

Charting a Path to American Renewal

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Even before the outbreak of COVID-19, America's future seemed, to many, to be in the balance. For over a decade, the rise of China and the shifting distribution of global power called into question America's international position, while expanding debt and deficits, social injustice, and a persistent opportunity gap across segments of American society posed serious domestic challenges. Even before a global pandemic struck, too many Americans lacked confidence in the direction of their country.¹

COVID-19 intensified many of those preexisting concerns and made the path forward more treacherous and harder to discern. The massive relief packages passed through Congress and the rapid monetary policy response were much needed and laudable, yet the economic hole remains deep. Indeed, the scale of human and economic devastation is unmatched in our collective memory. We continue to discover how this experience will disrupt our society and what the second- and third-order effects of the policy response will be. Given these conditions, the national recovery from the pandemic will be long and uneven.

The road ahead will test America's resilience and its place in the world, but if we take the right steps, it can lead to national renewal. As our nation recovers, America's leaders should also begin shaping a "new normal" that not only reduces the tremendous uncertainty and economic devastation brought about by the pandemic, but also renews the core building blocks of American might.

This chapter will focus on two such foundational elements: our economic vitality and technological leadership. These have historically been essential elements of American strength. They remain critical as the country recovers from the pandemic and comes to terms with the accelerating convergence of technology, economics, and national security. As the White House's 2017 National Security Strategy observed, "economic security is national security."² America needs a policy agenda to accommodate that reality and ensure that the United States emerges from this crisis with its economic and technological power on the rise.

The Road Ahead

The combination of a public health crisis, a massive economic downturn, and social and political unrest would pose a daunting challenge in any time, but especially now, as America comes to terms with fundamental changes to the world at large. Many are rightly focused on keeping their heads above water and navigating the recovery. Yet we must also keep our eyes over the horizon.

We have entered a new world of geopolitical and geo-economic competition. National security and economics are converging, motivated by three trends: (1) the race to develop new technologies, which offer significant economic and national security winner-take-all benefits; (2) the interdependence of global economies and the network effects that creates; and (3) the ubiquity of cyberspace, which has been a great driver of prosperity and opportunity but continually introduces new vulnerabilities.³ At the same time, we are confronting the rise of China as a significant force in the world and as a strategic competitor.

These challenges came to a head in the years following the 2008 financial crisis. In the lead-up to that inflection point, intellectual property protection, fighting illicit finance, and counterterrorism efforts were the primary focus for those of us who worked at the intersection of economics and national security, including for my colleagues in the

Treasury and Commerce departments, as well as the White House.⁴ Export controls on technology bound for China drew some attention, but high-tech economic competition with China was a relatively minor issue at the time.

In the decade that followed, China became one of the defining challenges of U.S. policy. China emerged as a major rival power, and the global economy became a battleground of strategic competition. The divergence in economic performance between those who held assets and those who did not, meanwhile, expanded the opportunity gap—a root cause of so many of our domestic challenges today. Though the response to the financial crisis was strong, policy makers for over a decade failed to anticipate or mitigate the coming challenges or set the conditions for sustained American strength.

As a result, America was moving into a new reality; the outbreak of the coronavirus only accelerated its arrival. It caused a global shutdown of economic activity, which in turn triggered a collapse in income. At the time of writing, my colleagues at Bridgewater estimate corporate income losses of about \$17 trillion globally and \$4 trillion in the United States through 2021. By our estimates, America took a roughly 15 percent hit to growth, and it likely will not recover economically until well into 2021.⁵ At home, the pandemic hit the worst-off hardest, and those without a college degree will suffer more than those with a degree. Interstate economic competition also appears more acute than before. We can see an accelerated move toward more resilient supply chains and deglobalization, and relations between the U.S. and China, already on the wane, have degraded further.

Therefore, as we recover from the economic and social devastation of COVID-19, it is imperative that we recall the lessons of the last crisis and take steps now to shape the future. Fortunately, the United States is uniquely well-suited for the task ahead. Throughout our history, we have shown a distinct capacity for self-renewal.⁶ The malaise of the 1970s—marked by the oil crisis, stagflation, and a loss of national confidence—gave way to the resurgence of the 1980s, the fall of the Soviet Union, and America's ascent to the pinnacle of the world order. We cannot recapture the unipolar moment. However, just as the United States leveraged its unique strengths and international position to become the global power, so too can we renew ourselves and adapt to a changing world today.⁷

The Building Blocks of National Renewal

America's leaders can renew the country's position in the world by recognizing the core challenges to our national power and carrying out the hard work to address those challenges and build a stronger national foundation. The roots of America's renewal will always be the values and principles that make it exceptional. Renewal will also take a sustained commitment to peace through strength and shared economic prosperity, which have ensured this country's greatness for years. But Americans should also look to a different source: the power that resides at the intersection of national security and economics.

The global economy is an arena for ever-increasing international competition. Other countries, especially China, have a well-documented strategy for winning this competition, and the United States must likewise develop a plan to stay in the game. The Trump administration took the important first steps of recognizing the realities of strategic competition with China, as well as the importance of economic security. Because America's economic power underwrites its national security, we must do more to strengthen the building blocks of that power: our scientific and technological leadership, our central role in and influence over the global economy, our network of like-minded allies and partners, and our leadership of international institutions.⁸

A strategy for renewing America's economic might should have at its center a principled national innovation policy. Our leadership in science, technology, and innovation has long propelled economic dynamism, contributed to military supremacy, and bolstered American national security. Yet that leadership is in doubt. China has systematically set about developing world-class indigenous technological capabilities and shaping global technology standards. It pours funds into research and development and has been accused of using industrial espionage to augment those efforts.⁹ Meanwhile, U.S. federal R&D spending recently hit sixty-year lows as a percentage of GDP and as a share of national R&D funding.¹⁰

It is tempting to look with despair at the scale, intent, and progress of Chinese investment in new technologies. There is much to be learned from their evolving model, but America enjoys powerful advantages in this competition.

“Innovation,” the British author Matt Ridley observed, “is the child of freedom and parent of prosperity.”¹¹ Through its open capital markets, entrepreneurial ecosystem, and world-class human capital, America has a unique capacity for broad-based scientific and technological development. Policy makers’ challenge will be to preserve and build on that foundation with a policy of innovation leadership.

Mindful of the risks of cronyism and capital capture, a responsible national innovation policy ought to adhere to an explicit set of principles: (1) support U.S. companies in sectors with winner-take-all structures or large first-mover advantages; (2) fund and promote the development of nascent technologies or capabilities with asymmetric upside; (3) support domestic development in sectors or technologies where foreign firms are highly subsidized by U.S. competitors; (4) prioritize technologies or capabilities with significant strategic importance; and (5) harness the private sector and market forces.

The federal government should tread lightly, but quickly. The costs of losing our technological edge would be immense. Global leadership of high-tech sectors often goes to whoever achieves market position first, and new civilian technologies have significant military or strategic implications. Being first to scale in technological development is, in other words, a matter of both national import and national security.

Indeed, the pandemic has made plain the importance of innovation. We can already see it accelerating technology adoption in fundamental ways. Businesses have shifted their operations and come up with creative ways to connect with employees and clients through technology. Telehealth, online education, even congressional hearings held over Zoom point to the value of new network technologies.

That rapid innovation has been critical for the recovery so far, but the preservation of America’s innovation leadership will require a long-term effort to support the development of emergent technologies that have outsized economic and national security implications. In other words, the federal government should enact a step change in national innovation activity. It should at least double funding for R&D, including for basic science research, and expand access to cloud computing, data, and other resources. And it should pursue R&D priorities with the dedication that drove the early space program.

The federal government should also look to harness America’s uniquely dynamic capital markets. In the concurrent efforts to develop a vaccine under Operation Warp Speed, we can see the power of public-private partnership in pursuit of scientific and technological breakthroughs. Policy makers should consider new approaches to harness private capital, such as first-loss funds, where the government would provide initial investments and accept risk for a larger share of potential losses. Expanding R&D tax credits could similarly motivate greater business investment, as would removing regulatory barriers and occupational licensing requirements. Moreover, the federal government should play the role of convener and facilitator, helping academia, the private sector, and in some cases foreign actors coordinate their activities.

To innovate, America needs innovators—home-grown talent but also high-skilled immigrants. Providing good educational and training opportunities to Americans and attracting foreign talent are economic and national security priorities and should be treated as such. Although a small minority of foreign students and researchers may pose security risks, those concerns can be mitigated by strong safeguards to protect IP, research data, and materials. Continued efforts to enforce disclosure and promote transparency and reciprocity will be key as well.

Likewise, the government can do more to respond to threats to U.S. investments and technologies while protecting American innovation. Rival powers propose alternative models of data governance and work to co-opt international organizations for their purposes. Indeed, they aspire to supplant America as the innovation hub of the world. They challenge American leadership through anticompetitive policies and forced civil-military fusion, as well as creative efforts to influence international norms, circumvent American sanctions, and build economic networks of their own.

To address these actions by competitors, the United States should adopt an even more strategic approach to economic statecraft. America possesses a diversified and uniquely effective kit of economic tools. I saw firsthand in government just how effective these tools can be when well-managed, used together, and wielded in service of America’s national interests. The challenge now is modernizing that toolkit and using it effectively. The U.S. government should adopt new approaches to tracking incoming investments, recognizing that adversaries have grown more precise and

creative. It should evolve export controls in line with recent legislation and track and adapt to cryptocurrencies and adversaries' increasingly complex statecraft. The private sector should also step up. The more we can police and protect ourselves, the more secure U.S. technologies and industries will be.

In pursuing such actions, the United States need not go it alone. American leadership of international organizations and its network of like-minded allies and partners are sources of great national power. No other country or coalition can take America's place; we ought to preserve and leverage those relationships.

Trade and investment relations can be understood through the lens of concentric circles. At the center sit trusted partners, such as the Five Eyes and other close allies, with whom we can safely engage in almost all areas. Next stand reliable trade partners. At the outside are those countries, including China, on whom we cannot rely for critical goods, such as pharmaceuticals or defense capabilities, but with whom we can trade and invest in most arenas. Firms have already begun to diversify their supply chains in line with such a vision, and policy ought to adopt this view as well.

We should continue working with like-minded allies and partners in those two center circles to advance shared principles and to establish new international R&D and innovation initiatives. A coalition of democratic states, for example, could promote alternatives to Huawei's 5G technology and offer development and technical assistance for countries that turn away from Huawei's technologies.¹² There is already international momentum in this direction. Many of our partners and allies have taken steps to secure their own supply chains and networks and move away from dependence on China.¹³ Similarly, ensuring internet governance, technology, and public health standards evolve in line with shared principles will support domestic innovation and promote respect for the rule of law, freedom, and property. The United States should work to lead and reform major international organizations, including standards-setting bodies, to that mutually beneficial goal. It should also expand trade and investment relationships with like-minded states—a powerful tool for shared prosperity and influence.

Finally, to modernize its policies, the government would likely need to modernize its policy making. It should adopt structural and process reforms that break down the longstanding bureaucratic barriers that have limited policy makers for decades. No matter who wins the November election, the next administration should establish a bipartisan commission to study these challenges and identify reforms that would establish clearer policy-making authorities in the realm of economic competition as well as mechanisms to coordinate R&D across the innovation ecosystem. There is not one clear solution here, so a careful organizational review is in order.

Personnel reforms would likewise be in order. The goal should be to attract, retain, and train people with different profiles: lateral, creative, out-of-the-box thinkers as well as substantive experts, particularly in science and technology. To get the right policy, government needs the right people around the policy-making table.

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This is an ambitious agenda, and it would have been so even before the spread of coronavirus. But America can ill-afford to lose its innovative capacity, its economic influence, or its position as the leader and center of gravity of the international community. These strengths underwrite America's security and prosperity—and that of the world. Now, in an era of great-power competition, they have only become more vital to American power.

As we chart the course of recovery from the COVID-19 pandemic and its economic fallout, we should not lose sight of the value of American leadership. For the past seventy years, America's pursuit of primacy has enabled the greatest stretch of peace and prosperity in human history. American primacy and internationalism shaped and upheld the liberal economic and political order that set standards of behavior and promoted democratic values that are good for all people and countries. It ensured no foreign power could credibly threaten the United States or challenge that order and fostered a network of willing allies and partners.

The world ahead may be uncertain. It may even be trending toward multipolarity. We should see this reality not as a threat but as a wake-up call. The path of U.S. renewal is about much more than recovering from the travails of the pandemic. It will depend also on how we apply America's resources and ingenuity to building our own capacities—the things we can most control and influence. The pandemic challenged Americans, and they have answered the call. In the years to come, our leaders will need to muster that same seriousness of purpose for the renewal of American primacy. Achieving this goal will require ambition and sacrifice, and it is worthy of both.

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- ¹ Kim Parker, Rich Morin, and Juliana Menasce Horowitz, "Looking to the Future, Public Sees an America in Decline on Many Fronts," Pew Research Center, March 21, 2019, <https://www.pewsocialtrends.org/2019/03/21/public-sees-an-america-in-decline-on-many-fronts/>.
- ² The White House, *The National Security Strategy of the United States*, December 2017, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.
- ³ See, for example, Cyberspace Solarium Commission, *Report of the Cyberspace Solarium Commission*, March 2020, 8, <https://www.solarium.gov/>.
- ⁴ At the time of the last crisis, I served as undersecretary of treasury for international affairs. In that and prior roles, as deputy national security advisor for international economics and before that as undersecretary of commerce for industry and security, I worked at the intersection of economic and national security policy, directing export controls and helping with the Committee on Foreign Investment in the United States (CFIUS) process.
- ⁵ Research conducted by Bridgewater Associates, LP.
- ⁶ See, for example, H.R. McMaster, "Reclaiming America's Strategic Confidence," remarks at the Reagan National Defense Forum, Dec. 2, 2017, <https://www.whitehouse.gov/briefings-statements/remarks-ltg-h-r-mcmaster-reagan-national-defense-forum-reclaiming-americas-strategic-confidence/>.
- ⁷ For an account of this era of U.S. policy, see Hal Brands, *Making the Unipolar Moment: U.S. Foreign Policy and the Rise of the Post-Cold War Order* (Ithaca, NY: Cornell University Press, 2016).
- ⁸ I have written about this issue in greater detail in David M. McCormick, Charles E. Luftig, and James M. Cunningham, "Economic Might, National Security, and the Future of American Statecraft," *The Texas National Security Review* 3, no. III (May 2020), <https://tnsr.org/2020/05/economic-might-national-security-future-american-statecraft/>.
- ⁹ See, for example, White House Office of Trade and Manufacturing Policy, "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World," June 2018, <https://www.whitehouse.gov/wp-content/uploads/2018/06/FINAL-China-Technology-Report-6.18.18-PDF.pdf>.
- ¹⁰ Abby J. Cohen and Michael H. Wu, "The Coronavirus Pandemic and U.S. Federal Investment in Science," Goldman Sachs, April 29, 2020, <https://www.gspublishing.com/content/research/en/reports/2020/04/29/67c9cada-68a2-48af-b25c-0f5416c0c0c8.html>; and Congressional Research Service, "U.S. Research and Development Funding and Performance: Fact Sheet," January 24, 2020, <https://fas.org/sgp/crs/misc/R44307.pdf>.
- ¹¹ Matt Ridley, *How Innovation Works: And Why It Flourishes in Freedom* (New York, NY: HarperCollins, 2020).
- ¹² The UK's concept of a "D10" alliance is a step in this direction. Lucy Fisher, "Downing Street Plans New 5G Club of Democracies," *The Times of London*, May 29, 2020, <https://www.thetimes.co.uk/article/downing-street-plans-new-5g-club-of-democracies-bfnd5wj57>.
- ¹³ See, for example, Howard J. Shatz, "COVID-19 and Economic Competition with China and Russia," *War on the Rocks*, August 31, 2020, <https://warontherocks.com/2020/08/covid-19-and-economic-competition-with-china-and-russia/>.