

Beating China

America needs a proactive industrial policy to win the fourth industrial revolution.

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We need to rebuild the American economy, and we can only do that with a visionary strategy that galvanizes the imagination of Americans, like the Kennedy Moon Shot or the Reagan Strategic Defense Initiative.

Let's put it very simply: the numbers show that the Trump policy toward China was a catastrophic failure. And with all due respect to Curt Mills, if we get more of that we'll have more catastrophic failure. We're now importing over 30% more from China than we did in January 2018 when Trump imposed tariffs. Tariffs are a really lousy way of dealing with this kind of problem: they're good for micro-economic dumping issues, but they're very ineffective at a macro level. As for technology suppression, China built 70% of the world's 5G networks and is proceeding to build the application on top of that which constitutes the fourth industrial revolution.

We can do better than China. We're better equipped to innovate than China. But we're not doing so, because we're crushed by a technocratic elite which has sucked the marrow out of the United States economy and generated enormous wealth doing things that, for the most part, harm us. Nothing short of an intervention by the federal government, namely an industrial policy, will turn that around.

That's not a classically liberal solution. Industrial policies are dangerous—they lead to rent-seeking behavior, corruption, and too much state

power. But in a war they become necessary, and we've got the economic equivalent of a war going on.

The thing that worries me the most is that the knuckleheads who spent \$6 trillion on forever wars and gutted our military by frittering away our resources will steer us into a confrontation with China that will lead to a war that nobody can win. If we spent a tenth of that 6 trillion on high-tech weaponry, we wouldn't be worrying about China's hypervelocity missiles or anything else like that.

Whereas if you try to force the independence of Taiwan, any Chinese government that wants to rule China will use military action, Communist or not. The Chinese Communist party is Communist the same way the Mafia is Catholic: they take it very seriously, but it is of very little practical importance.

To run a Chinese empire you have to suppress rebel provinces, and so the only thing we can do with Taiwan is to maintain strategic ambiguity and raise the price of the Chinese taking it by force, which we have no means to stop at this point short of a nuclear war. Dissuade them from doing it, maintain Taiwanese democracy, and walk the fine line. John Bolton would force the question and get a lot of people killed—if you don't believe me read Admiral Stavridis's marvelous thriller *2034*. Spoiler alert: we blow up a bunch of their cities, they blow up a bunch of our cities, and we're back to square one.

The Great Leap Forward

Now let me talk about the fourth industrial revolution, which is what's really critical here. Wars are not won by stealing data. They're not won by spies. They're won by logistics in depth and the willingness to

prevail. The first industrial revolution began when James Watt sold his first commercial steam engine in 1776. The fourth industrial revolution began when China responded to the COVID-19 pandemic by using artificial intelligence applied to massive datasets to predict potential outbreaks and use forensic testing plus selective lockdowns to shut down the pandemic. So China was the first industrial country to come out of the pandemic.

As a result they had a quantum leap in their relative power, and they are now proceeding to roll out the technology associated with this. This is the real science fiction stuff—we're talking about 5G permitting groups of industrial robots to communicate on the shop floor and program themselves. Smart logistics allow individual objects to be tracked from mine to factory to warehouse to ship, back to warehouse, to truck, loaded onto autonomous vehicles and controlled all the way. It allows AI servers to optimize urban traffic and match every passenger and package to a conveyance. It allows sensors at the base of soybean plants to communicate with drones that deliver fertilizer and pesticides and direct autonomous tractors to harvest them. We're talking about an explosion of productivity like that of the first and second industrial revolutions.

We won the second industrial revolution. Now listen to what the Chinese say about this: the generals whom Michael Pillsbury got to know are one thing. But the people running Chinese economic policies now are people I know, because I worked with them on Wall Street. They're U.S.-educated, thoroughly modern technocrats with ambition the size of Mount Everest. One of them is a fellow named Yifu Lin. He was chief economist of the World Bank, has got a Ph.D. from the University of Chicago, and he just wrote a book about why China is

going to lead the fourth industrial revolution.

Lin says, we're in the same position against America that America was against England in the 19th century. England had all the technology. Thomas Edison didn't invent the lightbulb: Joseph Swan, a British physicist did. Edison stole it, got sued and had to pay out a gigantic settlement. What Edison did was create an industrial-scale laboratory which went through 5,000 materials until they found the filament that would make it last ten times longer than Swan, making it commercially viable.

Andrew Carnegie made more steel than anyone in the world—he didn't invent the Bessemer process. Joseph Bessemer did. England had all the technology; America either borrowed it, bought it, or stole it and had the entrepreneurs and the logistics to realize it in depth. That is how China sees itself against the United states.

Yifu Lin says: *they're going to try to suppress us. They don't want us to rise, just the way England tried to suppress Germany and the U.S. But look at our human capital.* Human capital is what drives technology. China is producing 7 times as many engineers as we are per year and 3 times as many STEM Ph.D.'s; they have 1.4 billion people.

Yes, it's true that Chinese culture tends to produce conformism. But among that many people, you do have a lot of brilliant innovators in absolute terms. So that's what we're up against. The hypervelocity missile is not that important strategically, but it did represent a point at which we began to understand that yes they *can* innovate. There are some key technologies where they are years ahead of us.

And so, though I support President Trump, though I voted for him twice,

though I defended him against all of the nefarious deep-state attacks, when Trump said that the Chinese just got where they were by stealing stuff from us...the main thing the Chinese stole from us was the great idea that made the Reagan revolution work: the idea that you can have dual-use technologies which both give you button guns and butter. They foster civilian productivity. You use them in the military, but they pay for themselves 10 times over—just like the Apollo program did, just like the strategic defense initiative did. Every single invention of the digital age, no exceptions, started with the DARPA project. They were all funded by the Department of Defense.

Great Again

That was when we had a Department of Defense run by people like Harold Brown or James Schlesinger, who used the defense budget to push the envelope of physics, the better to win wars. They got entrepreneurs to commercialize these things not by betting on the entrepreneurs, but by covering the costs of the fundamental research. That's it.

Now we've got a Pentagon that's basically a giant pork barrel for defense contractors who sell the same 20-year-old garbage year in and year out and have no interest in innovating. The Chinese have stolen the American approach: they want to be Reagan in the Cold War against a sclerotic Soviet Union. Now, they're not as good at it as we are, and my argument is we have nothing to learn: we only need to remember.

When I was a kid, you know back during the first Reagan Administration, I did some consulting for the National Security Council. I wrote a little paper which made it into a Reagan speech, saying, *SGI will*

pay for itself just like the Apollo program did. We believed that. We innovated.

So: what do we need? We need an industrial policy. it's going take about a trillion dollars and 10 years to rebuild our industrial base, after 20 years of the American elite shifting everything to software and destroying our skill base, our industrial communities, our manufacturing companies, and so forth. A trillion dollars—that's not a lot of money. We're going to need apprenticeship programs like the northern Europeans to take kids who might be wasting their time doing a gender studies major and teach them a trade where they'll probably make three times as much money. German auto workers make twice as much as American auto workers, by way of example.

We need a defense Education Act like Eisenhower introduced after Sputnik, something that gives people scholarships for engineering and other things which beat National Defense requirements, as opposed to critical studies theory. We know all these things because we've done every single one of them. We only have to dust off the old ideas and get the band back together. And what I put to you is that the conservative movement needs a positive program, a set of solutions to galvanize the American people, capture their imagination as Kennedy did when he pointed to the moon, as Reagan did when he promised to defend the homeland against enemy ballistic missiles. We need a positive view, we need a can-do approach, and we need to found it on the proven track record of the United States of America in pioneering the future for the world.