RETHINKING American
A decade ago, Ross Douthat and I wrote “The Party of Sam’s Club,” an essay in the Weekly Standard on how Republicans should think about the post-Bush era. A few years later we published Grand New Party, a book that elaborated on the same broad themes. We argued that the political right had failed to reckon with the many ways the country had changed, that the conservative domestic agenda-as-usual was not suited to an age of fragile families, ongoing immigration, global economic integration and a widening gap between the wages of the skilled and less-skilled. Of course, we were hardly alone in this regard. Many conservatives before and since have warned that the Grand Old Party was threatened by ideological sclerosis or that the “Southernization” of the party – its turn toward a more hard-edged conservatism and assertive nationalism – would lead to its marginalization and eventual downfall.
But our critique was somewhat different. We maintained that social conservatives were right to be alarmed by the transformation of the American family, and in particular by the growth in single-parent families. To the extent we made a distinctive contribution to the policy debate on the right, it was our insistence that the concerns of social conservatives should animate the right’s domestic policy efforts.

Many conservative thinkers of the time embraced “upper-middle-reformism,” a strategy designed to reduce the Republican Party’s dependence on non-college-educated white voters, who were so essential to the Bush coalition, by appealing to more educated and affluent voters with a mix of social liberalism and economic conservatism. We, by contrast, made the case for “lower-middle-reformism,” or pursuing a more populist agenda that would seek to deepen support for Republicans among middle-income and aspirational voters from all backgrounds.

There were, in hindsight, many lacunae in Grand New Party. We understated both the risks of depending on debt to finance the aspirations of middle Americans and the extent to which the immigration-fueled transformation of the American working class had reshaped the economic and cultural landscape. Though we anticipated the crushing defeat of Republicans in 2008, we failed to appreciate the extent to which the housing bust would devastate debt-burdened families. Yet we did help spark a conversation, which has been greatly enriched by the intellectual leadership of Yuval Levin, the editor of National Affairs, Ramesh Ponnuru of National Review, and many others who’ve since been identified as “reform conservatives.”

One could argue that the modifier is redundant, as conservatives have always thought of themselves as reformers, where reform is distinguished from either revolutionary change or technocratic central planning. But the term is not without uses. It has come to identify an important body of thinking on the right – one that accepts and even embraces the need for a social safety net, yet calls for its modernization and renewal; one that celebrates not just the successful entrepreneur, but the worker striving to support a family; one that recognizes the communitarian as well as the individualist aspects of the American character and that favors the melting pot over multiculturalism.

Reform conservatives disagree among themselves on many issues, from same-sex marriage to immigration to the specifics of tax reform. What follows is an imperfect attempt to distill how reform conservatives more or less see the economic and social landscape, and how this perspective shapes our thinking on domestic policy.

THE MONETARY POLICY ALTERNATIVE

If Republicans in the Obama era have been known for anything, it is for their opposition to deficit spending, which surged as the economy sputtered in the aftermath of the 2008 financial crisis. Most of the increase in the budget deficit could be attributed to “automatic stabilizers” – spending on safety net programs that automatically kicked in as unemployment rose and as household incomes fell. However, President Obama and his Democratic allies also took affirmative steps that further increased the deficit in that period, some of which were wiser than others.

One suspects that had Democrats taken a different approach in fashioning the 2009...
fiscal-stimulus package—had they, for example, funded a surge in defense expenditures to recapitalize a military still engaged in Iraq and Afghanistan, or had they substituted a much larger investment tax credit for increased domestic spending—more Republican lawmakers would have joined forces with them. But that is water over the dam. The fight against fiscal expansion became a rallying point for the right, and contributed to the rise of the Tea Party movement.

In the 2010 midterm elections, Republicans campaigned against rising federal deficits in general and the Democrats’ health reform push in particular, warning that both would ultimately prove disastrous. Now, as the economy recovers and as federal deficits continue to shrink (at least until the wave of retiring baby boomers crests), this emphasis on deficits above all else looks shortsighted. Republicans were right to criticize the particulars of the American Recovery and Reinvestment Act, and they were right to oppose Obamacare. Yet their larger approach to America’s post-crisis economic woes was misconceived.

According to Ponnuru and David Beckworth, an economist at Texas State University, the chief problem with the Republicans’ macroeconomic policies in the post-crisis years is that they’ve coupled calls for rapid fiscal...
Many of the constituencies that suffered the most from the recession and the stagnation that followed are not part of the aging, middle-income and disproportionately white Republican coalition, so their interests were given short shrift in intraparty debates.

consolidation with fervent opposition to monetary stimulus, which they’ve warned would lead to an inflationary spiral. Beckworth and Ponnuru insist that the Fed ought to have done even more – specifically, that the Fed ought to have announced that it would buy securities on the open market (commit to what the Fed calls “quantitative easing”) until nominal GDP reached a target level and thereafter used aggressive securities-market transactions to keep nominal GDP growth on a predictable path.

Beckworth and Ponnuru were not the only observers to favor this approach to macroeconomic policy. The idea of targeting NGDP rather than the inflation rate, interest rate or supply of money goes back at least as far the writings of two Nobel economists, James Meade and James Tobin. But their arguments proved particularly influential among reform conservatives. Had the Fed kept nominal spending growth on a predictable path, Beckworth and Ponnuru argue, the goal of fiscal consolidation would have been much easier.
to achieve, as higher nominal incomes would have kept more workers employed and more homeowners afloat, thus reducing the pressure to increase demand through government transfer payments.

Skeptics argue that NGDP targeting of the kind championed by Beckworth and Ponnuru is much easier said than done, and that, in any case, it is no panacea. That might be true. What is also true, though, is that successful fiscal retrenchment efforts in Canada and Sweden were accompanied by the sort of accommodative monetary policy that American conservatives generally oppose.

Republican economic prescriptions often seemed timeless in the Obama era, and in a bad way. By emphasizing tax cuts, deregulation and balanced budgets – the same policies they favored in better times – the Republicans ignored the particularities that made deficit spending a less-pressing problem than mass unemployment, and they allowed chimerical fears of runaway inflation to outweigh the very real threat of deflation.

Embracing monetary stimulus would have given the right a coherent way to favor fiscal consolidation while also acknowledging that the weakness of the post-crisis economy demanded some form of government stimulus. Calling for monetary expansion and, say, a much deeper temporary payroll tax cut, like the one proposed by the Stanford University economist (and former advisor to the Bush I administration) Michael Boskin, would have put the Republican Party in a much better position both substantively and politically. Instead, Republicans offered little more than homilies about government thrift and the need to set business free to the voters most directly affected by the dismal state of the labor market.

To some extent, this reflects the fact that many of the constituencies that suffered the most from the recession and the stagnation that followed – low-income African-Americans and Latinos, workers with high school diplomas or less, 20-somethings – are not part of the aging, middle-income and disproportionately white Republican coalition, so their interests were given short shrift in intra-party debates. Whatever the reasons for this failure, reform conservatives have been attuned to it, and have called for a domestic policy that looks beyond the interests of the current Republican Party base with an eye toward expanding it.

**BUFFERING GLOBALIZATION**

Long before the crisis, policymakers on both the right and left tried to make sense of global economic integration and how it would affect people with modest skills in highly industrialized market democracies like our own. Conservatives, including reform conservatives, favor free trade in goods and services. But policy decisions help to determine whether and to what extent low- and middle-income households benefit from free trade, and the United States has all too often made the wrong ones.

When we talk about “globalization,” most people have in mind competition between companies and between countries. This reflects a profound misunderstanding of how the global economic integration of recent decades differs from what came before it. The truly novel thing about globalization is not that different parts of the world are trading with each other, or, indeed, that different parts of the world are trading with each other quite a lot. Rather, as the Brown University political scientist Edward Steinfeld observes in his 2010 book, *Playing Our Game*, the current round of globalization is distinctive because it depends on the creation of complex supply chains woven across multiple countries. Garment manufacturing was one of the
first industries to be transformed by these multi-firm, multinational networks, with workers in one country making the yarn, workers in another country dyeing it, workers in yet another country weaving fabric and stitching together clothing and workers in still another branding and selling the finished goods. (Suffice it to say, I am greatly understating the convoluted nature of these networks.)

As many production processes have been "de-verticalized," we haven’t seen a free-for-all in which every firm that contributes has equal say in what is made and where. As Steinfeld points out, “in the networked world of global production, there inevitably arise lead firms and follower firms, rule makers and rule takers.” There is a reason why U.S.-based Apple reaps the bulk of the profits from sales of the iPhone while the nuts-and-bolts work of assembling the devices is largely done in East Asia. By controlling the highest-value components of the global supply chain – the branding, the creation of intellectual property – Apple occupies the most privileged position in this new, more-dispersed hierarchy of production.

So while it is widely assumed that, as China and other emerging economies command a larger share of global production, American economic power must decline, the reality is more complicated. Writing in New Left Review, Sean Starrs, a political scientist at the City University of Hong Kong, notes that U.S. multinationals still hold the highest profit shares in 18 of 25 major industrial sectors and a dominant position in 10 of them.

This doesn’t change the fact that other countries are growing more prosperous and in some sense more powerful. But the fact that U.S. multinationals (whose ownership is generally concentrated in American hands) are at the top of the food chain tells us something, too – namely, that the rise of global production networks has greatly enriched Americans. The catch: it has done so very unevenly.
To be sure, virtually all U.S. households benefited from the lower prices generated by rising competition from China. Yet it’s not clear that these benefits outweighed the costs for non-college-educated adults. Three economists, David Autor of MIT, David Dorn of the University of Zurich and Gordon Hanson of the University of California at San Diego, found that between 1990 and 2007, regions that were home to manufacturers competing with Chinese imports experienced higher unemployment, lower labor-force participation and reduced wages. Not surprisingly, government transfer payments to households in these regions soared.

Some economic dislocation is inevitable as we move toward freer trade, and the costs associated with a protectionist stance might have been higher still. But the severity of the decline in manufacturing employment was eminently avoidable without embracing tariffs or other barriers to trade.

Ryan Avent, the economics correspondent of The Economist magazine, points out that between 1990 and 2002, the dollar effectively appreciated by half, sharply increasing relative unit labor costs in the United States. This spike alone accounts for much of the decline in manufacturing employment. Had Washington intervened in foreign-exchange markets to dampen dollar appreciation, it is at least possible that U.S. manufacturing employment wouldn’t have deteriorated so sharply, thereby giving large numbers of American businesses and workers the breathing room to retool and retrain. De-verticalization wouldn’t have been halted, nor should it have been. But firms employing less-skilled Americans would have been in a much better position to compete.

However, for whatever reason, the devastation wrought by dollar appreciation wasn’t enough to motivate U.S. policymakers to act. Instead, we saw a series of related policy initiatives that fueled a housing boom – a sector not susceptible to foreign competition. This boom generated considerable employment growth for the less- and mid-skilled, masking the effects of the decline in manufacturing jobs. As we’ve all learned, though, allowing the economy to become so reliant on housing construction proved short-sighted.

While recognizing that decisions about

By controlling the highest-value components of the global supply chain, Apple occupies the most privileged position in this new, more-dispersed hierarchy of production.
offshoring and insourcing should be left to markets, reform conservatives would be inclined to respond forcefully to mercantilist currency interventions – most notably, China’s efforts to keep its currency cheap in order to protect its manufacturers. They’d also be mindful of the need to make the United States a more attractive destination for foreign direct investment that boosted job prospects.

One promising proposal touted by Ponnuru and others would scale back the tax break for corporate interest payments, which encourages dangerously high levels of debt leverage, and use the revenues to cover the cost of allowing businesses to write off the full cost of tangible investments in the year they are made. The idea is not to craft a soup-to-nuts industrial policy. Rather, reform conservatives recognize that in the age of de-verticalization, we need policies that make front-line workers more productive and competitive and that don’t just enrich managers and shareholders.

RETAICKING THE COMMANDING HEIGHTS

In a 2011 National Affairs essay, Arnold Kling and Nick Schulz argued that whereas the “commanding heights” Vladimir Lenin alluded to in 1922 were energy and heavy manufacturing, the new commanding heights in the rich market democracies were education and health care – both of which employ large and growing shares of the American workforce. Both, notably, are dominated by government, have experienced anemic productivity growth for decades and are plagued by all manner of dysfunction. If the U.S. economy is to experience robust, broad-based economic growth in the future, it is these sectors that will have to be transformed, and it is these sectors to which reform conservatives have devoted the lion’s share of their attention.

The domestic-policy initiatives backed by reform conservatives are animated by a set of common principles that de-emphasize the role of government. Whereas the left prefers to tackle social problems through centralized means directed by experts, reform conservatives prefer a decentralized approach in which the families, communities, businesses and civic institutions closest to the problems are empowered (with public subsidies if needed) to address them as they see fit. The goal of reform conservatives, as the public intellectual Yuval Levin puts it in his essay, Room to Grow, is “to transform the first sort of public policy or program into the second, and so to move from the model of consolidated technocracy toward the three-part process of dispersed, incremental learning in one policy area after another.”

Primary and secondary education is a useful example. A key to making the American workforce more productive and competitive is to make the institutions we charge with building human capital more productive and competitive. Conservatives have long celebrated the virtues of school choice, and in particular of school vouchers. Yet they’ve largely failed to address other, equally important short-comings for the kindergarten-through-12th-grade education system, like the need to attract and retain effective educators, to incubate new instructional models and to make schools and courses more cost-effective.

Frederick Hess of the American Enterprise Institute, a leading light among reform conservatives, has emphasized that school choice alone is unlikely to effect change in K-12 education. What’s needed, he argues, is an education system that is friendlier to organizational innovation. To that end, he has called for K-12 spending accounts – which parents and students would use to “purchase” various courses. Those who selected low-cost options would be able to devote the surplus resources to en-
A key to making the American workforce more productive and competitive is to make the institutions we charge with building human capital more productive and competitive.

Enrichment programs, college savings, tutoring services or other educational goals.

This approach would encourage cost-consciousness, and it would give schools a clearer sense of where they should be devoting resources. Moreover, instead of having to build entirely new schools from scratch, course-level instructional choice of this kind would allow entrepreneurs and teachers to specialize in creating the best and cheapest course in, say, calculus or Mandarin, using online methods or traditional face-to-face instruction, or some combination of them.

Hess has also urged conservatives to ensure that, even as they oppose teachers’ unions, they make common cause with teachers, many of whom share their hostility to heavy-handed regulation. One of the chief problems Hess has identified in K-12 education is that although federal dollars represent a small fraction of total spending, the compliance burden associated with federal subsidies forces the hands of state governments and local school districts, which in turn micro-manage teachers and principals. There are reforms that Republicans could pursue at the state level that would be embraced by many teachers. For example, Hess has proposed that teachers deemed above average in effectiveness be allowed take on more students in exchange for more pay, a measure that would have the effect of raising the average quality of teaching for students while reducing costs for taxpayers by raising class sizes.
In a similar vein, Hess’ American Enterprise Institute colleague, Andrew P. Kelly, has offered an ambitious tertiary education reform agenda. Recognizing that existing higher-education institutions do a poor job of meeting the needs of non-traditional students – older adults, immigrants and second-generation Americans, students who often are in need of remedial education – Kelly calls for more transparency on educational and labor-market outcomes. The goal is first to ensure that students don’t enroll in expensive degree programs that leave them with few marketable skills and second to encourage less incumbent-friendly, more innovation-friendly approaches that would allow new sorts of schools to thrive. Hess and Kelly exemplify reform-conservative policymaking at its best: they recognize the importance of decentralization, free markets and creating space for innovation, yet they also recognize that because the K-12 and higher-education sectors are so heavily subsidized, cosseted and dysfunctional, making them more dynamic and demand-responsive would require a nuanced approach.

Reforming the health sector is an even more daunting challenge. We take as a given that a large share of government transfers to low-income households will be in the form of health benefits. This is despite the fact that many poor families might prefer to spend an extra few thousand dollars on better housing or on educating their children.

Why might this be the case? The mystery is easily solved when we consider the outsized political influence of medical providers, and, in particular, of the monopolistic hospitals that play such a large role in the life of many American cities. Barak Richman of Duke Law School, a student of the concentration of market power in the health care sector, has documented the various ways that locally dominant medical providers stymie competition from more efficient entrants.

James Capretta, a veteran of President Bush’s Office of Management and Budget and the architect of the chief conservative alternatives to Obamacare, has described the ways in which fee-for-service Medicare has made it harder for employers and consumers to use their purchasing power to make medical providers more efficient. Capretta’s central objection to Obamacare has been that instead of addressing the most egregious failures of the existing health system – the relentless growth in costs, the lack of competition in provider markets, the poor outcomes delivered by the Medicaid program – it actually exacerbates them.
And so Capretta, along with Levin and Ponnuru, among others, has called for expanding access to insurance via very different means. First, the tax subsidy for employer-provided insurance (it’s now a tax-free perk) would remain in place, but it would be capped, both for reasons of fairness and to generate revenue. Second, those who do not receive health insurance through their employers would receive a fixed subsidy in the form of a refundable tax credit to purchase their own coverage. Third, Medicaid would eventually transition into an additional payment on top of this credit to ensure that low-income beneficiaries could purchase high-quality care. Fourth, Medicare would place its traditional fee-for-service and the private Medicare Advantage plans on a more level playing field. The goal, of course, is to facilitate the shift to consumer-driven coverage and greater competition among providers, which would make the health care industry more responsive and less burdensome for middle-income families, without more direct involvement from the Feds.

That said, other factors being equal, children raised in intact, two-parent families have considerable advantages over their counterparts who do not.

As adults, they tend to reach higher levels of educational attainment and to command higher wages. One important wrinkle, highlighted in an influential report by the economists David Autor and Melanie Wasserman, is that girls raised by single mothers fare much better in educational and labor market outcomes as they reach maturity than boys raised the same way. But, of course, this is part of why women living in the communities most affected by this postmarital transition often find it difficult to find marriageable partners. And so the cycle continues.

Some students of changing family norms, led by Isabel Sawhill of Brookings, have suggested that rather than emphasizing the

We take as a given that a large share of government transfers to low-income households will be in the form of health benefits. This is despite the fact that many poor families might prefer to spend an extra few thousand dollars on better housing or on educating their children.
importance of marriage, an institution that is increasingly seen as the sole preserve of the educated and affluent, we at least ought to be encouraging delayed childbearing in order to give young women more time to build stable lives for themselves. Others insist that a marriage-first approach is still the right way to go. Either way, there is widespread agreement that the economic implications of what scholars call family disruption are very serious indeed.

Though there are no silver bullets for addressing family breakdown, reform conservatives favor vigorous policy efforts in this domain. Some are relatively uncontroversial, like eliminating marriage penalties in the tax code and in government benefits programs. But others are more polarizing, like accepting higher marginal tax rates for the affluent in order to fund more generous child credits. One of the most encouraging developments of recent years has been the embrace of criminal-justice reform on the right, a cause that has the potential to do a great deal of good for fragile families.

Precisely because reform conservatives accept that a well-constructed social safety net is essential to a thriving free-enterprise economy, many have grown more skeptical of the virtues of large-scale immigration. The average skill level of America's foreign-born population is far lower than that of its native-born population.

Among the world's rich market democracies, the United States is distinguished by the large number of adults who suffer from low levels of literacy and numeracy – and this is largely attributable to the skill profile of our immigrant population. There are, to be sure, many highly skilled immigrants in the United States, most of whom assimilate successfully. But less-skilled immigrants, and their children, tend to remain on the margins of the economy.

Advocates of less-skilled immigration often note that less-skilled immigrants complement, rather than compete with, less-skilled natives, in part because less-skilled natives are proficient in English. What this argument neglects, however, is that newly arrived less-skilled immigrants compete with previously arrived less-skilled immigrants, and the United States is already home to large numbers of the latter.

Protecting the economic interests of this vulnerable population is a high priority for reform conservatives, which is why they often gravitate toward a distinctive position in the immigration debate. They support high-skilled immigration, as high-skilled immigrants make large net contributions to public coffers. But they oppose low-skilled immigration, as these immigrants (and their children) require substantial assistance if they are to enter the economic mainstream. This position is very different from that of left liberals who favor large-scale, less-skilled immigration on humanitarian grounds. But it is also different from that of libertarians, who generally support opening the border to less-skilled immigrants provided they are barred from public assistance – a stance that neglects the fact that the children of less-skilled immigrants will be a central part of the future U.S. workforce.

Nobody has all the answers, certainly not reform conservatives. But the reformers are offering America something that neither liberals nor, for that matter, the Republican establishment, can: promising solutions to the daunting problems of an environment in which America's prosperity and social stability can no longer be taken for granted.