it's important, we got to embrace it, [00:18:00] but one-sided free trade is not free trade." In other words, if we're open and free, and China is closed and mercantilist, that can't be in our interest.

Robert Atkinson: The last point of that is we have to be smarter about how we help our industries, and then the last thing in the world we need to be doing is saying, "Well, we're going to pick Ford over GM." That's terrible. But we do know some of the big industries of the future.

Bill Walton: And we know the technologies.

Robert Atkinson: We know the technologies. We know what they're going to be. We know AI, for example, is going to be very, very important. So we have to say, [00:18:30] "How is the U.S. going to compete effectively in those set of technologies?"

Bill Walton: I want to dig in a little more into your five schools of thought because one of the purposes of this show is to teach people, and me as well, how to think about things. If I think about the trade debate, the China debate, the school I'm coming from, I call myself a recovering libertarian. What happened to me was I was pretty [00:19:00] much free trade, doesn't matter which country produces it, and the market will resolve everything. That was the idealistic world I was in.

Bill Walton: Then I was asked to give a speech a few years ago about trade, and wandered into this thing called China, and began to realize they weren't doing that at all, and yet we were. The people in the United States, the libertarians have really... There's [00:19:30] nothing they're going to add constructively for how we deal with China. They oppose anti-trust laws. They denounce any aid from government to business as crony capitalism. National borders are an infringement on liberty. If everybody comes into the country, their solution is to abolish the welfare state. That'll happen, I'm sure.

Bill Walton: Then one of the things I thought was interesting is that the libertarians [00:20:00] went so far to promote world trade that the Bush administration's Commerce Department went so far as to hold workshops to assist U.S. corporations to move to China.

Robert Atkinson: Unbelievable. The idea was there, well, if we move to China, the company will become more competitive. That clearly was wrong.

Robert Atkinson: It's funny, I was on a show once, and I was debating a guy. I was arguing for why we needed a better and stronger research and development tax credit. It's something Reagan put in place in '81, [00:20:30] and it's basically if you're doing scientific research, you get a tax credit for it, because economists show that most of the benefits from Apple or GM, whatever, it actually spills over to their competitors, so they don't get... and to society. We need companies to do a lot more R&D, so economists all agree we should do an R&D tax credit. This libertarian said, "Oh, no, that's industrial policy. That's picking research over something else." When you have that rigid view of how we have to go forward, we're [00:21:00] going to be at a dead end.

Bill Walton: Talk some more about progressive localism. What a great word, great term.

Robert Atkinson: Yeah. Progressive localism is this idea that, and we talk a little bit about it in Big is Beautiful, our book, a lot of progressives, their ideal world is to have everybody is all part of this one big happy family in the world, but we all produce and consume locally. We buy local. We go to the farmer's market. We buy all our food that was grown within 90 [00:21:30] miles. We've gotten rid of most of the big corporations, and so there are all these little small businesses that produce locally. If you want to buy a suit, for example, it's made 30 miles away. It's not made 4,000 miles away. And also, that most of these companies are worker-owned co-ops, and the ones that you can't do that for, like broadband, for example, would be government owned. It would be a municipally owned company.

Robert Atkinson: You can laugh at that, and you can go, "Oh my God, can anybody really [00:22:00] believe that?" but that is a new, emerging doctrine, if you will, of many people on the left.

Bill Walton: Well, a lot of people believe that. Elizabeth Warren is basically running on that platform.

Robert Atkinson: She's running on more than that, but she appeals to that, certainly to that. One of the things I have to say about Elizabeth Warren compared to some of the others, Elizabeth Warren actually does have an attempt to create a strategy to deal with the industrialization. I think that's [00:22:30] actually where the...

Robert Atkinson: Bill, you talked about free traders or... I think the emergent view now is going to be, the fault line is going to be, do you think you should do something to make American producers better and greater? There are going to be people on the left who think that, and there are people on the right who think that now, like Marco Rubio, for example, is in that camp. I think Elizabeth Warren is in that camp. Then there are going to be people on the other side who are just like, "No, we'll just do what we used to do, and don't worry about it."

Bill Walton: [00:23:00] You're watching The Bill Walton Show. I'm here talking with Dr. Robert Atkinson, and we are talking about politics in the United States as it relates to our ability to deal with the threat that China poses. We're just about to talk about a very interesting book that he wrote last year called Big is Beautiful.

Bill Walton: One of the issues that we're raising here is that the politics in the United States are broken into these different camps, and progressive localists believe that everything should be a small business. [00:23:30] You've written persuasively in this book that all the innovation, all the good jobs, most of everything we think of as prosperity, comes from bigger businesses, not small.

Robert Atkinson: Yeah. Again, there's this widely held view that if we all worked for small little businesses, we'd all be better off. There'd be more gender equality and racial equality and all the like, and less pollution. It's funny, when you look at the evidence, you look at actual data from the government, on average, that's not to say that every company [00:24:00] is like this, but on average, small businesses pay significantly lower wages, they hire fewer women, they hire fewer minorities, they pollute more, they cheat on their taxes more, they don't contribute to corporate social responsibility as much, on and on and on. If we had the same firm size as Canada, Canada has much smaller firms than we do, average incomes in the U.S. would be about 5% lower. A small business economy is a recipe for [00:24:30] not being competitive and being poorer.

Bill Walton: The third camp that you've mentioned, or the third school, is national protectionism. You point out there are both conservative and left-wing versions of this. National protectionism, is that what elected Donald Trump?

Robert Atkinson: I think so, sure. He appealed to that, and he had a wide-open field because he was competing against, if you will, old-fashioned globalists who [00:25:00] just assumed that China was like Canada. We should definitely have passed what's

called USMCA. We should definitely have an integrated North American market. I'm totally for that. If we trade with Canada, and even Mexico, we're all better off. That's not China.

Robert Atkinson: Trump was able to pivot on that. The problem, though, is that you can't build a thriving economy around protectionism, in part because many, many of these industries [00:25:30] need global markets to be able to innovate. You look at an industry, for example, like biotechnology. It costs \$2.4 billion to come up with a new drug. If you can't sell that drug around the world, you're not going to innovate. You're not going to put the 2.4 billion. You need to have all of those customers, so we need global integration. But where Trump is right, it has to be a level playing field. It has to be fair.

Bill Walton: One of the dividing lines is borders don't matter, and the other side is borders matter [00:26:00] a lot, and you need a national identity and you do need to think about yourself competing as a country. The national protectionists get that right, but they ignore things like the global supply chain and all the other complications. I think we're seeing this in the negotiations with China. It's not like all the widgets are made in China, we're going to slap a tariff on those widgets, they're not going to come in. Our manufacturing processes are all integrated.

Robert Atkinson: Very much so.

Bill Walton: Are you following what Bob Lighthizer [00:26:30] is doing, U.S. trade representative, and how he's working his way through that?

Robert Atkinson: Very much so. To give the Trump administration credit, they're the first administration that really has pushed back on China. China recognizes only one thing, and that's power. They don't recognize negotiation. They don't recognize "Well, let's try to work together." They just don't. They recognize power. Trump has recognized that's the reality. Now, the question is, is it going to work? I don't know the answer to that.

Bill Walton: [00:27:00] They also don't really recognize rule of law, especially our law, especially international law. You probably have heard that they call themselves the Middle Kingdom, and the Middle Kingdom extends to the ends of the earth, and the Middle Kingdom laws should apply everywhere and ours don't count.

Robert Atkinson: As my colleague and coauthor Mike Lind has argued, I agree with Mike, I think we're in the midst of a new cold war. [00:27:30] It's like the old cold war, only it's not necessarily militaristic. It is a cold war for global influence.

Robert Atkinson: What we did right in the first cold war, partly because of George Kennan in what was called the long memo. He said, "Our job with regard to the Soviet Union is containment. We're not going to invade them. We're not going to destroy them. We need to contain them, and we need to front them on every front." We

fought them in Africa. I don't mean militarily, but for hearts [00:28:00] and minds, for influence, for economic success.

Robert Atkinson: We're not doing that with China, and that's what we need to do with China. We need to make it clear that there's two models; there are going to be two ways in the world, two groups to lead, and we need to be the one that does that. That's what I'm worried about perhaps the most.

Bill Walton: Well, and you're not fighting a kinetic war. You're not fighting a hot war. You're fighting a cultural war, an economic war.

Robert Atkinson: An economic war.

Bill Walton: Across all fronts.

Robert Atkinson: And a war for influence and control. There are going to be spheres of influence that [00:28:30] China wants to extend into, like we see that now in Africa and some parts of Southeast Asia, and I think if they do that, they're going to hurt those countries. We need to-

Bill Walton: Yeah. I was talking with a couple friends out in our county about Africa. They were born in Africa, immigrated here in their 20s. They just came back from a trip to Africa, and they said what the Chinese are doing is stunning. In every country, they're infiltrating the infrastructure [00:29:00] and the business. Then, of course, they have, I guess, their Belt and Road strategy, and they're helping build ports. I love the, what is it, the debt trap that they're getting countries into.

Robert Atkinson: Yeah, absolutely. But where are we? Where are we? We need to be fighting. We need to be working to get those countries on our side.

Bill Walton: Where we are is we're talking about Stormy Daniels.

Robert Atkinson: Oh my God, I know.

Bill Walton: We're a silly country.

Robert Atkinson: I know.

Bill Walton: Our politics are [00:29:30] even sillier.

Robert Atkinson: We're looking inward at this silly stuff. Just look at the newspaper every day. 80%, 90% of the articles are about this kind of thing, whereas the Chinese are working on their 100-year strategy, as Mike Pillsbury talks about.

Bill Walton: Let's talk about the two camps that are really the viable ones. The ones that we talked earlier, there may be passions, but they're not real economic or national strategies. We've had the rise and fall of global neoliberalism, as you've called it, [00:30:00] which was the consensus, Reagan, Bushes, Clinton, Obama. Now we have Trump and Sanders, and they've blown up the idea that that's the only consensus there is. They see globalization as a force almost totally for the good.

Robert Atkinson: For the good.

Bill Walton: The neoliberals do.

Robert Atkinson: The neoliberals do, absolutely. Yeah.

Bill Walton: The point I think you've made is that when [00:30:30] we've lost all these jobs, the neoliberals say, "Well, it's because of productivity. If we just had better schools..."

Robert Atkinson: Yeah, this is what Larry Summers has written; if we just had better schools, that somehow we would not have a trade deficit with China, and everything would be great. This is, again, one of the more frustrating parts of the debate, where I really think that side of the debate has really fallen down intellectually.

Robert Atkinson: When you really [00:31:00] look at the data from the Bureau of Economic Analysis in the Commerce Department, which is the definitive data on manufacturing jobs and output, when you really understand it, it's very clear that about half of those jobs we lost were due to trade, and most of those were due to China. Those people on that side just refuse to do that, and so they just say, "Oh, it's productivity," high productivity in manufacturing. If that were the reason we lost three and a half million manufacturing jobs in the 2000s, why was manufacturing productivity in the [00:31:30] '90s higher, when we gained manufacturing jobs?

Robert Atkinson: Again, the evidence just doesn't support their view, but why do they keep saying it? Because if they admitted for even a moment that we lost half of our manufacturing jobs because of trade and globalization, they're afraid that they would embolden protectionism, which they hate. Well, guess what, it's already there because you denied reality, and most people, particularly people in the Midwest who face that reality, they're not stupid. They know what happened. [00:32:00] They're not taken in by this view it's all productivity. They know exactly what happened, and that's why they voted for Trump.

Bill Walton: I want to talk more about the national developmentism. I think we need a shorter term, though.

Robert Atkinson: Developmentalism.

- Bill Walton: Developmentalism. Okay. Well, thank you. I needed a translator. Expand on what that means.
- Robert Atkinson: The idea [00:32:30] is that... This is actually where President Trump got it right, one of the ways he got it right yesterday. When he spoke at the UN, he said what you should be focusing on as a national leader is your national well-being, and he's absolutely right. That's not to say you ignore global issues, but first and foremost you put national interests first. That hasn't necessarily been the case in the U.S. elites. They've tended to think, "Well, if we advance global interests, that's in our interest," and that's not always the case.
- Robert Atkinson: The second point of that [00:33:00] is this notion that you can't just leave it up to the market and say, "Well, the role of government is to make sure we obey the laws and we have good K-12 education." What people forget is the founders understood that. Alexander Hamilton is really the godfather of national developmentalism. Alexander Hamilton said, "We're way behind England. If we're going to be a thriving country, who can, by the way, be military strong so that we're not under the thumb of England and [00:33:30] Great Britain, we're going to have to have a developmental strategy."
- Robert Atkinson: Abraham Lincoln was a developmentalist. He said we need a transcontinental railroad and knit the country together. We need to have a land grant college in every state to help our farmers and our manufacturers. There's a long tradition of that, and that tradition has really been lost over the last 25 years, largely because you have these economists who come in and say, "Oh, the market works great."
- Robert Atkinson: I worked for a Republican governor once, and one of the things he understood was the market works great, but not necessarily [00:34:00] for his state. I believe the market works great, but we're not interested in maximizing global welfare. We're interested in maximizing U.S. welfare. That's the big mistake economists make, in my view.
- Bill Walton: How do the politics play out here? We talked about as not just a dichotomy, Democrat versus Republican. Is this idea gaining traction with Republicans or Democrats? Is there something [00:34:30] to be forged? Could we finally do something bipartisan?
- Robert Atkinson: Very much so, I believe. China is the instigator of that, if you will. Back in the Cold War, there was a reason our politics were much more aligned and less contentious, because we had a unified mission, and that was to not let global communism win. That brought both parties together, and it led to important things. Look back at Sputnik. In the 1960s, the United States government [00:35:00] spent more on research and development than every other country and foreign business in the world combined. That explains a lot. That explains why we led in semiconductors and internet and all that.

Robert Atkinson: To answer your question, yes, absolutely, you see both Republicans and Democrats beginning to reject that old view. I look at elected leaders like Marco Rubio from Florida, who's a Republican, Todd Young from Indiana, Mitt Romney, Josh Hawley from Missouri. [00:35:30] They're all beginning to say, "Wait a minute. What's more important here, freedom or liberty?" What I mean by that is we maybe need to have a little bit more activist government if we're going to keep our freedom, if we're going to keep national greatness, if we're going to defend our country. All of those members and others, and you see the same thing on the Democratic side, members like Chris Coons, for example, Sherrod Brown from Ohio. He's very liberal, but Sherrod Brown is talking about we need a national [00:36:00] industrial strategy to be able to compete with China.

Bill Walton: Well, you make the distinction between traded and non-traded goods, and that you're not talking about doing something that would be pervasive economy-wide. Rather, we'd be selecting industries that we would want to be supporting and working with. How would that play out?

Robert Atkinson: Well, I remember once I was debating a former Council of Economic Adviser in the Reagan administration, and he [00:36:30] accused me of industrial policy because I said we needed strong manufacturing. He said, "Well, why don't we have one for our barbershops?" I said, "Well, because you don't go to China to get your haircut." We don't need a barbershop policy.

Robert Atkinson: But we could very easily lose significant portions of our advanced industries. Good example of that is aerospace. Boeing is one of the best companies in the United States in terms of high-wage jobs, massive exports, lots of R&D. [00:37:00] China has a national strategy to basically get rid of Boeing and Airbus in China and replace it with their company; it's called Comac, which is a state-owned enterprise that is massively subsidized. Once they get China market, they're going to go to the One Belt One Road markets and subsidize those. They're not going to put Boeing out of business, but they could dramatically reduce Boeing global market share.

Robert Atkinson: We could see that in many other industries, biopharmaceuticals, advanced manufacturing, semiconductors, those industries where we [00:37:30] trade. If we lose those, what are we going to trade? Soybeans? Chinese tourists? That's not the kind of economy we want. We don't want to be an economy, as Alexander Hamilton said, of hewers of wood and drawers of water.

Bill Walton: The folks who believe just let the market solve all their problems, they also talk about something called market equilibrium, and that we're just supposed [00:38:00] to do business and compete, and the market will sort things out, and innovation is going to rise from that intense competition. You don't share that view.

Robert Atkinson: No. There's some good economists who've studied this. What those economists are saying is "Well, you don't want to distort allocation efficiency, and so if you

give a little bit of money to this sector, output will grow a little bit more. The economy is in this natural equilibrium. [00:38:30] Everybody is setting prices based on competitive markets. Everything is working well."

Robert Atkinson: The problem is that allocation efficiency gains are very small, and what are called dynamic efficiency gains are very big. In other words, most of the advancement of an economy doesn't come from things being in equilibrium. It comes from things being in disequilibrium. It comes from new industries. It comes from disruptors. Think about a company like Uber, who's disrupted the taxi market. Airbnb disrupted. It's [00:39:00] disruption that you want. You don't want equilibrium. Equilibrium is a death knell. That's the worst thing you could happen in an economy.

Robert Atkinson: You want government to be, number one, getting out of the way, making sure that their regulations and taxes and others don't inhibit disequilibrium and disruption, or what the famous economist Joseph Schumpeter called creative destruction. That's how you grow your economy. But there's a good role for government to help with that process and to support technologies and other things that would make it so [00:39:30] that we can disrupt.

Bill Walton: I think the other point is that in a world of perfect competition, you compete away all the "excess profits," and so there's nothing left-

Robert Atkinson: There's nothing left.

Bill Walton: ... to invest in R&D and innovate with.

Robert Atkinson: Right. You look at a company like Intel. I just read the new biography of Gordon Moore, one of the founders of Intel, named Moore's Law for semiconductors getting better. When you read that book, one of the things that is striking is Intel would make pretty high profits on this new generation of chip, [00:40:00] but they didn't then give it all to the shareholders.

Robert Atkinson: What they did is they took that money and they made another big, giant bet. They bet the company every five years at Intel. They took that money they made from being able to make a significant rate of return on those chips, and they put it into this next great, amazing breakthrough. That's why the chips today are a million times faster than the chips of 30 years ago. You compare that to the dry cleaning industry. They don't make any money, they don't innovate, because the margins are too [00:40:30] low.

Robert Atkinson: Again, it's this mistake that neoclassical economists say that high margins are a problem. High margins are only a problem in industries that harvest the money and send it back to the shareholders. If you have high margins and you're reinvesting it in innovation, that's good for the country. We shouldn't be stopping that.

Bill Walton: We talked about this before we got on the show, this idea we're going to break up Google and Facebook and Amazon-

Robert Atkinson: Amazon.

Bill Walton: ... and we're going to do all [00:41:00] that. You've written some scary stories about things that have happened in the past with AT&T and RCA, and what happened when they were forced to give up their licenses. It really created companies and competitors overseas.

Robert Atkinson: Yeah. What people forget about that is we had the same dynamic going on in the '50s; "Oh, we're worried about these big tech behemoths." People forget that RCA, Radio Corporation of America, actually an interesting story, a company that was created by the U.S. government in World War I because [00:41:30] the radio technology was controlled by the Europeans, and the Italians in particular, Marconi. We, the government, encouraged a couple of radio firms to merge to get scale. It goes back to big is beautiful. That was how RCA came about.

Robert Atkinson: RCA had the color television patents, and in an antitrust ruling, they were forced to give those away to every American company. They used to license that to Zenith. They wouldn't hoard it. They would license it to their competitors. [00:42:00] Now they had to give it away for free. To keep their licensing revenue up, they licensed it to, guess who, Sony.

Bill Walton: The Japanese.

Robert Atkinson: The Japanese. So much so that David Sarnoff, who was the CEO, won the order of Japan, the Rising Sun Order, because he had done so much for the Japanese economy.

Robert Atkinson: Same thing with Xerox. Xerox was forced to give away, for free, all of its patents, all of its blueprints, all of its drawings, for free. Guess who got [00:42:30] those. Ricoh, Canon, all the Japanese copier companies. Within five or 10 years, they took Xerox market share in half. That was all done because "Oh, we don't want big companies. They have too much power."

Robert Atkinson: I think we risk the same thing today. If you look at companies like Amazon, Google, Facebook, five of the top 15 companies in the world in R&D are American internet and software companies. They're investing enormous amounts [00:43:00] of money. Again, what's the problem? If they were taking the money and just lining the pockets of their shareholders. But they're reinvesting that money.

Bill Walton: Where is the Trump administration on antitrust?

Robert Atkinson: I think the Trump administration, they're looking at this. I think the politics pressures them to look at this. They're investigating. I would be hard pressed to really believe that they're going to engage in any sort of serious action, particularly breakup. Now, that [00:43:30] could change, very much so, depending if the Democrats get elected in 2020 and who's the nominee.

Robert Atkinson: One of the things I think a lot of Democrats are running on is this notion of what Robert Reich, famous liberal iconoclast, pundit now, he's saying what the Democrats need to do is focus on pre-distribution. What he meant by that is... Redistribution is things like we'll have a higher minimum wage or we'll have better welfare payments or free education, better healthcare. Reich is saying we need [00:44:00] pre-distribution, which is if we could reduce corporate profits, then we'd have lower prices and people would be better off. That's his whole point.

Robert Atkinson: A good case that he and others use, the airline industry is an example of that. Well, we've written about that in our book. It's interesting, in the airline industry, their profits are below the profit averages for the Dow Jones, and their investment rates are among the highest in the U.S., their productivity rates are among the highest, and their price declines are among the fastest. [00:44:30] Why is that a problem? A lot of the anti-monopolists or what we call neoBrandeisians on the left just want to break up big companies, even if the big companies are doing everything we want them to do, invest in capital, reduce prices, and drive productivity.

Bill Walton: You mentioned Marco Rubio. He's put out a long report on dealing with the China threat. What's the gist of that, and [00:45:00] how is that playing out politically?

Robert Atkinson: Rubio, obviously he ran for president against Donald Trump. He has really, I think, tried to distinguish himself and this new camp around saying to Republicans, "Look, we've got to be focused on competitiveness, we've got to be focused on the China threat, and that means bucking some of the old libertarian doctrine." I give him an enormous amount of credit for fresh [00:45:30] thinking and new ideas.

Robert Atkinson: The last thing in the world Marco Rubio is is a big-government regulator. He's not that. He respects business. He respects markets. But he also has the insight, which is correct, that we need to do more if we're going to compete with China, and we have to be able to win that fight.

Robert Atkinson: What's interesting, though, Bill, you talked about being a recovering libertarian. The biggest line of attack or source of attack for Senator Rubio has been some libertarians who say he's selling out the Republican Party. I think that's a huge mistake. I don't think at all [00:46:00] that's what he's doing. I think he's modernizing the party for a new era, just as the Republican Party has done consistently over the last century.

Bill Walton: Yeah, he was attacked by my buddy Veronique de Rugy. I read that with great interest. Yeah, he's taken a lot of heat for this.

Robert Atkinson: Yeah. It boils down to this point. A lot of libertarians, they can't distinguish between light-touch, [00:46:30] important, strategic government help with heavy-handed Gosplan Russian socialism. For them, it's all in the same bucket. That, to me, is just a failure of thinking. There's certain things the government can and should do, like an R&D tax credit. That's pro-market, pro-innovation. That's not socialism.

Bill Walton: You're watching The Bill Walton Show. I'm talking with Dr. Robert D. Atkinson, and we're talking about industrial policy, China, and how we progress in America to deal with [00:47:00] the threats. It turns out we're a little bit in Charlie Brown mode. We've looked at the enemy, and it's us.

Robert Atkinson: Absolutely.

Bill Walton: If we can get out of our own way politically. One of the things that I think is driving maybe Marco Rubio... A friend of mine, Mike Needham, ran Heritage Action, and he's now his chief of staff. One of the things that our economic policy has done in the last 50, 60 years, focused on supply side, is we focused on consumer prices and we focused on deficiency and we [00:47:30] focused on basically having open markets, globalism, but we didn't focus on the people working in the factories. We didn't focus on people. As a consequence, we've hollowed out a lot of that. I think they're striking a political nerve with this-

Robert Atkinson: Absolutely.

Bill Walton: ... as you've been talking about. But I've been trying to formulate in my mind what an economic policy or what an economic theory looks like that explicitly considers the workers or the consumers or the people, [00:48:00] when most of our supply-side demand curves are based on prices of things and services.

Robert Atkinson: Again, there's this view that you're either a producerist, which is really what the Chinese are.

Bill Walton: A producerist?

Robert Atkinson: They're producerists. They immiserate their consumers. They don't care what their... They drive their currency down. They tax people way too much to subsidize their company. They're total producerists. You think about that on one side, and we're total consumerists [00:48:30] on the other. The only thing that matters in the U.S. is consumer welfare. If you can make that widget five cents cheaper, move it offshore, doesn't matter.

Robert Atkinson: The reality is you've got to do both. You've got to think about both. Both consumer welfare and producer welfare are an important component of a

successful economy. We've gone too far over to the consumer side, where we just completely ignore produce welfare, and by that I mean the worker welfare. Oren Cass, [00:49:00] he was domestic policy advisor on the Romney campaign, has an excellent book called The Once and Future Worker.

Bill Walton: Yeah, I've read it. We've had him on the show. Terrific book.

Robert Atkinson: He makes an excellent point that we've just ignored worker welfare and in place put consumer welfare. Again, that equilibrium has to go back to the middle, just like on free trade. We have to come back to the middle on many of these things.

Bill Walton: Well, he's taken a lot of heat for that as well.

Robert Atkinson: Oh, he has. He has.

Bill Walton: I'm not so sure we shouldn't rename industrial [00:49:30] policy.

Robert Atkinson: We should.

Bill Walton: What's your term for it?

Robert Atkinson: A bunch of terms, innovation policy, competitiveness policy.

Bill Walton: I think we need to drop the industrial part of it. It hearkens back to-

Robert Atkinson: Old, dirty factories making metal. I couldn't agree more.

Bill Walton: Monopoly.

Robert Atkinson: Monopoly, guy with that hat.

Bill Walton: Let's swing back to China and what are some of the specific things we can do to deal with China today. What's in our arsenal now to [00:50:00] address their aggression?

Robert Atkinson: Well, there's two things we've got to do with China. Bill, you alluded to this at the beginning. We need to do a lot better job at home supporting our companies to compete with China. We can talk about that a little bit later. If all we do is try to constrain China, it's not going to be enough, but if all we do is work at home, like people like Larry Summers says, improve K-12 education, that's not going to be enough either. [00:50:30] You've got to do both.

Robert Atkinson: What do we do on China per se? There's a number of different things we need to do. One is we need to pressure them to roll back some of their worst mercantilist practices. One of the things about this is in the trade community, they're based upon rules-based trade; "Well, as long as they obey the rules..."

The problem is there are no rules in China. [00:51:00] The rules in the WTO don't really constrain China.

Robert Atkinson: What we need is results based... We need to, number one, focus on a results-based approach to China. Here are the results we want, and they're all completely measurable. One is no more cybertheft. We know exactly when the Chinese come in and steal our... The NSA and others in the intelligence community know that. No more cybertheft, no more forced technology transfer, no more forced joint ventures in China, and massive reduction of their subsidies. These are all measurable things that we could do, and we need [00:51:30] to hold them accountable for that.

Robert Atkinson: Now the question is, how do we do that? The Trump administration has used tariffs as a way to do that, and maybe they'll be successful, maybe they won't. I don't know.

Bill Walton: Tariffs are tough.

Robert Atkinson: I'm skeptical they're going to be successful. What we argued-

Bill Walton: I view the tariffs as just a way to get their attention.

Robert Atkinson: It does get their attention, but I don't know that it's enough. I was co-chair of this U.S.-China experts group in the Obama administration, U.S.-China Innovation group, and I was in a meeting [00:52:00] with a high-level Chinese official in Beijing, part of one of these delegations. I was asking him about the WTO, and he basically said, "The WTO, for us, was a get-out-of-jail-free card, because prior to the WTO, America could do whatever they wanted against us. The WTO constrained you more than us," he said.

Robert Atkinson: Then I said, "Well, aren't you worried about us putting pressure on you?" He said, "I'm not worried about the G-2." What he meant was... "I'm not worried about the G-20, because there's 19 other countries and we play each other [00:52:30] off. What I'm worried about is the G-3." I said, "What do you mean?" He goes, "Really what keeps us awake at night is Europe and America ganging up on us."

Robert Atkinson: I think that's what we have to do. The Germans are concerned about this. The French are concerned about this. The Japanese are deeply concerned about this. I think we need to build a global alliance, number one. Number two, we have to make the case, which unfortunately Trump has not made adequately, China is playing not by the rules. We need to get everybody to understand that around [00:53:00] the world so that they're on our side. When you get Xi Jinping going to Davos and getting applause for being a globalist, give me a break.

Bill Walton: How recently was that?

Robert Atkinson: That was about a year and a half ago.

Bill Walton: Wow. That was after he declared himself president for life.

Robert Atkinson: Yes. The Davos men went there and they applauded him. "Thank God Xi Jinping is a globalist. Trump is a protectionist." That is an utter failure on our part to allow that message to resonate. Xi [00:53:30] Jinping is the farthest thing from a globalist. What globalization means for him is dominating the global economy.

Bill Walton: The Middle Kingdom.

Robert Atkinson: Yeah. Exactly. That's-

Bill Walton: Globalism where we're in charge of everything.

Robert Atkinson: We're in charge. That's globalism. Exactly.

Bill Walton: We've just got to define the term.

Robert Atkinson: Yeah. They didn't define the term the right way.

Bill Walton: President Trump is doing a lot of the right things, I think, on trade, but he's not very good at building a consensus [00:54:00] with our European partners on how to deal with China. That's the one thing that we're really missing, because they all are dealing with the same issues.

Robert Atkinson: They absolutely are. When he said that Germany is a bigger problem in international trade than China, that was a huge mistake.

Bill Walton: Well, he says many things you wish you could say, "Just take that back."

Robert Atkinson: Take that back. Delete it from the tweet.

Robert Atkinson: The reason that was such a problem, number [00:54:30] one, besides it being wrong, Germany, fundamentally, they don't cheat. They compete really well. They don't cheat. China cheats. The second thing is, why would we want to alienate the Germans? We need the Germans on our side to fight the fight, just like they were on our side in the first Cold War.

Bill Walton: When can we get you nominated to be the next Secretary of Commerce or maybe State?

Bill Walton: We've got to wrap up here, but one of the things that maybe we can deal with [00:55:00] in a future show is that we've been so balkanized in the government. State Department doesn't talk to Commerce, doesn't talk to Defense. Yet we need a unified approach to this if we're going to be successful.

Robert Atkinson: Yeah. I remember once an effort called the Strategic and Economic Dialogue, the S&ED. I was in one of these meetings, and I watched the Chinese delegation. It was a day-long meeting. Every single Chinese person made the exact same point. It was almost like if you deviated from that, they wouldn't let your kids [00:55:30] into college or something. It was pretty clear everybody was on message. Then I watched the U.S. teams come in from Treasury and... All a different message. I understand how hard it is for any White House to get message discipline because the agencies are...

Robert Atkinson: One of the things that we could do, for example, is have a much stronger... One of the thing we've called for is a much stronger National Security Council focus on economics and technology. National Security Council historically has been focused on military [00:56:00] threats, not on economic threats. That's something a new administration could and should do, and really try to bring discipline to all the agencies around that one core direction we have to go.

Bill Walton: Dr. Robert Atkinson, thank you.

Robert Atkinson: Thank you, Bill.

Bill Walton: This has been fascinating. I wish we had more time. I hope you'll come back.

Robert Atkinson: I'd be happy to do it.

Bill Walton: We've got a lot of other things to deal with.

Bill Walton: That's it for now. Thank you for joining us, and we'll see you next on The Bill Walton Show.

Speaker 1: [00:56:30] Thanks for listening. Want more? Be sure to subscribe at thebillwaltonshow.com or on iTunes.