

MEMO: June 14, 2021

TO: Pro-Growth Democrats
FROM: PPI President Will Marshall
RE: How to Lose to China

President Joe Biden says that America is locked in a “strategic competition” with China for global economic and political leadership in the 21st century. Keeping the United States on the leading edge of technological innovation and entrepreneurship is how we win this contest between liberal and autocratic systems.

It’s also the key to generating [more good jobs](#) that can help our country close stark income and opportunity gaps at home, as well as demonstrating the strength and resilience of liberal democracy to doubters around the world.

That’s why it’s baffling and dismaying to see some anti-tech Democrats unveil late last week [a flurry of bills](#) aimed at breaking up and otherwise handcuffing America’s most innovative and globally competitive companies. These bills narrowly target a handful of large online platforms whose offerings are eagerly sought by people everywhere.

Nonetheless, both [right-wing](#) and left-wing populists have drawn a bead on “Big Tech” companies, the former for supposedly muzzling conservatives, the latter for alleged abuses of market power. The bills are based on a tendentious and [deeply flawed](#) report by the House Antitrust Subcommittee.

As the Progressive Policy Institute and other analysts have [documented](#), the evidence supporting the report’s claims of systemic antitrust abuses is remarkably flimsy. It mostly consists of misleading anecdotes and alarmism about conjectural rather than actual harms.

In contrast, the benefits Americans get from big internet companies like Google, Amazon, and Apple are tangible and easy to measure. These include lower consumer prices (monopolies typically are supposed to raise them), [high capital investment](#) in the U.S. economy, and robust creation of [high-wage jobs](#), a rare bright spot in the pandemic recession. All of these emerge from a [hotly competitive](#) and innovative digital ecosystem.

Fresh in the public mind is the essential role the major tech and e-commerce platforms played in [keeping the U.S. economy afloat](#) during the pandemic shut-downs. They enabled millions of us to work from home, stay in touch with friends and family, shop online for goods delivered swiftly and safely to our homes, learn and have medical appointments remotely, and entertain ourselves while homebound.

Of course, private companies are run by humans, not saints, and some will make errors or cheat to gain competitive advantage. Large and powerful companies of all kinds certainly merit close scrutiny, as well as government penalties and regulation if they break the law. But on close examination, the populist indictment singling out a few “Big Tech” firms mostly boils down to a vague discomfort with [bigness](#) itself.

That’s not enough to justify wrecking the [most vibrant part](#) of the still-recovering U.S. economy. We urge pragmatic Democrats to stand firm against these ill-conceived bills and instead craft well-tailored remedies where there is solid evidence of antitrust violations or other public harms arising from market concentration.

In short, as pro-growth progressives we believe there are two compelling reasons why Democrats should not allow themselves to be stampeded into an ideological crusade to break up America’s most dynamic and successful companies:

First, it would be bad for our country. Hobbling America’s most formidable competitors would be tantamount to shooting ourselves in the foot as the race with China for economic and technological primacy intensifies.

Second, it would be a serious political blunder. With razor-thin majorities in Congress, and a challenging midterm election next year, Democrats shouldn’t let the left’s antipathy to competitive markets, private enterprise, and disruptive innovation — aka economic progress — define their party.

It’s important to note that there is no public groundswell for eviscerating the nation’s leading tech companies. On the contrary, they are highly [popular](#) with working and middle-class Americans — including [swing voters in key battleground states](#) that helped Biden win in 2020. The pressure to do so comes mainly from right-wing conspiracy theorists and left-wing academics and activists besotted with anti-capitalist and neo-socialist posturing.

China's Drive for Tech Dominance

China has made no secret of its determination to be first to scale what President Xi Jinping calls the “global peaks of technology.” The Chinese Communist Party’s (CCP) new [five-year plan](#) identifies mastery of cutting-edge technologies as a matter of national security, not just economic development, and allocates massive state resources accordingly.

The plan aims to boost spending on research and development by 7% annually, slightly more than budget increases (6.8%) for China’s military. Premier Li Keqiang has offered state support for speeding development of quantum computing, artificial intelligence, advanced semiconductors, and cloud computing.

The government clearly intends to extend its industrial policy model from manufacturing to vanguard technologies like artificial intelligence, robotics, and semiconductors. That means subsidizing national champions and steering government procurement contracts to Chinese companies. The China Development Bank recently announced plans to deploy \$60 billion in loans to 1,000 firms developing key innovations.

According to a Brookings Institution [report](#), China sees leadership in 5G technology and other emerging technologies as a way to expand its global power. Stung by the Trump administration’s [blacklisting](#) of Huawei and other Chinese tech companies, Beijing has proclaimed a goal of “technology independence.”

Just how realistic that is in a world of intertwined supply chains remains to be seen. But [knowledgeable observers](#) believe we are headed for “bifurcated” U.S. and Chinese digital ecosystems over the next decade. In any case, Beijing has set its sights on being the global standard setter for the next generation of high-tech industries.

In addition to its advantages on 5G, China leads the world in electric car sales and is investing heavily in [biotech](#). Then there are the CCP’s chilling efforts to harness high tech to Xi’s totalitarian political aspirations, such as the use of AI surveillance technology to monitor its people’s “social profile” and modify “antisocial” behavior.

Meanwhile, Chinese hackers who apparently are backed by the central government are unrelenting in their attempts to [steal intellectual property](#) from U.S. tech companies

(Microsoft has reported [recent attacks](#) on its email server), defense contractors, universities, infectious-disease researchers, and U.S. government agencies.

Unlike the backers of the anti-tech bills, the Chinese understand that competing on a global scale requires large-scale companies. In fact, about half the world's largest tech companies are Chinese, including Huawei (with 197,000 employees, bigger than any U.S. tech company except Amazon), Alibaba (117,000), and Tencent (86,000).

With strong backing by the Chinese government, these companies all are — like America's tech giants — making big capital investments in future growth. "If we don't get moving, they are going to eat our lunch," President Biden has warned, in making the case for his ambitious jobs and families bills.

Now is the time for Democrats to embrace economic patriotism — and optimism. By boosting public investment in science and applied research, encouraging private companies to boost their capital spending, and unleashing the inventive and entrepreneurial genius of a free people, the United States can [out-innovate and out-compete](#) an increasingly repressive China.

But the anti-tech bills released last week point in the opposite direction. They are a formula for losing to China. Democrats and true progressives should reject them.