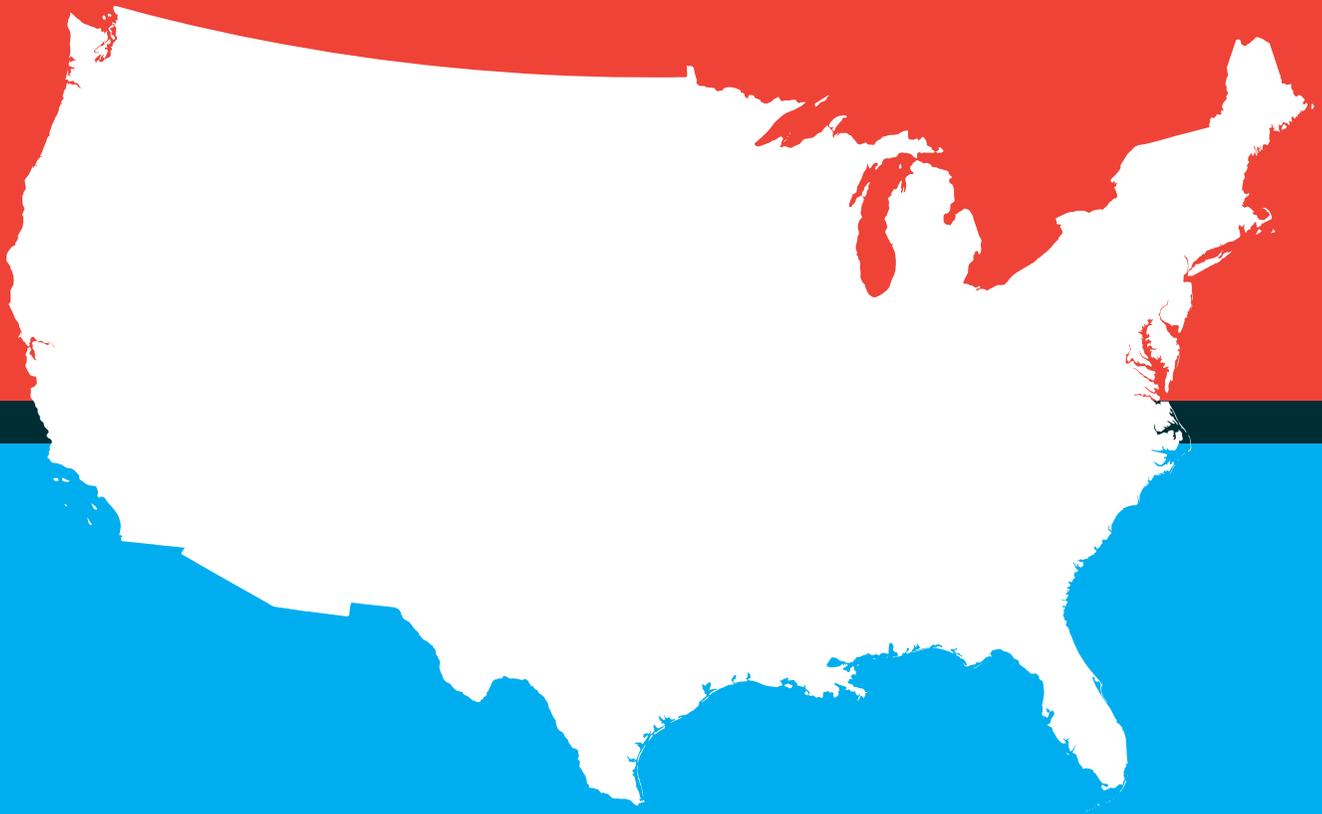




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# MAKING U.S. FOREIGN POLICY WORK BETTER FOR THE MIDDLE CLASS

**co-editors**

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# CONTENTS

<b>Summary</b>	<b>1</b>
<b>PREFACE</b>	
<b>Questioning Long-Held Assumptions</b>	<b>7</b>
<b>CHAPTER 1</b>	
<b>Reckoning With the Link Between Middle-Class Anxieties and U.S. Foreign Policy</b>	<b>13</b>
<b>CHAPTER 2</b>	
<b>Evaluating Competing Foreign Policy Visions for Advancing Middle-Class Interests</b>	<b>25</b>
<b>CHAPTER 3</b>	
<b>Elevating Middle-Class Interests in Foreign Economic Policy</b>	<b>35</b>
<b>CHAPTER 4</b>	
<b>Elevating Middle-Class Interests in Diplomacy, Defense, and Economic Security</b>	<b>49</b>
<b>CHAPTER 5</b>	
<b>Concluding Thoughts: Rebuilding Trust</b>	<b>67</b>
<b>Acknowledgments</b>	<b>71</b>
<b>About the Authors</b>	<b>73</b>
<b>Notes</b>	<b>75</b>
<b>Carnegie Endowment for International Peace</b>	<b>83</b>



## SUMMARY

If there ever was a truism among the U.S. foreign policy community—across parties, administrations, and ideologies—it is that the United States must be strong at home to be strong abroad. Hawks and doves and isolationists and neoconservatives alike all agree that a critical pillar of U.S. power lies in its middle class—its dynamism, its productivity, its political and economic participation, and, most importantly, its magnetic promise of progress and possibility to the rest of the world.

And yet, after three decades of U.S. primacy on the world stage, America's middle class finds itself in a precarious state. The economic challenges presented by globalization, technological change, financial imbalances, and fiscal strains have gone largely unmet. And that was before the novel coronavirus plunged the country into the worst economic crisis since the Great Depression, exposed and exacerbated deep inequities across American society, led long-simmering tensions over racial injustice to boil over, and launched a level of societal unrest that the United States has not seen since the height of the civil rights movement.

If the United States stands any chance of renewal at home, it must conceive of its role in the world differently. That too has become a point of rhetorical consensus across the political spectrum. But what will it actually take to fashion a foreign policy that supports the aspirations of a middle class in crisis? The Carnegie Endowment for International Peace established a Task Force on U.S. Foreign Policy for the Middle Class to answer that question. This report represents the conclusion of two years of work, hundreds of interviews, and three in-depth analyses of distinct state economies across America's heartland (Colorado, Nebraska, and Ohio). It proposes to better integrate U.S. foreign policy into a national policy agenda aimed at strengthening the middle class and enhancing economic and social mobility. Five broad recommendations bear highlighting up front.

**First, broaden the debate beyond trade.** Manufacturing has long provided one of the best pathways to the middle class for those without a college degree, and it anchors local economies across the country, especially in the industrial

**If the United States stands any chance of renewal at home, it must conceive of its role in the world differently.**

Midwest. It makes sense, therefore, that so much of the debate about the revival of America's middle class is centered around the effects of trade policy on manufacturing workers. But while millions of manufacturing jobs have been lost in the United States, other economic forces beyond global trade have also played a major role in the decline. In this sense, debates about "trade" are often a proxy for anxieties about the breakdown of a social contract—among business, government, and labor—to help communities, small businesses, and workers adjust to an interdependent global economy whose trajectory is increasingly shaped by large multinational corporations and labor-saving technologies.

Moreover, the majority of American households today sustain a middle-class standard of living through work in areas outside manufacturing, especially in the service sectors where the United States has competitive advantages. Many of these Americans generally support the trade policies of past decades that have largely served them well. In a February 2020 Gallup poll, 79 percent of Americans agreed that international trade represents an opportunity for economic growth.<sup>1</sup> Many of these Americans are less concerned with overhauling past trade policies and are more preoccupied with how military interventions and changes in the United States' global commitments, among other aspects of foreign policy, might affect their security and economic well-being.

Middle-class Americans are not a monolithic group. Their interests diverge. Different aspects of foreign policy impact them differently, including across gender, racial, ethnic, and geographic lines. Getting trade policy right is hugely important for American households but it is not a cure-all for the United States' ailing middle class and represents only one element of a broader set of middle-class concerns about U.S. foreign policy.

**Second, tackle the distributional effects of foreign economic policy.**

Globalization has disproportionately benefited the nation's top earners and multinational companies and aggravated growing economic inequality at home.

It has not spurred broad-based increases in real wages among U.S. workers. It has not driven a wave of public and private investments to enhance U.S. productivity generally and make more American workers and small businesses globally competitive. And while it has brought down the prices of certain highly tradable goods, it has done little to alleviate the growing pressure on American middle-class families from the rising costs of healthcare, housing, education, and childcare. Making globalization work for the American middle class requires substantial investment in communities across the United States and a comprehensive

plan that helps industries and regions adjust to economic disruptions.

In particular, foreign economic policy will need to

- prioritize international policies that will stimulate job creation and allow incomes to recover;

**Making globalization work for the American middle class requires substantial investment in communities across the United States and a comprehensive plan that helps industries and regions adjust to economic disruptions.**

- revamp the U.S. international trade agenda and ensure it is paired with a domestic policy agenda to support more inclusive economic growth;
- modernize U.S. and international trade enforcement tools and mechanisms to better combat unfair foreign trade practices that are especially harmful to small and medium-sized enterprises (SMEs) and workers;
- pursue other international agreements that close regulatory and governance gaps across countries to improve burden-sharing and help address equity concerns; and
- craft a National Competitiveness Strategy that includes efforts to make U.S. SMEs and workers more competitive in the global economy and enhances the ability of communities to attract job-creating business investment.

**Third, break the domestic/foreign policy silos.** For decades, U.S. foreign policy has operated in a relatively isolated sphere. National security strategists and foreign policy planners have articulated national interests and set the direction of U.S. policy largely through the prism of security and geopolitical competition. That remains a critical perspective, especially at a time when geopolitical competition with China, Russia, and other regional powers is on the rise. But with so many Americans now struggling to sustain a middle-class standard of living, threats to the nation’s long-term prosperity and to middle-class security demand a wider prism—informed by a deeper understanding of domestic economic and social issues and their complex interaction with foreign policy decisions. That is not an easy shift to make. It will take better interagency coordination, interdisciplinary expertise, and some policy imagination. It will also require the contributions of a new generation of foreign policy professionals who break free of the mold cast during the Cold War and its immediate aftermath.

**Fourth, banish stale organizing principles for U.S. foreign policy.** National security strategists and foreign policy planners in Washington, DC, crave neat organizing principles for U.S. strategy. But there is no evidence America’s middle class will rally behind efforts aimed at restoring U.S. primacy in a unipolar world, escalating a new Cold War with China, or waging a cosmic struggle between the world’s democracies and authoritarian governments. In fact, these are all surefire recipes for further widening the disconnect between the foreign policy community and the vast majority of Americans beyond Washington, who are more concerned with proximate threats to their physical and economic security. A foreign policy agenda that would resonate more with middle-class households and, in fact, advance their well-being, should

- reinvigorate relations with close allies to build an agile and cohesive network that can effectively address the full range of diplomatic, economic, and security challenges—from pandemics and cyber attacks to unsecure weapons of mass destruction and climate change—that could imperil middle-class security and prosperity;

- manage strategic competition with China to mitigate the risk of destabilizing conflict and counter its efforts toward economic and technological hegemony;
- reduce the threat of a digital crisis and promote an open and healthy digital ecosystem;
- boost strategic warning systems and intelligence support to better head off costly shocks and build up protective systems at home;
- shift some defense spending toward research and development (R&D) and technological workforce development to protect the U.S. innovative edge and enhance long-term readiness;
- strengthen economic adjustment programs to improve the ability of middle-class communities to adjust to inevitable changes in the pattern of economic activity; and
- safeguard critical supply chains to bolster economic security.

This may seem like a somewhat less ambitious foreign policy agenda than might be expected from a task force comprised of foreign policy professionals who served in Democratic and Republican administrations from George H.W. Bush to Barack Obama. And to a large extent it is. That is the point. The United States cannot renew America's middle class unless it corrects for the overextension that too often has defined U.S. foreign policy in the post-Cold War era. It is equally evident that retrenchment or the abdication of a values-based approach is not what America's middle class wants—or needs.

Middle-class Americans have no illusion that their fate can be walled off from the fate of the world. They embrace the sense of enlightened self-interest that has motivated U.S. foreign policy over the past seven decades and want the United States to serve as a positive and constructive force around the world. They appreciate that U.S. foreign assistance cannot simply be about short-term transactional benefits for the United States but must serve a wider purpose. They understand that repressive regimes make the world less safe and less free, and that it is in the United States' self-interest to stand up for human rights. All this requires a larger international affairs budget to retool American diplomacy and development for the twenty-first century.

Middle-class Americans interviewed also understand that the United States must sustain a strong national defense and that, moreover, it is in their economic interests. Defense spending and the defense industrial base are—and will remain for some time—the lifeblood for many middle-class communities across the country. That is why drastic cuts in the defense budget in the near term would be unwise. Instead of slashing the defense budget, a more prudent course would be to reduce defense spending gradually and predictably over the longer term, while shifting some resources toward a broader conception of national defense—to

include workforce development, cyber security, R&D to enhance U.S. economic and technological competitiveness in strategic industries, pandemic preparedness, and the resilience of defense supply chains.

At the same time, middle-class Americans are concerned about the cost of U.S. interventions and the potential for political overreach. They want the country to exercise its power judiciously and to selectively seek out the best opportunities for effecting positive change. But to credibly assert global leadership, the United States must redress democratic deficits and social, racial, and economic injustice at home while seeking to reclaim the moral high ground abroad. The United States must get its own house in order.

**Fifth, build a new political consensus around a foreign policy that works better for America's middle class.** None of the current major foreign policy approaches hold the key to American middle-class renewal—be it post-Cold War liberal internationalism, President Donald Trump's America First, or progressives' elevation of economic and social justice and climate change and the potential downsizing of U.S. defense spending. This may partly explain why no single view commands broad-based bipartisan support. In fact, despite the variation in middle-class economic and political interests, their foreign policy preferences point the way toward a potential new foreign policy consensus that is not yet reflected in today's highly polarized political class.

A Gallup poll from February 2019 showed that 69 percent of Americans thought the United States should take a major or leading role in world affairs, a figure that has been relatively stable for a decade. There is simply very little public support for Trump's revolution in U.S. foreign policy and its call to turn back the clock on globalization and international trade, constrain legal immigration, gut foreign aid, abandon U.S. allies, or abdicate U.S. leadership on the global stage. But that should not be overinterpreted as support for the restoration of the foreign policy consensus that guided previous Republican and Democratic administrations. That set of policies left too many American communities vulnerable to economic dislocation and overreached in trying to effect broad societal change within other countries. America's middle class wants a new path forward.

A foreign policy that works better for the middle class would preserve the benefits of business dynamism and trade openness—which does not feature prominently enough in the progressive agenda—while massively increasing public investment to enhance U.S. competitiveness, resilience, and equitable economic growth. It would sustain U.S. leadership in the world, but harness it toward less ambitious ends, eschewing regime change and the transformation of other nations through military interventions. And it would recognize that a foreign policy that works for the middle class has to be connected to a domestic policy that works for the middle class.

**There is simply very little public support for Trump's revolution in U.S. foreign policy and its call to turn back the clock on globalization and international trade, constrain legal immigration, gut foreign aid, abandon U.S. allies, or abdicate U.S. leadership on the global stage.**

**Taken collectively, the task force's recommendations provide a blueprint for rebuilding trust.** So much of what is required to make U.S. foreign policy work better for the middle class will not be visible to, or verifiable by, most Americans at the local level. And in many instances, it will require working through difficult trade-offs, where the interests of industries, workers, or communities do not align. The American people need to be able to trust that U.S. foreign policy professionals are managing this tremendous responsibility as best they can, with the interests of the middle class and those striving to enter it at the forefront of their consideration.

U.S. foreign policy professionals will also need to regain the trust of U.S. allies and partners, which no longer have confidence that the deals struck with one U.S. administration will survive the transition to the next or that basic alliance structures that have endured for decades are still a given. As a result, they are increasingly hedging their bets, trying to stay in the United States' good graces while also keeping their options with China and other U.S. rivals open.

Restoring predictability and consistency in U.S. foreign policy requires building broad-based political support for it. And the best and perhaps only viable path right now to rebuilding such support lies in making U.S. foreign policy work better for the middle class. The ideas in this report represent a starting point for discussion—one that will hopefully lead to healthy debate and bring many more innovative and actionable ideas to the table.

## PREFACE

# QUESTIONING LONG-HELD ASSUMPTIONS

In late 2017, the Carnegie Endowment for International Peace convened a task force to explore how U.S. foreign policy could work better for a struggling middle class and those aspiring to reach it. To gain a diverse set of perspectives, Carnegie sought task force members who served in a variety of senior policymaking roles as political appointees and career professionals in or under Democratic and Republican administrations. Those selected hail from the Departments of Commerce, Defense, State, and Treasury; the Office of the U.S. Trade Representative (USTR); the National Intelligence Council; and the National Economic Council (NEC) and the National Security Council at the White House (see About the Authors).

Although the task force members brought disparate views on U.S. domestic and foreign policy to the table, they all concurred that, while in government, long-standing assumptions about how foreign policies affect the broad middle class were not adequately challenged or tested (see box 1 for how the task force defines “foreign policy” and “middle class” in this report). They also agreed that those outside Washington, DC—many of whom are on the frontlines of addressing the economic challenges confronting middle-class households and their communities—have not had enough opportunities to weigh in on U.S. foreign policy. The task force’s research team therefore partnered with university researchers to conduct interviews and focus groups with hundreds of state and local officials and community leaders, local economic development teams, small business owners, local labor representatives, and middle-income workers in three case study states: Colorado, Nebraska, and Ohio.

The task force chose to focus on states in the middle of the country because foreign policy professionals in Washington tend to be more influenced by the views of those in large coastal cities. These three states were chosen in particular because they collectively represent an industrial and political mix that serves as a good proxy for many of the national-level debates now playing out at the intersection of U.S. foreign policy and middle-class well-being.

**[The task force] all concurred that, while in government, long-standing assumptions about how foreign policies affect the broad middle class were not adequately challenged or tested.**

- Colorado provides a “new economy” perspective on trade and sits at the epicenter of national debates on defense spending, energy, and climate change. Very liberal and very conservative communities coexist in Colorado, once a perennial swing state that has trended blue in recent years.
- Nebraska is a quintessential “ag state,” with industries caught in the crosshairs of the trade war with China and rural areas that rely on immigration to address workforce shortages. It votes solidly Republican in presidential and congressional elections, though it has become politically and economically more diverse as people move to the urban centers of Lincoln and Omaha.
- Ohio exemplifies how international trade and investment policies have intersected with manufacturing over the last half century. It is also the ultimate political bellwether state. Every presidential candidate since 1964 who won Ohio went on to win the White House, including former president Barack Obama and President Donald Trump.

While these three states do not encapsulate all the interests and conditions of middle-class households, the interviewees represent the political spectrum, a range of industries, and regional divides to capture some of the variation that exists within the middle class. The findings from each state, and the research methodology employed, were published in detailed separate reports on Ohio in December 2018, Colorado in November 2019, and Nebraska in May 2020. The key findings from across the states—and the ways in which they tally with national-level economic and polling data—significantly influenced task force members’ thinking and recommendations outlined in this final report.

**The pandemic’s economic and social consequences continue to unfold, but they have already intensified many of the middle-class vulnerabilities observed during the research.**

Although the coronavirus pandemic hit after the case studies were completed, its early impacts also influenced the task force’s thinking. The pandemic’s economic and social consequences continue to unfold, but they have already intensified many of the middle-class vulnerabilities observed during the research. The virus’s spread across the globe has resulted in the worst public health crisis since the Spanish flu (H1N1) outbreak in 1918 and delivered the sharpest blow to U.S. labor markets since the Great Depression. Many Americans are at grave risk of losing their homes and financial safety nets. The task force offers a preliminary assessment of how the pandemic is exacerbating already immense middle-class challenges and illustrates how a properly conceived foreign policy could mitigate the domestic fallouts. Even once the U.S. economy has recovered and returned to more normal levels of activity, the consequences of this shock will linger for years and should inform future foreign policy making.

## Defining Foreign Policy and the Middle Class

### *Foreign Policy*

“Foreign policy” in this study serves as shorthand for foreign, defense, development, international economic, trade, and other internationally oriented policies perceived by those interviewed for the project as impactful to their economic well-being. Interviewees across the states also associated foreign policy with some issues that typically fall under the purview of domestic policy, such as foreign direct investment, immigration, and energy and climate change.

Further information on the definition of terms, the rationale for the project, and relevant historical context can be found in the introductory chapter of the first report on Ohio.

### *Middle Class*

This project focused on households falling within the middle-income bracket, defined by the independent, nonpartisan Pew Research Center as two-thirds to double the median income, adjusted for household size and local cost of living. The median household income for a family of three in the United States in 2018 was \$74,600 per year. That translates to a middle-income range for a family of three of \$48,505–145,516. Adjusting for local cost of living, the three-person household ranges for case study states in 2018 were \$42,879–128,637 (Ohio), \$49,427–148,281 (Colorado), and \$43,412–130,237 (Nebraska). Owing to data limitations, the report occasionally relies on data for either the “median” or “middle quintile” to discuss middle-class income, expenditure, and wealth trends.

“Middle class” connotes more than income alone, however. Many people also associate this term with the dignity of work, position in society, and/or the maintenance of a certain lifestyle. Those interviewed for the project often described a “middle-class standard of living” as the ability to secure a job with adequate pay and benefits to meet their monthly expenses, tend to their families’ medical needs, buy a car, own a home, help their kids pursue decent postsecondary school education, take an annual vacation, save for retirement, and not be saddled with crippling debt.

Viewing the American middle class through an income lens also obscures important differences relating to geography, demography, race, religion, ethnicity, and political beliefs. For example, two-thirds of Americans say that the United States should take allies’ interests into account when it makes foreign policy, even if it requires compromise. But only a narrow majority of Republicans support this statement, while 83 percent of Democrats do. In another example, young people voice much stronger support for preventing genocide and defending human rights in other countries than do older Americans. When it comes to the seriousness with which certain threats are viewed, partisan affiliation can be a critical factor: 27 percent of Republicans and 84 percent of Democrats view climate change as a major risk and 35 percent of Republicans and 65 percent of Democrats view Russia’s power and influence as a major risk. In other words, these divergent views that play out across the American body politic naturally play out within the middle class as well.

**Sources:** Rakesh Kochhar, Pew Research Center, “Middle Class Data Update: State Ranged,” presented to the Carnegie Task Force, March 13, 2020, and August 6, 2020.

Pew Research Center, “In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions,” December 17, 2019, <https://www.pewresearch.org/politics/2019/12/17/6-views-of-foreign-policy/>.

Pew Research Center, “Climate Change and Russia Are Partisan Flashpoints in Public’s Views of Global Threats,” July 30, 2019, <https://www.pewresearch.org/politics/2019/07/30/climate-change-and-russia-are-partisan-flashpoints-in-publics-views-of-global-threats/>.

The case study findings—and the many trials now testing the United States’ resolve—clearly illustrate why so many Americans across the political spectrum have been questioning whether the United States should, or even can, continue being a global leader in the same way it has for decades. The question of what comes next is an important one, but it has become painfully obvious that the America First approach is not the answer. A zero-sum, unilateralist foreign policy has not yielded net job gains, fostered inbound investment, or raised household incomes in the United States. And it has certainly not made the United States less vulnerable to global shocks or more competitive in the global marketplace. The United States cannot solve its economic problems through trade wars and saber-rattling, while largely neglecting the domestic and fiscal policies that will have the most impact.

Yet the appeal of the America First approach is understandable. It is rooted in frustration over the uneven distributional outcomes of recent decades of growth and inadequate policy responses—both in the domestic and foreign policy realms—to a wide range of disruptive economic forces. Put differently, the self-evident failures of the America First approach do not necessarily amount to a full-throated defense of all that came previously.

To understand the shortcomings, it is necessary to reflect on the priorities of the foreign policy establishment during that time. From the end of the Cold War until 2016, the Departments of Defense and State were largely focused on protecting the United States from a wide range of security threats, sustaining U.S. primacy on the global stage, and promoting democratic values. The thinking was that by keeping the nation and its citizens secure, the middle class would have the space and opportunity to thrive—and that others, such as international economic experts, trade negotiators, and domestic policy counterparts, would help the middle class and those working hard to join it to take advantage of that freedom.

Meanwhile, the Departments of Commerce and Treasury, the NEC, and the USTR were focused on promoting the economic well-being of Americans, including the middle class. Policies were designed to advance global economic growth and create more trade and investment opportunities for U.S. businesses, believing that a rising tide would create more well-paying middle-class jobs here in the United States and increase public revenues for domestic investments. Many believed that growth in trade and investment flows would bring aggregate benefits to middle-class households—from lower prices and more choices for consumers, more foreign investment and job creation in the United States, and more demand for U.S. goods and services abroad.

But the task force’s case studies and other research have shown that, to varying extents, many in the foreign policy establishment did not fully appreciate the distributional impacts of an increasingly interconnected global economy. Both the security-minded and economic-focused wings of government trailed behind a changing world, and they continued to operate in silos.

Those at the security helm needed to more directly question whether strategic U.S. military interventions were, in fact, aligning with the interests of the American middle class. Had missions been more narrowly constructed around counterterrorism, counterproliferation, and conflict containment, for example, rather than around regime change and an ambition to remake the Middle East backed by the force of arms, they might have reduced the risks of protracted conflict, regional spillover, and fiscal backlash at home. This fundamental question about the scope of U.S. vital interests should have featured far more prominently in White House Situation Room deliberations on national security matters.

Those working to steer the global economy and trade needed to take a closer look at whether the American middle class was indeed benefiting as much as the nation's top earners. The reality was that the economic gains generated from trade agreements were not being shared broadly with working middle-class families. And this is partly because not enough attention was paid to the trade-offs at a more micro level. Larger companies, together with the affluent and well-educated, adapted more readily than small businesses and workers without a college degree during a period of rapid globalization and technological change.

In essence, the foreign policy establishment did not connect all the lines between the United States' role abroad and the economic challenges unfolding at home. The task force and research team's past two years of study—including hundreds of conversations with those striving to sustain and expand the middle class—have helped to highlight many of these disconnects. And, more importantly, they have shed light on what should come next.

- First, the prime directive of everyone in the foreign policy community—not just those responsible for international economics and trade—should include developing and advancing a wide range of policies abroad that contribute to economic and societal renewal at home.
- Second, foreign and domestic policymakers need to collectively redress the country's growing distributional challenges. The broad middle class and those struggling to join it do not benefit enough from the fruits of global economic growth and market access. And they also bear too much of the burden of global shocks and dislocations and of the trade-offs that come with foreign policy-related decisions made in Washington.
- Third, the policy community needs to adopt a more collaborative, integrated approach to domestic and foreign policy making and to embrace more policy innovation.

**The prime directive of everyone in the foreign policy community—not just those responsible for international economics and trade—should include developing and advancing a wide range of policies abroad that contribute to economic and societal renewal at home.**

These three themes recur throughout this report and shaped the task force's proposed agenda for making U.S. foreign policy more responsive to the needs of America's middle class.

The stagnation of the American middle class should deeply concern national leaders of every political stripe. A strong and prosperous middle class bolsters economic mobility and strengthens social cohesion.<sup>2</sup> It provides a ready and healthy workforce to power the national economy and funds a large tax base to pay for national security and social insurance programs. It is a deep and underappreciated source of national power. This is not to say that the American middle class is as widely accessible as it should be. Deeply discriminatory policies have held back the progress of too many American households, and the country needs to rectify them. But the breadth of the American middle class is still remarkable, encompassing millions and millions of households of all ages, races, ethnicities, and religious and political beliefs. It is what poor families aspire to and what has driven millions of immigrants to come to this country.

## **RECKONING WITH THE LINK BETWEEN MIDDLE-CLASS ANXIETIES AND U.S. FOREIGN POLICY**

A thriving middle class at home enables the United States to lead abroad from a position of strength. Yet too many Americans are struggling to attain or sustain a middle-class standard of living, and they worry that it will be even harder for their children to do so. That was the case before the coronavirus pandemic began and is even more so now. Although changes to domestic fiscal and monetary policies would affect Americans' economic well-being more directly than foreign policy, it is worth exploring whether and how U.S. foreign policy could work better for the middle class.

### **Long-Term Forces Reshaping Middle-Class Attitudes and Interests**

Over the past two decades, the convergence of three factors has forced a broad reevaluation of U.S. foreign policy. First, the long-term decline of manufacturing, coupled with advances in technology, have exacerbated middle-class economic anxieties. Second, a combination of increasing inequality, deteriorating public finances, and rising economic competition with China has led some Americans to question why the benefits of globalization seem to favor the nation's top earners, why other countries are not paying their fair share for international security, and why they are not always playing by the same rules. Third, with the threat of terrorism receding in Americans' minds, many middle-class households have begun to view the economic struggles at home as a higher priority than the major geopolitical or security threats abroad. Separately, these three factors might not have spurred a reckoning in the overall direction and purpose of U.S. foreign policy. But their convergence made such a reckoning unavoidable, and the pandemic has magnified the urgency around addressing them.

### ***Mounting Economic Anxieties in the Age of Globalization and Technological Change***

Middle-class anxieties in the United States have escalated over the last two decades as middle-income wages have stagnated and household costs have risen. In a poll conducted by the Pew Research Center in spring 2019, 69 percent

of Americans surveyed said they expected their children to be worse off or no better financially than their parents.<sup>3</sup> And that poll was taken when the U.S. economy was performing well and unemployment rates were low.<sup>4</sup> Domestic policies and structural trends largely account for this growing economic stress. However, U.S. foreign policy has also played a role through the embrace and promotion of globalization, particularly in the post-Cold War era.

Those interviewed and surveyed in Colorado, Nebraska, and Ohio—in conservative and progressive strongholds alike—sounded a common refrain when asked how the middle class is faring: they struggle to keep pace with the rising costs of healthcare, housing, education, and childcare, among other household costs. A few data points bear out the challenge facing households. The pace of consumer inflation in medical care services has been nearly twice the pace of overall inflation since 2000, and healthcare spending has grown from 5.4 percent of total household expenditures in 2000 to 8.1 percent in 2018.<sup>5</sup> The median sales price (nominal) for an existing single-family home has risen 92 percent since 2000, while the median family income (nominal) has grown more slowly.<sup>6</sup> Student debt more than quadrupled between 2004 and 2017.<sup>7</sup> An estimated 10 to 29 percent of median family income now goes toward infant care, depending on the state.<sup>8</sup>

Of course, not all expenses have gone up. The cost of some household goods has dropped, in no small part because international trade has lowered the price of imports. Goods purchases now make up a smaller share of total household expenditures than they did two decades ago, freeing up income for other items. For example, for consumers in the middle-income quintile, expenditures on apparel have fallen from 5.9 percent of total expenditures in 1985 to 2.9 percent in 2019, spending on all food items (including food away from home) has fallen from 15.5 to 14.1 percent, and spending on all transportation has fallen from 21.0 to 18.6 percent.<sup>9</sup> However, one side effect of this trend, among others, is that the benefits of international trade are no longer as visible or significant for middle-class Americans, since goods purchases now account for a smaller percentage of their household expenditures.

Perhaps the biggest contributor to the struggle of the middle class, and many other Americans, is slow income growth. Between 1970 and 2000, the median household income for middle-income households grew about 40 percent; but over the past two decades, it has grown by less than 10 percent.<sup>10</sup> Furthermore, in 1970, middle-income households held 62 percent of all household income, and by 2018, they held only 43 percent. The 2008 global financial crisis dealt a particularly harsh setback. According to the Pew Research Center, middle-income households experienced an 8 percent drop in median income between 2007 and 2011.<sup>11</sup> It took until 2015 for median incomes to recover to pre-crisis levels. Overall, U.S. income inequality (as measured by the Gini ratio for all American households) hit a new peak in 2017—only to retreat slightly in 2018.<sup>12</sup>

The reasons behind sluggish income growth within the middle quintiles are complex, but they involve a mix of structural changes in the U.S. economy, such as the continued growth of the service sector; technological change that favors skilled workers; globalization; decreasing business dynamism; and domestic policy shifts, such as changes to the tax code, regulatory stances, and social insurance programs. Today, middle-class households rely predominantly on employment in the service sector, where wages for those without a college degree (67 percent of the U.S. workforce) are lower than in the goods-producing industries where they once worked in larger numbers.<sup>13</sup> For example, Walmart is currently the top private sector employer in Ohio and twenty-one other U.S. states, with average salaries hovering around \$29,500 per year.<sup>14</sup>

At the same time, technological changes have reduced the demand for labor for many rote tasks in the manufacturing sector. Looking ahead, one study estimates that ongoing technological advances in areas like artificial intelligence could cause twice as much workforce displacement in the services sector between 2020 and 2040 as the industrial revolution caused for agricultural workers between 1900 and 1940. And the amount of displacement could be nearly three times what automation, foreign trade, and other factors caused for the manufacturing workforce in the 1970s and 1980s.<sup>15</sup> Even as technological change has proceeded, the rate of productivity growth has decelerated, creating a modest drag on economic growth. From 1980 to 2010, the average annual rate of labor productivity was 2.1 percent, slipping to 0.9 percent in the post-2010 period.<sup>16</sup>

With income growth slowing for the middle class, some saw trade liberalization as just adding insult to injury, especially in hard-hit communities. Since trade policy is more visible politically than slow-moving and diffuse technological change—Congress votes on trade agreements, not on technology change—it was cast as the primary culprit for the loss of well-paying manufacturing jobs, the move toward outsourcing, the declining bargaining power of labor, and the downward pressure on wages in some sectors. That is not to say that trade policy had nothing to do with the decline in manufacturing. In particular, rapid trade liberalization with China in the 2000s almost certainly contributed to the drop in manufacturing payrolls from 17.2 million in October 2000 (when then president Bill Clinton signed legislation granting permanent normal trade relations with China under the Trade Act of 1974) to 11.6 million jobs just one decade later.<sup>17</sup> But the consequent economic pain was concentrated in certain communities—some of which are hugely important political constituencies in battleground states in presidential elections. This has obscured the broad but diffuse gains of globalization enjoyed by many middle-class households elsewhere across the country, including those working in advanced manufacturing, agricultural, and service export industries.

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It is also worth noting that the technological advances transforming the workforce have links to globalization and foreign policy. For example, U.S. manufacturers accelerated investments in labor-saving technologies in the 1970s and 1980s, partly to reduce costs and compete more effectively with Japanese auto and electronics producers.<sup>18</sup> The ongoing debates about whether “robots or trade” caused manufacturing job losses are therefore misleading, because these are not mutually exclusive factors. In a more competitive global economy, businesses will turn to technology or more diffuse supply chains to lower labor costs—a dynamic that is not favorable for the U.S. middle class. Meanwhile, the highly skilled employees, the content and intellectual property creators, and the investors behind the technological advances are in the upper-income bracket. Moreover, China and other major powers seek to build technological advantages in certain sectors, which further complicate the policy response to technological change.

Finally, globalization has not only contributed to the movement of goods, services, capital, and data but also to the movement of people. U.S. businesses and previous Democratic and Republican administrations frequently emphasized that a welcoming stance toward immigration gave the United States a significant edge in the global economy. Many constituents on both sides of the political aisle still see immigration as delivering significant economic benefits for the middle class. It is largely the cultural dimensions to immigration that heighten anxieties, particularly on the right of the political spectrum.

The foreign-born population in the United States has climbed steadily since the passage of the immigration and naturalization act in 1965. Today, it stands at 13.7 percent.<sup>19</sup> The last two periods when the foreign-born share of the population reached current levels—the 1880s and the 1920s—saw a populist backlash not dissimilar to that in 2016.<sup>20</sup> The Pew Research Center predicts that the foreign-born share of the U.S. population could reach nearly 18 percent in 2065, surpassing the highest percentage recorded in two centuries (14.8 percent).<sup>21</sup>

In a 2018 poll, 61 percent of Republicans and 19 percent of Democrats said that the impact of the United States becoming majority nonwhite by 2045 will be mostly negative.<sup>22</sup> So while Americans are chiefly concerned about the economic viability of the middle class, many also are deeply conflicted about its evolving makeup. And they lay at least some of the blame for these anxieties on globalization and U.S. foreign policy.

### ***Heightened Sensitivity to the Costs and Uneven Benefits of U.S. Global Leadership***

The combination of rising income inequality, slowing economic growth, deteriorating public finances, and intensifying foreign economic competition, particularly from China, has created a more challenging environment for U.S. foreign policy leadership than several decades ago when Americans could more readily

see the benefits of that role. Today, growing economic burdens at home have encroached on that shared sense of national purpose.

When the United States forged a bipartisan consensus on its foreign policy in the 1950s and 1960s—largely around building up and leading “the West” as a bulwark against Soviet aggression and the spread of communism during the Cold War—income inequality in the United States was at a historic low point.<sup>23</sup> And average annual economic growth during this period hummed along at over 4 percent.<sup>24</sup> The combination of the earlier war effort and massive levels of public investment in the New Deal era contributed to both phenomena. World War II had also destroyed the production capacities of America’s foreign economic competitors in Europe and Japan. Therefore, as the barriers to trade in goods came down and the United States helped these nations recover through the Marshall Plan, the markets for U.S. exports opened up with minimal risk of import competition. The conditions were perfect for the United States to underwrite the security and economic recovery of Western allies and partners. The middle class believed not only that the United States could afford to assume a significant global leadership role but also that they would benefit from it.

When the Cold War ended and the United States set a new, ambitious foreign policy agenda to transform the U.S.-led Western order into a U.S.-led global order, the economic conditions were once again chiefly favorable. Having tamed the inflation of the 1970s, the Federal Reserve Bank was able to keep interest rates low. With the Soviet Union no longer a threat, the United States could spend less on defense and reduce fiscal deficits. The Japanese economy cooled after the 1970s and 1980s and no longer presented a challenge to U.S. economic primacy. The Chinese economy had yet to fully take off, and its leaders were not yet prepared to test the rules of economic engagement. By the second half of the 1990s, the U.S. economy was on a roll—growing more than 4 percent a year on average. However, it is important to note that this strong economic performance, in aggregate, masked growing income inequality, which accelerated in the late 1980s and throughout the 1990s. Only U.S. labor unions consistently raised concerns about the unbalanced nature of U.S. growth, as the issue had not yet gained salience in the public discourse.

In comparison, since 2001, the U.S. annual growth rate has generally remained below 3 percent;<sup>25</sup> income inequality has continued to worsen;<sup>26</sup> and China has burst onto the scene as a global economic powerhouse and become more willing to use its growing leverage to capture market share. As awareness of the problems grew, many economists started to call for significant increases in public investment in infrastructure, research and development (R&D), education, and workforce development to boost the productivity and competitiveness of U.S. labor. But such investment did not come readily. Meanwhile, the United States has spent trillions of dollars on decades-long wars and military interventions in

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Afghanistan, Iraq, and elsewhere. This naturally raised questions about whether the international economic system built by the United States is still benefiting the middle class and whether the United States can afford to be underwriting international security.

### *Absence of a Unifying Geopolitical and Security Threat*

While acknowledging the need to manage threats from overseas, those interviewed in Colorado, Nebraska, and Ohio (prior to the pandemic) stressed that the daily economic struggles facing Americans are of greater concern to them than foreign policy. National polling data suggest that until quite recently many Americans share this view.<sup>27</sup> This is probably because none of the current threats, on their own or collectively, unite and preoccupy Americans like the harrowing prospect of nuclear Armageddon did during the Cold War or the terrorist threat in the aftermath of the September 11, 2001, attacks. With no unifying geopolitical threat to rally around, the one thing that seems to unify Americans across the political spectrum is that the United States must be far more judicious about whether and when it starts another major war. In a late 2019 poll, three-quarters of Americans viewed diplomacy rather than military strength to be the best way to ensure peace, which included over half of Republicans for the first time since the 1990s.<sup>28</sup> Two decades of military interventions in Afghanistan and Iraq cost the United States thousands of American lives and trillions of taxpayer dollars—without clear-cut victories. Therefore, it is not surprising that the interviewees were paying less attention to U.S. foreign policy aims abroad and instead were worrying about their needs and economic well-being at home.

Some national security professionals on both sides of the aisle have been trying to rally public support around the geostrategic competition with China, which is likely to be a defining feature of U.S. foreign policy for decades. But, at the time of the interviews, such a competition with China was not at the forefront of the minds of most Coloradans, Nebraskans, Ohioans, or Americans in general. Their concerns were more narrowly focused on pushing back harder against China's unfair trading practices and increasing domestic investments to better compete with China's economy.

Meanwhile, others in the national security community have been warning that an escalation of geopolitical tensions with China would undermine core national economic interests. They stress how the fates of the Chinese, U.S., and global economies are intertwined. They also believe that the United States could find it difficult to mobilize other nations to its side in an all-encompassing geopolitical struggle with China, whose economic leverage on U.S. allies and partners far exceeds anything the Soviet Union could bring to bear during the Cold War.

Some interviewees, particularly younger Americans and Democrats, viewed climate change as an existential threat to the planet and believed that it should be the top priority for U.S. foreign and domestic policy. But for many others,

especially in rural counties, it was actually the *economic* consequences of the policy responses to climate change that concerned them most.<sup>29</sup> Stringent regulatory measures to reduce fossil fuel emissions threaten their livelihoods, particularly in Colorado's oil- and gas-producing regions and in Nebraska's counties dependent on agriculture and the coal transportation industries.

## **How the COVID-19 Crisis Will Exacerbate Preexisting Challenges**

The continuing economic fallout from the pandemic and the perceived lack of global cooperation to mitigate its impacts significantly complicates the challenges already facing U.S. policymakers. To the list of policy priorities, they must now add containing a global pandemic; spurring an economic recovery, particularly for those Americans most impacted by it; and managing the growing risks of political instability abroad.

More than any other income group in the country, the middle class depends on employment earnings to make ends meet—partly because it has less access to social transfers than lower-income populations and partly because it has less capital income than higher-income (and wealthier) populations.<sup>30</sup> Hence, the shock to the U.S. labor market has been profound for many middle-class households. The country saw a tenfold increase in new unemployment insurance claims from February to mid-summer—a surge that is unprecedented in the history of the unemployment insurance program.<sup>31</sup> Millions more workers still face layoffs if economic conditions do not stabilize soon, especially in “high-contact intensive jobs” and in industries hardest hit by the crisis, including oil and gas (concurrently beset by a price war among foreign producers), transportation, travel and hospitality, and brick and mortar retail.<sup>32</sup> Millions of others have temporarily left the labor force and are waiting on the sidelines for the economy to improve or for their jobs to return. A large percentage of these jobs support middle-income households that do not have substantial savings and live paycheck to paycheck.<sup>33</sup> These economic stresses have fallen disproportionately on Black and Hispanic communities, exposing the deeper vulnerabilities of people of color due to systemic injustices.

The U.S. economy is currently expected to decline by 6.5 percent this year, according to the June projections from the Federal Reserve.<sup>34</sup> The unemployment rate, which surged to 14.3 percent in April, is forecasted to settle at a little under 10 percent by the end of this year—almost three times higher than the projection from December 2019. Many of those laid off are counting on government assistance to pay their mortgages, rent, and utilities; buy groceries; and meet other regular expenses. As of the writing of this report, it is unclear how long extraordinary measures will be needed to control the virus's spread or how long it will take U.S.

**It is unclear how long extraordinary measures will be needed to control the virus's spread or how long it will take U.S. economic activities to return to pre-crisis levels.**

economic activities to return to pre-crisis levels. Congress has authorized more than \$2 trillion in aid for U.S. workers and businesses through the Coronavirus Aid, Relief and Economic Security (CARES) Act.<sup>35</sup> Additional federal measures have included about \$500 billion more for small business, plus modest extensions to unemployment and debt relief programs. The Federal Reserve slashed interest rates and adopted a highly accommodative stance with respect to inflation. Yet it is too soon to know just how much these policies and the phased reopening of local economies will offset the long-term economic hardships imposed on middle-class households.

Even if the United States bounces back faster than expected, a projected downturn in global economic growth is likely to impede a full national recovery. Prior to the pandemic, the International Monetary Fund (IMF) was expecting positive per capita income growth in over 160 countries in 2020. But in its revised outlooks in April 2020 and again in June 2020, it forecasted that over 170 countries will experience negative per capita income growth and that the global economy will contract by 4.9 percent.<sup>36</sup> The IMF assesses that emerging markets and low-income nations—across Africa, Latin America, and much of Asia—are at especially high risk of economic distress. These countries have far fewer resources than China, the United States, and European countries to contend with the economic fallout. They are “dangerously exposed” to ongoing demand and supply shocks, severe tightening in financial conditions, and, in some cases, an unsustainable debt burden.<sup>37</sup> Previous research has shown that it takes an average of eight years for per capita GDP to return to pre-crisis levels following a major financial crisis.<sup>38</sup>

At the same time, COVID-19 is expected to increase geopolitical and security risks around the world. UN Secretary General António Guterres has warned that the pandemic threatens to further erode trust in many public institutions and governments across the globe, where citizens believe their authorities have mishandled the response or tried to downplay the severity of the crisis.<sup>39</sup> The virus also threatens to exacerbate ethnic, religious, tribal, and other tensions to the extent that it disproportionately harms already marginalized populations.

Improved cooperation among the G20’s leading economies and the UN Security Council’s permanent members would bolster business confidence and public trust and hence speed up the recovery. But the United States has retreated from the leadership role it once played in mobilizing collective action, and many of these countries themselves have been hit hard by the virus, severely hampering coordination. Tensions between the United States and China have also ratcheted up, as each country blames the other for the current predicament. For example, Chinese media sources have promoted anti-American conspiracy theories about the origins of the virus and heavily criticized U.S. handling of the disease. Meanwhile, the Trump administration has tagged the coronavirus as the “Chinese virus” and has defunded, and is withdrawing from, the World Health

Organization (WHO), arguing that the organization appeased China's desire to minimize the initial outbreak in Wuhan.

Under these circumstances, the effects of the national and global crises are likely to linger for years and further strain the U.S. middle class. At a minimum, even after the United States has overcome the public health crisis and normal economic activity has resumed, it is very likely that:

- More Americans will struggle to attain or sustain a middle-class lifestyle. High unemployment will reduce middle-class incomes and weigh on wage growth. Meanwhile, some household costs, especially for healthcare, are liable to be higher than before the crisis.
- Americans will be even more sensitive to inequality. The crisis has further exposed the wide disparities between the nation's top earners and everyone else in terms of job security, income, savings, and access to healthcare and reliable broadband connectivity—among the many other facets of U.S. economic and social life. It has revealed just how much more vulnerable marginalized populations, especially communities of color that must also contend with long-standing race-based injustices, are to shocks.
- Many American households will have even less room to absorb another economic shock. They will have depleted their savings to carry them through layoffs and pay cuts and, in some cases, defaulted on mortgage payments and car or student loans.
- American middle-class households will feel even more anxious about the risks associated with globalization. Many have experienced the worst economic shock of their lifetimes as a result of a virus that started in China and spread rapidly around the world. And they will not forget that U.S. manufacturers struggled to produce desperately needed medical equipment and supplies.
- Americans will be even more conflicted about spending taxpayer dollars on U.S. foreign policy. On the one hand, they may support investing more in global health security—particularly to prevent another crisis that could devastate the U.S. economy and upend their way of life. On the other hand, they will be more sensitive to the opportunity costs of spending money abroad. A massive amount of investment at home will be needed to keep struggling industries and businesses afloat and to assist U.S. states and cities in offsetting the hundreds of billions of dollars in lost revenue.
- In time, middle-class households will end up footing at least part of the bill for the recovery—whether it is through higher taxes, less generous safety nets, or both. When this crisis is over, the United States may have doubled or tripled the \$2.2 trillion dollars it has already spent on the CARES Act, further exploding the national debt.

In sum, the COVID-19 crisis will have far-reaching, long-term socioeconomic and political ramifications in the United States and across the globe, thereby altering the trajectory of international affairs. Even if the worst fears do not materialize and the recovery proceeds far quicker than projected, the pressure to ensure that U.S. foreign policy advances the economic well-being of the middle class will undoubtedly increase.

### **How Much the Direction of U.S. Foreign Policy Needs to Change**

Hundreds of middle-class Americans and community leaders interviewed across Colorado, Nebraska, and Ohio voiced deep concern about the costs of U.S. foreign policy and serious skepticism about its benefits. Whether in an urban or rural area—or in a Republican or Democratic stronghold—they all stressed how prior administrations had not done enough to make foreign policy work better for America’s middle class.

It is clear that the direction of U.S. foreign policy must change. However, Trump does not deserve the blame for creating this moment. Americans’ concerns were growing well before he became president and well before the pandemic hit. In fact, Obama captured the nation’s attention in 2008 as an anti-establishment candidate promising a less adventurous and more strategically disciplined vision of U.S. global leadership, partly in response to these evolving dynamics. For some of the same reasons, Hillary Clinton, the Democratic candidate in the 2016 presidential campaign, came out against the Trans-Pacific Partnership (TPP), the twelve-nation trade deal negotiated by the Obama administration.<sup>40</sup> But the rebalancing that Obama and Clinton pursued pale in comparison to Trump’s

America First strategy—a vision that has broken sharply with all Democratic and Republican predecessors.

When policy fails to adapt to growing economic and societal stresses at home—whether because of domestic political divides, inadequate policy tools, hard-to-absorb strategic challenges, or other factors—an abrupt change in approach becomes more likely. But often that correction goes too far, as evidenced by the government’s recent headlong dive into U.S. withdrawal and unilateralism. Today, a change of course is urgently needed. The country must advance U.S. national security interests and middle-

class economic interests concurrently and, with its allies and partners, strategically navigate the major challenges that lie ahead. Despite the urban-rural divides, partisan differences, and varied industrial interests of the middle class, this is what many of the middle-class Americans interviewed want.

**Hundreds of middle-class Americans and community leaders interviewed across Colorado, Nebraska, and Ohio voiced deep concern about the costs of U.S. foreign policy and serious skepticism about its benefits.**

And they are pragmatic: they are not optimistic enough about the current system to believe it will deliver on all its promises without stronger government leadership and investment, and they are not pessimistic enough to demand a wholesale rewrite of the global order. A Gallup poll from February 2019 showed that 69 percent of Americans thought the United States should take a major or leading role in world affairs, a figure that has been relatively stable for a decade.<sup>41</sup> The American middle class wants its government to better promote its interests—by fostering greater stability and lowering the risks of living in a more open and integrated world, by leading a global economic system that promotes growth but also fair play, and by investing more in economic resilience efforts at home. They want a more secure economic future in the twenty-first century. Foreign policy needs to help make that happen.

But a better foreign policy alone is obviously insufficient. A foreign policy that is judicious and adapts U.S. leadership to the evolving global order will not advance middle-class interests if domestic institutions and policies do not ensure that the gains reach the middle class. U.S. foreign policy changes must be accompanied by internal reforms that enable the middle class and those working to join it to both shape national policymaking and equally profit from the increased national wealth.

The exact policy and institutional reforms needed will naturally be contested at the national and state levels—as they must be. The ideas and recommendations proposed in this report are a foray into this debate and provide important perspectives on some of the key questions facing the middle class. They underscore that a revamped U.S. foreign policy will succeed only to the degree that domestic politics and national economic management address American middle-class concerns and preferences. Support of the middle class, and in particular the many Americans demanding change, will be indispensable in sustaining responsible U.S. leadership in an uncertain world.



# EVALUATING COMPETING FOREIGN POLICY VISIONS FOR ADVANCING MIDDLE-CLASS INTERESTS

Policymakers and experts are debating at least three very different foreign policy visions for advancing middle-class economic interests: (1) the post-Cold War pro-business and pro-globalization approaches traditionally championed by the bipartisan foreign policy establishment, (2) the largely nationalistic America First approach being advanced by Trump, and (3) the socially liberal approach focused on economic justice, climate change, and nonmilitary means of foreign policy advocated by progressives. All three visions enjoy strong support among sizable constituencies. The proponents of each will likely use the coronavirus to vindicate their worldview. But none of these visions now enjoys broad-based bipartisan support. And each one falls short, albeit in different ways, in advancing the economic interests of the middle class.

For many of those interviewed in Colorado, Nebraska, and Ohio, their primary economic interests are to create and secure jobs that pay enough to sustain a middle-class standard of living and to protect the economic viability of their local communities and base industries—especially in the face of external shocks and rapid transitions in the global economy. By that measure, there is ample room to improve on any of the three visions. However, each one offers elements that could help set the direction for U.S. foreign policy in the post-COVID-19 era.

## Pro-Business and Pro-Globalization Approach

In the post-Cold War period, the U.S. foreign policy establishment did not explicitly focus on the creation and protection of better-paying jobs and the economic viability of local communities. Rather, it assumed those interests were being advanced, at home and abroad, through economic policies aimed at stimulating growth, market-friendly tax and regulatory policies, market-oriented structural reforms, trade liberalization, and greater capital mobility.

From the late 1980s to the mid-2010s, U.S. foreign policy and national security professionals generally assumed that they were promoting U.S. middle-class interests by promoting business interests and U.S. values abroad. When the U.S.

government opens more foreign markets for its exports, as the traditional reasoning goes, U.S. businesses can create more jobs at home. When the government facilitates the growth of global supply chains, U.S. consumers can enjoy lower import prices. When it pushes for market-friendly reforms and freer capital markets, global businesses can expand and household incomes can rise, creating demand for U.S. products in the process. Likewise, securing protections for U.S. investment abroad can promote the rule of law, strengthen property rights, and level the playing field. In short, U.S. foreign policy and national security professionals believed that they were advancing middle-class economic interests when they worked to build a free and open international economic system that advanced opportunity and prosperity for all and when they pushed for greater democracy and human rights.<sup>42</sup>

The foreign policy establishment also saw this approach as a way to strengthen U.S. national security. It understood that other nations would be far more likely to support the United States in its global leadership role when the United States' and its allies' economic interests were more deeply intertwined. It also assumed that economic liberalization would pave the way for political liberalization in undemocratic states—and that this, in turn, would decrease the likelihood of war.

Much of this faith in economic liberalization and integration was well founded.<sup>43</sup> In the decades following the Cold War, scores of countries embraced democratic governance and free enterprise and agreed to compete in a global economy whose rules the United States had largely shaped. As a result, U.S. businesses, particularly U.S.-based multinational corporations, were well positioned to leverage the benefits of globalization and thus grew stronger. Meanwhile, billions of people around the world were lifted out of poverty, creating new consumer markets and engines for global economic growth. U.S. leadership and international cooperation also helped the world come to grips with major global health crises, including HIV/AIDS and the H1N1 pandemic.

It is also worth noting that core aspects of this approach still enjoyed bipartisan support as of 2019. In polls that year, 76 percent of Democrats and 71 percent of Republicans responded that U.S. involvement in the global economy is a good thing because it provides the United States with new markets and opportunities for growth.<sup>44</sup> The most apprehensive respondents were those with a high school education or less, though 64 percent of respondents still supported global economic involvement.<sup>45</sup>

But mounting pressures on the middle class have created real questions if not misgivings about this approach to foreign policy. To some in the foreign policy establishment, this pushback is simply a communications problem to be addressed. They wonder if the American people would still push for major changes in U.S. foreign policy along the lines Trump espouses if they had a fuller understanding of the benefits of U.S. global leadership and the risks of no longer exercising it.

And undoubtedly, the average American faces an understandable information deficit about foreign policy relative to the average foreign policy professional. Those interviewed in Colorado, Nebraska, and Ohio acknowledged candidly that they did not know a lot about U.S. foreign policy or how it affected their economic interests. And then when they did seek out information, they found it hard to know what or whom to believe. Their trust had eroded in U.S. government and international institutions, foreign policy professionals, and the media, which they viewed as providing politically biased coverage of any administration's domestic and foreign policies. The controversies around the coverage of COVID-19 have likely only deepened that mistrust.

A communications challenge rooted in lack of trusted information is only part of the story, though. There are serious substantive policy challenges too. The pro-business and pro-globalization approach has not focused on the two things that those interviewed in Colorado, Nebraska, and Ohio said they cared about most: sustained growth in employment earnings across the income spectrum, and the economic viability of their local communities. And this is because the foreign policy establishment assumed that (1) the benefits of economic growth would be distributed more evenly than was the case, (2) small and medium-sized enterprises (SMEs) would seize on new export opportunities and thereby increase middle-income wages, and (3) trade adjustment assistance (TAA) programs would offset the effects of any dislocations while labor moved on readily to new job opportunities elsewhere in the country.

Unfortunately, the adjustments have been slower and harder than expected. For workers, middle-income wages have stagnated in the past two decades, even as global corporate profits have grown. For small businesses, often a lack of resources and know-how have prevented them from taking full advantage of provisions in international trade agreements, and so the deals have disproportionately benefited large multinational corporations able to leverage global supply chains and global economies of scale. For communities, the dislocations associated with globalization have been far more severe than expected, as in hard-hit manufacturing areas like Coshocton, Dayton, and Marion, Ohio.<sup>46</sup> Even in its more generous, recent incarnations, TAA only temporarily cushioned the blow of trade-related job losses and was not able to move people to jobs that paid comparably, let alone support the economic recovery of entire communities.<sup>47</sup>

Moreover, contrary to earlier—and now clearly overoptimistic—assumptions, China has not abandoned its unfair trading practices, including subsidizing state-owned enterprises and stealing intellectual property and technology. To some minds, when it comes to China, the United States lost high-quality U.S. jobs in return for scant economic or security gains. Meanwhile, global industrial supply

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chains have grown increasingly reliant on Chinese labor and production capacity, heightening the risk of conflict should a severe disruption occur. The COVID-19 crisis brought this into sharp relief, as various U.S. governors had to reach out to China for personal protective equipment because U.S. companies no longer produce them at scale at home. Despite its many strengths, the rules-based international economic system long championed by the United States has struggled to address these issues.

Finally, the foreign policy establishment was overly optimistic about how U.S. domestic policy and politics would evolve. Many did not anticipate such a large income and wealth gap opening between the nation's top earners and everyone else, and they severely underestimated the political blockages that would emerge on the domestic front. These blockages include stiff resistance to federal spending among ardent fiscal conservatives as well as bitter partisanship on other policy issues like environmental regulation and healthcare reform. The result was inadequate levels of public investment in infrastructure, R&D, education, and workforce development—all of which could have alleviated the concerns now being voiced. As mentioned in the previous chapter, these public investments are the very things needed to increase productivity and push up middle-income wages, as well as to enhance the competitiveness of U.S. labor and business vis-à-vis China and other foreign economic competitors. When those investments are not being made at home, it is natural for many Americans to view major foreign policy undertakings more critically, especially when these efforts entail spending trillions of dollars, as was the case with military interventions in Afghanistan and Iraq.

### **America First Approach**

The logic behind Trump's America First approach becomes clearer when seen within this context. It purposefully recasts the nation's interests in terms of the economic well-being of American workers, especially those in the manufacturing

sector and those without a college degree in decent-paying jobs.<sup>48</sup> It evaluates U.S. foreign policies from that perspective. And it seeks to reduce U.S. burdens and expenditures abroad, so more dollars remain in U.S. coffers and communities. However, in trying to better serve the interests of certain workers, Trump's approach comes at the expense of others and undermines other critical U.S. domestic and national security interests.

To protect and bring back U.S. manufacturing jobs, the Trump administration has upended a decades-long approach to U.S. international trade policy. It has turned to the widespread use of tariffs that runs counter to U.S. international obligations, has prompted stiff retaliation from major trading partners, and has set in motion dynamics that could lead to a partial decoupling of the U.S. and Chinese economies, as well as

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the U.S. and European economies. To protect jobs in the fossil fuel industries, the administration has rolled back Obama-era regulations to combat climate change and has withdrawn from the Paris climate accords.

Partly to safeguard defense sector jobs, the administration has funded massive increases in the defense budget and lobbied other nations to buy more U.S.-made weapons.<sup>49</sup> Meanwhile, the administration looks to bring U.S. troops home from Afghanistan and Syria and presses U.S. allies to assume more responsibility for their own defense. In the name of freeing up more resources for American workers and families, the administration has restricted immigration and refugee resettlement and sought drastic cuts in the U.S. foreign aid and international affairs budget.

Rather than seeing the interests of Americans and those abroad as intertwined, Trump has advanced a zero-sum view of the world. And he and others appear to believe that the coronavirus crisis vindicates this view. The pandemic reveals the dangers of a world in which people move too freely across borders. It makes foreign aid and development assistance less tenable when needs at home are so great. And it makes patently clear that Americans should no longer rely on China and other nations to produce medical equipment and many other goods that should be made in the United States.

But while sizable constituencies among those interviewed in the three states welcomed aspects of Trump's America First approach, even those who voted for Trump in 2016 raised serious concerns. During the interviews (conducted prior to the COVID-19 crisis), they were particularly worried about (1) the administration's prioritization of certain groups of middle-income workers and certain communities over others, (2) the singular focus on near-term interests only, and (3) the risks of a zero-sum approach to the world.<sup>50</sup>

Trump's approach has created winners and losers among the middle class, just as earlier approaches have done. For example, those in steel towns like Marion, Ohio, and Pueblo, Colorado, noted that the tariffs on imported steel—intended to help those in steel-*producing* industries—were raising the costs of source material and hence creating problems for a greater number of manufacturing workers in steel-*using* industries (who greatly outnumber those in steel-producing industries).<sup>51</sup> Economic development organizations across Ohio stressed that efforts to protect certain manufacturing jobs from offshoring (for example, through increased tariffs) were potentially hurting other manufacturing jobs by dampening foreign direct investment.

In Colorado and Nebraska, and in parts of Ohio such as Columbus, those interviewed said that long-standing trade policies had generally served the interests of middle-income workers involved in advanced manufacturing, agriculture, business services, tech, and tourism. Hence, they were worried about being on the losing end as abrupt policy changes are pursued or contemplated to serve the interests of other middle-income workers.

The trade war with China, in particular, has eroded market share for agricultural communities. Approximately one in four jobs in Nebraska is connected with the

agricultural production complex, and these communities shouldered the burden of Chinese tariffs against U.S. imports as the tariff war escalated.<sup>52</sup> Many of those within the complex—and, in fact, within both Democratic and Republican voting counties in all three states—were supportive of Trump playing hardball with China to combat the country’s unfair trading practices. The interviewees were divided, however, about the way it was being done, how much pain they could ultimately absorb, and whether it would be worth it. China—an important market and area for growth for Nebraska’s soybean, hides and skins, and other exports—retaliated by ceasing imports of U.S. agricultural products. Between 2017, when bilateral trade tensions began, and the end of 2019, Nebraskan exports to China dropped by 27 percent.<sup>53</sup> Reports of China planning to increase U.S. soybean imports after signing the phase one trade deal with the United States in January 2020 were therefore met with relief but also with concern that it had come too late given how much damage had already been done.<sup>54</sup> With the onset of COVID-19, uncertainty prevails about whether China will remain able and willing to import the full amount of U.S. products it committed to in the phase one deal.

Of course, any policy approach is susceptible to producing winners and losers when the near-term economic interests of different workers, industries, and sectors diverge. The challenge is to step back and look at the broader strategic trends. Ironically, representatives of the coal industry in Colorado and Ohio were among those who made this point most powerfully. They acknowledged that, regardless of the United States’ policies on climate change, the transition away from coal would continue apace on economic grounds. Natural gas is simply a more cost-effective alternative to coal. Communities now heavily dependent on the production of coal cannot be shielded from market forces indefinitely. Those in coal-dependent areas see that private capital is shifting toward renewable energy, which plays to the strengths of those in Boulder and Denver, Colorado, for example, which are hubs for cutting-edge research and expertise on renewable energy. They do not want the transition to be stopped at all cost; they instead want to be fully consulted and involved in the transition, as they have serious economic interests at stake.

Manufacturing workers, like coal miners, are experiencing inexorable transformations in their workplaces—ones that U.S. trade policy can do little to halt over the long term. Manufacturing, once the main source of well-paying middle-class jobs, now accounts for approximately 9 percent of the nation’s workforce.<sup>55</sup> The trends in capital investments in labor-saving technologies suggest that this percentage will steadily decline over the longer term, notwithstanding upticks in the near term.<sup>56</sup> Meanwhile, the percentage of middle-income jobs will continue to grow in service sectors that capitalize on digital trade and other technological advances, where the United States maintains a competitive edge in the global economy.

Despite the job losses in some U.S. communities, chronic workforce shortages are plaguing many of the rural counties suffering population stagnation or

decline in Colorado, Nebraska, and Ohio. According to local economic development organizations in all three states, availability of a local workforce is critical to attracting new business and investment. Nebraskans, in particular, have relied on an inflow of foreign labor to address their workforce shortages.<sup>57</sup> This is not only to fill jobs for seasonal work on farms but also to meet year-end requirements for many different occupations, including nursing in regional hospitals. Thus, while Nebraskans felt it was in their interests for the United States to secure its borders and uphold the rule of law, they also believed it was in their interests to increase legal immigration and refugee resettlement. It would run counter to their interests to extend the current temporary restrictions on immigration for any longer than absolutely necessary to prevent the spread of the coronavirus.

Finally, few of those interviewed supported a drastic cut in foreign aid. To the contrary, some interviewees in the agricultural sectors of Colorado and Ohio saw a direct connection between global poverty reduction, increased protein consumption, and increased demand for U.S.-raised cattle and meat products. Others in Nebraska pointed out that the United States' provision of in-kind food assistance served the interests of the state's farmers. Some in Ohio recalled how it was critical for the United States to help Japan recover from the tsunami in 2011 because the disaster had disrupted supply chains for Honda, now the state's top manufacturing employer.<sup>58</sup> A seafood supplier based in Denver, Colorado, stressed how it was in his industry's interests to invest in global health systems abroad, noting that an outbreak of infectious salmon anemia in Chile had directly hurt his business.<sup>59</sup> Not many interviewees could cite such specific examples about how U.S. foreign aid served their interests, but the general message most people conveyed was the same: helping others abroad could serve their economic interests and, perhaps equally or more importantly, uphold American values.

The coronavirus pandemic further illustrates why targeted investments in the capacity of other nations are in the United States' national security and economic interests. Foreign aid can help to prevent the outbreak and spread of infectious diseases and to strengthen international cooperation to promote global economic growth. Even as infection rates slow in the United States, the risk of rates increasing again will remain as long as the coronavirus continues to spread rapidly in other countries. And the U.S. economy will not rebound fully as long as the global economy remains in a deep recession.

### **Socially Liberal Approach Focused on Economic Justice, Climate Change, and Nonmilitary Means of Foreign Policy**

Progressives on the left side of the political spectrum reject Trump's zero-sum approach and, like the foreign policy establishment, see the interests of Americans and others around the world as intertwined. This is especially so when it comes to combating climate change. But they also seek to curtail pro-globalization policies in favor of efforts to protect U.S. manufacturing jobs and compete on a more

level playing field, especially vis-à-vis China. But unlike Trump, they emphasize economic and social justice in U.S. domestic and foreign policy and envisage a strong role for the federal government in promoting them through a mix of stronger social insurance programs at home, an ambitious environmental agenda, domestic industrial policy, and multilateral diplomacy overseas.

The COVID-19 crisis strengthens progressives' confidence in their approach for several reasons. They assert that the economic fallout of the crisis lays bare the deficiencies and inequities of our economic system while providing a glimpse of what more frequent and severe climate-induced weather shocks do to vulnerable populations. And they stress that the United States cannot afford to sustain the current levels of defense spending, given the country's already huge debt and the additional funds needed to offset the loss of workers' employment earnings, keep small businesses afloat, and invest in public health systems, among many other new requirements.

The fight against climate change, in particular, is framed as an overriding national security and economic interest, as well as the defining foreign and domestic policy challenge of the twenty-first century. Progressives believe that addressing this challenge would advance the economic interests of the middle class and all Americans—by incentivizing trillions of dollars of public and private investments in the transition to a low-carbon economy and by creating millions of new green manufacturing jobs to replace those currently dependent on fossil fuels. And while progressives see fiscal space for such investments in the current low-interest rate environment, they also support reducing the defense budget as a way of redirecting resources to such investments as well as to education, workforce development, and the well-being of the middle class more generally.<sup>60</sup> In their view, that would concurrently serve to advance another important national security interest, which is to rebalance the military and nonmilitary aspects of

**The progressives' approach seems likely to favor the interests of some middle-income workers and communities over others.**

U.S. foreign policy. They contend that this objective would be easier to achieve if the United States were less dependent on fossil fuels, as it would reduce the need for a long-term military presence in the Middle East.

But the progressives' approach seems likely to favor the interests of some middle-income workers and communities over others. The vast majority of coal, oil, and gas production, for example, occurs in rural counties, some of which will be ill-suited for green energy projects. This production is not just supporting profits for big oil companies; it is also anchoring the local economies of places like Weld County, Colorado, where extractive industries provide well-paying jobs for those without a college degree and deliver severance taxes that pay for local services, municipal workers, county clerks, and other middle-income jobs. In other areas, royalties on drilling help keep struggling farms afloat and, as in the case of North Platte, Nebraska, shipments of coal support middle-class rail transportation jobs. Case studies of coal-dependent counties by Brookings have shown how the rapid

decline of a community's base industry, specifically coal, can lead to economic downturns and the collapse of local governments' fiscal conditions due to "the inability to raise revenue, repay debt, and/or provide basic public services."<sup>61</sup>

Similarly, defense dollars benefit not only shareholders and top executives of major defense contractors but also rural counties and mid-size cities across the country. The Wright-Patterson Air Force Base in the Dayton metropolitan area, for example, is the largest single-site employer in Ohio.<sup>62</sup> The base helped to keep the regional economy afloat following the departure of major employers, such as the GM assembly plant and the National Cash Register. In addition, the defense sector, anchored in Colorado Springs, is a huge driver of middle-class jobs across Colorado.

There is also a significant political dimension to transitioning to a low-carbon economy and reining in defense spending that cannot be ignored. Like in Democratic-voting areas, plenty of Republican-leaning communities are pursuing "green projects" as an engine of economic growth in their communities. And like their Republican counterparts, there are plenty of Democratic members of Congress who fight hard to preserve defense spending that supports jobs in their districts and states. Notwithstanding, far more of the rural counties and mid-size cities that host coal, oil, and gas companies, as well as defense facilities, vote for Republicans than for Democrats. For example, of the 504 counties considered to be "mining-dependent" according to the United States Department of Agriculture, well over 80 percent of them voted for Republicans in the last two presidential elections.<sup>63</sup>

There is no equivalent and widely accepted standard for determining defense dependency. However, according to various data sources, defense personnel account for 10 percent or more of the workforce in areas commonly considered to be economically dependent on defense spending, such as Sarpy County in Nebraska, El Paso County in Colorado, and Greene County in Ohio.<sup>64</sup> By that measure, ninety-one counties and boroughs across the nation could be considered defense-dependent—three-quarters of which voted for the Republican candidate in the last two presidential elections.<sup>65</sup>

Thus, the shift in U.S. foreign policy that progressives have in mind will face more resistance in certain parts of the country and negatively impact more Republicans than Democrats—at least in the near term. If progressives intend to rely on economic adjustment assistance to ease the "just transition" to a low-carbon economy, they will need to address the inadequacies of past assistance—not only for workers but also for the communities that lose their base industries. Some of the ideas progressives have floated do, in fact, envisage far more generous economic adjustment assistance for displaced workers in the fossil fuel industries than was provided for trade-displaced workers. For example, Senator Bernie Sanders proposed guaranteeing five years of current salary—in addition to housing, healthcare, and pension assistance and job training and priority job placement—for any displaced worker.<sup>66</sup> And the massive increase in federal

government spending on green jobs that progressives advocate is likewise a critical element of the element of the economic adjustment assistance they have in mind. But it is uncertain whether Congress will adequately fund such proposals. The affected communities therefore have legitimate concerns about how they will offset the loss of their base industries, especially where geographic considerations and workforce availability preclude the hosting of solar farms, windfarms, or other forms of renewable energy.

Finally, just like Trump's proposal to cut foreign aid, the progressives' proposal to slash defense spending largely remains silent on the potential longer-term security and economic risks of doing so. No one expressed any enthusiasm for starting additional wars. At the same time, no U.S. administration gets a pass on international emergencies, foreign military challenges, or new emerging threats during its tenure. Depending on how the United States reduced its force structure and posture, the risk of war could go up, not down.

### **Reconciling Competing Foreign Policy Visions in the Post-COVID-19 Era**

None of the three competing visions alone offers a prescription for making U.S. foreign policy work optimally for America's middle class. While they share some important strengths worth preserving, they have strategic weaknesses as well. This points the way toward a fourth approach that draws on elements of each but differs clearly from them too. Unlike under the three current visions, a foreign policy for the middle class under this approach would

1. address the downside risks of today's more interconnected security, economic, and social environments much more directly and pay more attention to ensuring that the benefits are more widely shared;
2. advance a shared prosperity and global security through international leadership, engagement, and positive-sum thinking; and
3. maintain a robust defense posture to undergird U.S. diplomacy, foster global stability, and ensure continued access and integration with the global markets on which the U.S. economy depends.

The United States should pursue a foreign policy that directly supports a global economic recovery—by building resilience through multilateral cooperation, fashioning a trade agenda that better aligns with the interests of U.S. businesses and workers, modernizing trade rules and enforcement tools, and increasing public investment in U.S. global competitiveness (see Chapter 3). It should also focus more of its U.S. diplomatic, development, defense, and intelligence activities on promoting international stability and preventing global shocks that could devastate U.S. middle-class households and communities (see Chapter 4). Taken together, these measures represent a comprehensive agenda for making U.S. foreign policy work better for the middle class and, indeed, all of America.

## **ELEVATING MIDDLE-CLASS INTERESTS IN FOREIGN ECONOMIC POLICY**

The United States should use its tremendous wealth and power to shape a global economic recovery that will help advance middle-class well-being. It should reject a zero-sum mentality and recognize that a collapse in the global economy would be disastrous for all Americans. In supporting a global recovery, the United States should align its foreign policies with domestic ones needed to address the major economic challenges facing Americans at home and ensure that the gains are enjoyed by more than the nation's top earners or certain population groups. Public investments and tailored policies will be critical to enabling working-class Americans and SMEs to better compete on a fair and level playing field.

Pursuit of these strategic objectives has rarely been more important than it is now, as the country picks up the pieces in the wake of the pandemic and faces a difficult economic recovery. Seven lines of effort offer a starting point for making U.S. foreign economic policy—encompassing international trade, investment, finance, and economics—better serve Americans' economic interests:

1. Design international policies that will stimulate job creation and allow incomes to recover.
2. Revamp the U.S. international trade agenda to level the playing field with other countries while pursuing domestic policies that advance more inclusive economic growth.
3. Modernize U.S. and international trade enforcement tools and mechanisms to better combat unfair foreign trade practices.
4. Pursue other transnational agreements that close regulatory and governance gaps across jurisdictions to improve burden-sharing and address equity concerns.
5. Craft a National Competitiveness Strategy to drive policy innovation and better align government resources.

6. Spur investment in the competitiveness of a wide range of U.S. businesses and communities to bolster productivity, wages, and economic mobility.
7. Deepen support to SMEs to help them compete in global markets.

### **Shape the Global Economic Recovery in the Wake of COVID-19**

The coronavirus pandemic swiftly ended a ten-year economic expansion that finally achieved full employment and delivered solid wage gains for many middle-class Americans. In response, national and international economic policymakers have initiated large fiscal and monetary interventions to stabilize markets, support the unemployed, and create financial lifelines for businesses trying to weather the storm. As these policies evolve, the United States will need to use its leadership in the G20 and international financial institutions to promote an agenda for ending the deep global recession and preventing secondary crises that could imperil the United States' recovery.

In the short term, the United States needs to foster financial stability. U.S. policymakers must help design international policies that guard against shocks in global capital markets—shocks that could roil the U.S. financial system and threaten the ability of middle-class families to build and preserve wealth, such as retirement accounts and home equity. First and foremost, this will mean continuing commitments to support ample liquidity and credit growth in major

markets, including through unconventional tools such as quantitative easing. It will also require regulators to keep a sharp eye on bank capitalization to ensure the banking system withstands the jolts from inevitable bankruptcies and defaults even as the global economy recovers.

In the medium term, the United States must foster a strong and sustained economic recovery that can reconstitute millions of lost middle- and lower-income jobs, create new ones, and allow U.S. businesses to rebuild. Following the 2008-2009 financial crisis, governments took their foot off the pedal far too soon, leading to a slow and jobless recovery. While macroeconomic policies are generally the remit of domestic economic policymakers, international

policymakers have a critical role to play in deconflicting those national policy responses. A reinvigorated G20 should facilitate that coordination and initiate collective efforts to enhance financial market supervision in light of much higher corporate and government debt; expand infrastructure investment to boost long-term growth prospects; and deepen cooperation on climate-related finance to increase financial resilience, meet the costs of adaptation, and ease the transition to cleaner energy. Regarding international financial institutions, the United

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States will need to assess—and decide whether to support—the policy prescriptions advanced by technical experts and other member states to support faltering economies abroad.

Finally, as U.S. policymakers work to promote sound economic policies abroad and safeguard a smooth recovery at home, they must push back against protectionist impulses. Times of severe economic stress can tempt political leaders into scapegoating outsiders and fomenting nationalist sentiment. For example, governments may have trouble abandoning the temporary controls put on various activities in response to COVID-19, such as restrictions on certain exports, travel bans, and vaccine development and distribution activities—all of which could impose new costs on middle-class households.

### **Revamp Trade Policy Objectives and Reform Processes**

The unprecedented closures of international borders, shutdowns of national economies, and COVID-related export and import controls have severely disrupted global markets for goods and services. The World Trade Organization (WTO) estimates that global trade experienced a year-on-year drop of approximately 18.5 percent in the second quarter of 2020 and will decline between 13 and 33 percent for the year overall.<sup>67</sup> Reviving the global trading system upon which many middle-class livelihoods depend is a daunting but crucial task.

The many interviews conducted in Ohio, Colorado, and Nebraska did not reveal a single common middle-class view on trade, although misgivings about its uneven impacts were fairly common. People's views largely depended on which industries their communities rely on for employment and whether those industries are export-oriented or import-sensitive. Views also varied depending on the size and flexibility of the community's economic base, with some communities able to shift to and attract new industries, while others struggle. That said, few believed that the United States should disengage from the global trading system. The majority understood that trade lowered consumer prices, widened product selection, and created jobs in the United States. They also understood that expanding global trade had contributed to economic growth at home and abroad. In a February 2020 Gallup poll, 79 percent of Americans agreed that international trade represents an opportunity for economic growth.<sup>68</sup> But they also believed that certain trade developments had caused acute pain and dislocation in some communities across the country and that the government had dealt with those impacts poorly.

U.S. trade policymakers therefore face a difficult challenge: how to expand U.S. trade in a way that benefits all Americans, while understanding that trade will never be distribution-neutral across sectors. Through mechanisms such as the Trade Promotion Authority, Congress and the administration will need to set clear objectives for trade negotiators on policies to advance middle-class interests. But much more importantly, they must ensure that domestic policies

address the distributional issues and prepare U.S. workers and companies for a more competitive future (see Chapter 4).

With that strong caveat in place, U.S. policymakers must first prioritize provisions in trade agreements that could strengthen the American middle class. This will require an honest assessment about whether the United States-Mexico-Canada Agreement (USMCA) achieved this goal and whether it can or should be replicated. On this question, opinions are now sharply divided across the political spectrum, as illustrated by the varying views of this study's task force. Some task force members assert that Congress's overwhelming support of USMCA's passage demonstrates that securing concessions long sought by organized labor is the key to rebuilding bipartisan support for U.S. trade policy. They see USMCA—which improved labor standards in Mexico and raised minimum wage requirements to shift production of automobiles and parts back to the United States—as a new baseline.

Others task force members argue that USMCA's restrictive rule of origin for autos—with the wage and domestic production requirements—benefits only auto workers while it increases costs for all U.S. consumers and diminishes U.S. competitiveness globally. They assert that USMCA was approved with these provisions only because Trump threatened to terminate the North American Free Trade Agreement—risking serious harm to the U.S. economy and to Canada and Mexico, which both depend on the United States for about 75 percent of their exports.<sup>69</sup> And they believe many Republicans in Congress only agreed to the deal because Trump negotiated it, notwithstanding that it crossed many of their deep redlines. They never would have done so, and will be unlikely to do so again, if it were negotiated by a Democratic president.

U.S. trade policymakers should next explore—keeping in mind prevailing political realities and urgent domestic needs—whether to focus on negotiating new trade agreements. At their best, trade agreements can foster job creation and investment in growing and competitive industries and rebuild confidence with close trading partners. Yet some argue that narrower sector- or issue-specific deals would be better. Such agreements could offer a quicker way to reach consensus on certain key issues, such as digital trade or government subsidies in certain industries. Their attendant adjustment costs might also be more manageable. However, this approach risks neglecting other U.S. priorities—important to American workers and firms—that a more comprehensive deal could have secured.

Finally, policymakers need to assess the current policy formulation process, which some view as too closed and too pro-business. The current U.S. advisory structure run by the USTR, in close partnership with the Commerce Department, relies on business input, including its expertise on specific, often technical issues under negotiation. Organized labor, nongovernmental organizations, consumer advocates, state and local governments, and other groups have had a larger voice over the years, but more can be done. For example, the president's Advisory Committee for Trade Policy and Negotiations, which is the highest

body in the existing USTR advisory structure, can have up to forty-five members, but only twenty-two seats are filled and there is ample room to appoint representatives from outside the traditional business community.<sup>70</sup> The International Trade Commission could contribute by including analysis of regional and local economic impacts, not just industry impacts, into their congressionally mandated reports that analyze trade agreements. And public hearings could be held throughout the country as major U.S. trade policy decisions are being formulated and finalized.

## **Modernize Trade Enforcement Tools to Combat Unfair Trade Practices**

A more targeted and inclusive approach to market-opening initiatives must be married with stronger trade enforcement tools. Interviewees expressed widespread support for pushing back against foreign trade practices that severely disadvantage U.S. firms and workers. Many appreciated Trump's more confrontational approach but also voiced concerns about the weaponization of trade, which invites retaliation against U.S. businesses and workers and chips away at trading partners' trust and goodwill. More active enforcement that uses U.S. leverage judiciously would help to rebuild faith in open economic systems.

First, U.S. trade laws should be modernized to enable earlier, faster, and more effective responses to unfair trade practices, particularly trade-distorting forms of financial assistance such as state subsidies that lead to overcapacity. The United States has an arsenal of trade laws, but many do not reflect today's new realities, including the magnitude and scope of Chinese unfair trade practices. This body of law merits a comprehensive review, with a keen eye to provisions associated with antidumping, treatment of state subsidies, use of safeguards, and invocation of national security concerns.

For example, the ability to respond more quickly and effectively to signs of manufacturing overcapacity in China could help protect middle-class jobs in key sectors. As it stands now, the overly legalistic process often takes years to conclude, by which time the harm to individual workers, families, and communities has already been done. Taking into account the United States' international obligations, the U.S. government could explore options to make it easier and cheaper for businesses to initiate enforcement actions, as well as take direct action to save small businesses the costs associated with filing cases. At the same time, Congress should review statutes that grant the president unilateral authority to raise tariffs, particularly to address national security concerns.<sup>71</sup> Trump has invoked these concerns with questionable justification, leading other countries to impose stiff retaliatory tariffs on U.S. exports and generating policy uncertainty that weighs on business investment and confidence.

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Second, the U.S. government should address the accountability gap in trade enforcement. For historical reasons, trade enforcement authorities are spread across the government, including in the USTR, Department of Commerce, and International Trade Commission. That diffusion of authorities is not easily or wisely unwound, but it makes it harder to project a clear and decisive response to trade infractions to the U.S. public and likely contributes to public doubt about how government protects their interests. The government should seriously consider housing a senior-level enforcement czar in the NEC.

Finally, the United States needs to enhance conflict resolution in the arena of international trade. This includes a pragmatic plan for what can (and cannot) be accomplished through the WTO. Over the past seventy years, the rules-based global trading system anchored in the WTO made enormous progress in reducing tariff and nontariff barriers. In recent years, however, this progress has stalled due to the difficulty in achieving consensus among the WTO's now 164 members. The organization's outdated rules also make it hard to address the challenges posed by nonmarket economies, particularly China. The WTO's dispute settlement system is paralyzed by an ongoing stalemate. As global rule making and trade settlements have ground to a near halt, more plurilateral, bilateral, and even unilateral activities have ensued.

This impasse has led some in Congress to call for a U.S. withdrawal from the WTO. But many others argue that the United States benefits from its participation, including through its powerful influence over the organization's direction and agenda. A realistic compromise would be to prioritize concrete reforms in a limited set of areas, including addressing the current "free rider" problem of sectoral agreements, new rules on domestic subsidies creating overcapacity, and intellectual property protections, while making it clear that large emerging economies need to put more skin in the game and be willing to consider new approaches.

### ***Explore Ways to Close Jurisdictional and Regulatory Gaps***

Reviving national economies and the global trading system is a critical first step to recovery, but it is not sufficient for delivering long-term inclusive growth. Of course, the latter will require significant policy innovation on the domestic side, but it also means capitalizing on opportunities to close regulatory and governance gaps across national jurisdictions and address various equity concerns related to them.

A more open and competitive global economy—a long-held goal of U.S. foreign policy—has created countless openings for businesses around the world to expand and innovate. It has lifted millions from poverty, spurred technological innovations, and improved productive efficiency. In the process, a set of international institutions have been built to promote collaboration while respecting

national sovereignty. While advancing the interests of the middle class, strengths of the current system must be preserved.

At the same time, close attention must be paid to the cracks in global economic governance that now undermine the overall fairness of the system, especially the absence of mechanisms to ensure reasonable burden-sharing across segments of society. Gaps in national tax frameworks, for example, provide loopholes for large multinationals to shelter profits, reduce tax liabilities, and erode tax bases at home. Gaps in regulatory frameworks enable large, dominant firms to exploit their growing market power and engage in anticompetitive practices, which constrains economic dynamism and opportunities. Gaps in labor and environmental protections allow domestic firms to move production (and jobs) into low-standard and low-enforcement environments, diminishing the bargaining power of labor and shifting negative externalities into less regulated regimes. Left unaddressed, these gaps eventually undercut the rationale for economic openness.

The goal is not perfect harmonization across all these problem areas, which would prove unworkable and highly controversial. But it should be possible to find some common ground, as many of the United States' economic partners face similar challenges. A renewed push within international fora—such as the G7, the G20, and the Organization for Economic Cooperation and Development (OECD)—to agree on core principles in a few areas could close the more egregious gaps, enhance the sense of fair play, and demonstrate the potential power of international policy cooperation.

In the area of global taxation, reenergizing discussions on offshore tax havens will be critical. Companies use these jurisdictions for elaborate tax avoidance and transfer pricing schemes. While reducing their tax burden, they erode public finances and trigger popular resentment among other companies and ordinary taxpayers who must make up the difference. By some estimates, the U.S. government loses nearly \$70 billion in revenue annually, which amounts to nearly 20 percent of annual corporate tax revenue.<sup>72</sup> The United States should more actively support the OECD in its efforts to develop new global standards to address base erosion and profit-shifting practices.<sup>73</sup> There will be significant resistance to such an effort by multiple tax haven countries, including U.S. allies, as well as by some of the world's largest corporations. Closing the loopholes will involve serious, lengthy diplomacy by senior-level U.S. foreign economic policy officials, particularly from the Departments of State and Treasury.

In the area of competition policy, curbing the market abuses of large firms at home and abroad will help healthy SMEs to succeed. A more level playing field allows for greater innovation, lower prices, and higher product quality. To date, globalization has tended to reward companies with scale advantages, including serious brand recognition, access to cheap capital, proprietary technologies, logistical prowess, and platform and network models—effectively turning some

companies into global titans. In some product areas, large firms may simply be more globally efficient than small producers. In other areas, large firms may have erected artificial barriers to keep new competitors at bay. Each case requires a different solution and will benefit from cooperation with major trade partners. So far, the European Union has been the most active in this arena, pushing back against what it sees as anticompetitive practices by large U.S. firms, especially in the technology sector. The United States' reflexive response might be to defend these firms regardless of their business practices, but the bigger long-term picture should be kept in focus—as there may be common ground to address anticompetitive behavior that ultimately hurts the American middle class too. A set of agreements with Europe on the guiding principles or competition policy in different sectors could improve, not impede, business dynamism and job creation. And it could limit the ability of third-party countries, like China, to play states off against each other.

Finally, in the labor and environmental areas, recent trade deals could provide a springboard for broader international cooperation. For example, U.S. trade agreements now include strong, enforceable labor rules as well as requirements to clamp down on illegal wildlife trade and excessive logging and fishing. Some of those provisions—plus those pioneered by other countries—could be considered during G7 and G20 discussions on inclusive and sustainable growth. And longer-term negotiations on labor rules and best practices could begin to deal with the social costs of automation and offshoring, like job losses linked to stress-related illnesses and out-migration from economically depressed towns. Meanwhile, reinvigorated climate change negotiations could focus on how to transition away from fossil fuels without placing additional burdens on lower- and middle-class households and increasing energy poverty. Environmental policy will likely intersect more with trade policy in future years. For example, the European Union is designing a carbon border adjustment mechanism that will favor imports produced with low carbon footprints. U.S. trade negotiators will need to pay more attention to the convergence, if not harmonization, of regulatory standards related to climate change measures.

### ***Craft a National Competitiveness Strategy to Drive Policy Innovation***

By 2025, the world economy is expected to top \$100 trillion.<sup>74</sup> Across the globe, governments, businesses, and workers will strive to capture some of those gains for their countries and communities. Some governments will take a hands-on approach, while others will exert a lighter touch. Either way, the risks and opportunities of participating in this sprawling global economy merit attention.

America's economic future and security depend on its ability to compete globally. Millions of middle-class livelihoods across the United States already depend on the global economy. U.S. households rely on trade for many essential goods.

U.S. businesses increasingly rely on globally integrated supply chains and transportation links. And U.S. communities need skilled and flexible workforces—immigrant labor is especially crucial in places with declining demographics.

Government, at all levels, must play a more active role in ensuring that American workers and businesses can thrive in the twenty-first-century global economy. To this end, a National Competitiveness Strategy (NCS) should be developed and executed to (1) broaden the notion of national competitiveness and create supporting processes, (2) scale up ambitions and retool government agencies for a new age, and (3) align efforts at the federal, state, and local levels.

First, an NCS would force a deep rethink of the concept of competitiveness and how to strengthen it. Too often, competitiveness is seen through the lens of reducing the costs of doing business in the United States—primarily labor, regulatory, and tax costs—rather than through enhancing U.S. workforce productivity via education and supportive infrastructure at the local level. The World Economic Forum’s Global Competitiveness Index 2019 reflects this lopsided approach.<sup>75</sup> Out of 141 countries, the United States ranks first in costs of starting and closing a business, second in entrepreneurial culture, and second in market size. But it ranks twelfth in digital skills among the active population, fourteenth in the future workforce, twenty-ninth in labor tax rates, fifty-fourth in healthy life expectancy, and eighty-first in workers’ rights. The index also noted that U.S. public investments in active labor market policies have declined relative to other countries. Meanwhile, a separate analysis found that U.S. spending on active labor market policies is the second lowest in the OECD—at about 0.24 percent of GDP—and is perhaps half of what it was in 1985.<sup>76</sup>

An NCS could seek to identify and rectify these deficiencies. It would rely on a recurring Quadrennial Competitiveness Review—similar to the Quadrennial Defense Review done within the Department of Defense—to help devise, execute, and sustain a competitiveness agenda for the digital and globalized age. The NCS together with ongoing reviews could help set broad, ambitious goals or “moonshots”—for example, harnessing emerging technologies to deliver dramatic improvements in Americans’ health or accelerating the development of low-cost and clean nuclear fusion to cure cancer. In this way, an NCS could serve to bolster research partnerships among national laboratories, federal agencies, universities, and companies. It would require boosting funding for basic pre-commercial scientific research. It would also mean enhancing initiatives—such as the American Technology Preeminence Act and the federal Cooperative Research and Development Agreement—that stimulate R&D partnerships, equitably allocate intellectual property rights, reinvest tax dollars in the U.S. economy, and

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help maintain U.S. technological leadership. It could take into account the needs of local communities and ensure that a diverse group of Americans benefit.

Next, to support the NCS and guide its implementation, the U.S. government would need to identify an agency with the capacity and expertise to develop the strategy. This agency could be a reconfigured, focused, and well-resourced iteration of the Department of Commerce—perhaps renamed as the Department of Competitiveness. The agency would then design and lead the Quadrennial Competitiveness Review to ensure that the NCS is effectively implemented, sustained, and updated as needed. The secretary of this retooled agency would actively mobilize the executive branch, state and local leaders, and the private sector—as well as provide a much-needed public face to U.S. competitiveness efforts. The White House must play a central role in coordinating the effort and guiding the retooling and reorientation of all departments and agencies concerned. Given the need for high-level attention over several years, the obvious senior official to play that role would be the NEC director, supported by the Office of Management and Budget.

An NCS would not pick “winners” within a given industry but instead broadly align efforts with the needs of society and boost new hubs of innovation all across the country. This should include, for example, supporting the development of U.S. capabilities in biotechnology, artificial intelligence, nanotechnology, and aeronautics. As key pillars of this century’s economy, these areas are likely to enjoy bipartisan support—which is crucial for sustaining long-term investments across electoral cycles. An NCS could help to (1) identify the authorities needed to pursue a competitiveness agenda, (2) justify federal funding for key elements, (3) create greater policy accountability, and (4) sustain the United States’ technological edge. It could also help to identify and address the structural obstacles to helping Americans compete and win in a globalized economy.

Finally, a national strategic framework developed under the NCS would help to further align local, state, and national efforts. It could guide the design of state- and local-level strategies, map out the resources needed, and build a case for dedicating a modest percentage of the federal budget to supporting seed projects around the country that advance the strategies’ objectives. Finally, it could create more certainty for private investors by laying out long-term federal priorities and matching them with sectoral and regional initiatives.

### **Catalyze Investments in the Global Competitiveness of U.S. Communities**

A comprehensive NCS would guide investments in U.S. communities to bolster the long-term economic prospects of the American middle class and create the next generation of high-wage jobs. Public investments would be needed to close the most critical investment gaps. But the bulk of the investment must come from the private sector, and more creative policies are needed to stimulate that

investment. Innovative public-private partnerships, for example, could turbo-charge R&D, upskill local workforces, and integrate businesses into global supply chains. In this way, they would strengthen the local economic base, generating long-term dividends for many industries and positive spillovers in many U.S. communities (see Chapter 4).

Currently, federal, state, and local governments lack many of the policy tools and coordination mechanisms needed to drive this wave of private investment. Federal officials are mostly sidelined—limited to touting the investment advantages of the United States to foreign investors through programs like SelectUSA and perhaps giving a push when a foreign company is on the fence over a specific investment. In comparison, state officials are arguably overinvolved—driving governors, mayors, and local leaders to compete fiercely to snag investors and creating a race-to-the-bottom in which states outbid each other in offering tax credits. Too often, actual job creation falls short of the promise, and the “winning” state is left with a significant dent in its tax base. In addition, the “winning” states are often wealthier and larger, even though it might be smaller and poorer states that could benefit the most. Meanwhile, the numerous struggles facing communities—such as the physical health and well-being of the U.S. workforce, the expensive and uneven educational system, the dilapidated state of U.S. infrastructure, interstate jurisdictional fights, and other, deeper structural problems—remain.

A better approach would be to leverage the federal government’s significant funding capacity to stimulate broad investments in the long-term competitiveness of U.S. communities. Many communities have at least some of the components necessary for success in a modern economy: workers who desire to learn new trades, universities and community colleges to support this learning, and affordable housing. What they sometimes lack is the right mix of scientific expertise, technical training, transportation infrastructure, and community services—and, more importantly, the financial capital to address these deficiencies.

This is an arena ripe for policy experimentation. For instance, the federal government could launch a series of competitions for local R&D and workforce development grants. Communities vying for the grants would need to have a comprehensive economic development strategy grounded in their existing strengths, such as thriving business clusters, a skilled workforce, community colleges and universities, or advantageous geography. They would also need to make credible commitments to supplement the federal funds. Unlike a tax-cutting race to the bottom, this healthier form of competition would be based on the community’s assets and a precise development pitch. Such competitions could also be designed to spark breakthroughs in public health and community resilience.

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In another innovation, SelectUSA could be folded into a broader InvestUSA initiative that incentivizes domestic and foreign companies to (1) train local residents and develop apprenticeship programs, (2) share best operational practices, (3) integrate existing local firms into global supply chains, (4) improve environmental sustainability, and (5) find ways to strengthen community wellness. The initiative could also oversee an investment arm—a national venture capital fund focused on fostering competitiveness—that co-invests in select ventures, giving the government a small ownership stake in certain businesses. In addition, it could lead an enforcement program that discourages negative practices, including those that unnecessarily restrict labor mobility or bargaining rights, push for local spending of limited value to the community, or promise excessive tax breaks that mean cuts to public services.

When looking at key economic areas, it will be vital to examine U.S. competitiveness in sectors that confer security advantages, such as those identified in the National Security Strategy and National Defense Strategy. Examples would include satellite communications, command-and-control systems, critical components for logistical networks, energy technologies, and artificial intelligence. Conceivably, large foreign firms could amass significant competitive advantages, which impede the growth of U.S. companies in these areas and potentially threaten national security. Some of these situations may warrant state subsidies to help a domestic firm get established and achieve scale. The subsidies may be justified in economic terms, too, if they curb the power of a global monopolist or protect consumers. But government support to private industries is controversial and will require transparency. And the side effects must be carefully considered since subsidies can introduce new disparities at home, set off a lobbying frenzy to gain or preserve rents, and cause long-term economic distortions.

### **Lower Barriers That Prevent SMEs From Competing Globally**

With 96 percent of the world's population located outside of the United States, U.S. firms and workers have abundant opportunities to sell their goods and services to vast and growing foreign markets. This is why U.S. trade negotiators have spent years pushing foreign counterparts to break open their markets and why the federal government must do more to help its SMEs fully exploit these opportunities. The rewards are substantial: increased production, higher wages, and diversified markets.

Supporting SMEs will require significant public and private efforts. Most businesses face stiff competition and complex challenges in foreign markets. And many SMEs cannot easily absorb the upfront costs and ongoing operational risks associated with global operations. Challenges include identifying markets where demand for their products or services are highest, deciphering applicable trade

rules and procedures, vetting partners and counterparties, and navigating foreign rules and regulations. Thus, SMEs are underrepresented in export markets, and larger firms tend to dominate.

Yet SMEs are the primary engine of job creation in the United States, and middle-class Americans own and operate many of them. Understanding this, every administration over the past four decades has expressed a strong desire to help SMEs become better exporters. Unfortunately, these efforts have fallen short, owing to a fragmented approach and anemic funding.

A few crucial steps could improve the situation. First, the federal government needs to shift from a retail model to a wholesale model of helping American businesses. Today, the Department of Commerce oversees local U.S. Export Assistance Centers (USEACs) across the country. The centers offer one-off counseling and technical assistance to firms with tradeable products or services. Yet many SMEs are unaware of the services. The government should increase USEACs' outreach funding and foster closer working relationships with mayoral, gubernatorial, and congressional offices. It should also supplement local USEACs with a national service center that allows businesses to work online with export assistance professionals. That would increase the availability of detailed information to smaller firms, including on how to make use of trade agreements, foreign laws and regulations, and trade data.

Second, export promotion efforts need stronger internal coordination within the federal government. Currently, these initiatives are dispersed across an alphabet soup of agencies, which coordinate through the Trade Promotion Coordinating Committee (TPCC). But the frequency of TPCC meetings varies with the administration in power, rendering it unable to lead any sustained effort on export promotion. To remedy this problem, oversight responsibilities should be moved to a standing, consolidated agency, which includes civil society representatives and professional experts. Keeping the TPCC function—embodied in the form of a new agency—at the Department of Commerce would provide the easiest access point for American businesses.

### **Need for Concerted Action**

No single action—such as a new tax reform, trade agreement, or reorganization of the federal government bureaucracy—will deliver broad-based prosperity for the American middle class. Rather, it will take steady and concerted policy attention across many fronts. It will demand engagement across all the economic agencies and skillful coordination from the NEC and other entities at the White House. It will require bridging deep partisan divides in Washington to make the necessary fiscal resources available and ensure that policy solutions enjoy

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sufficient, sustainable broad-based support across the political spectrum. And while domestic policies will be the key to solving the distributional challenges affecting the middle class, U.S. national security strategy and foreign policy need to adapt as well, as elaborated in the next chapter.

## **ELEVATING MIDDLE-CLASS INTERESTS IN DIPLOMACY, DEFENSE, AND ECONOMIC SECURITY**

The interviews in Colorado, Nebraska, and Ohio made it crystal clear that middle-class Americans are not counting on U.S. diplomatic, development, defense, and intelligence efforts to transform other nations but rather to protect the United States from the worst happening. They want officials tasked with these efforts to prioritize the promotion of global stability and the reduction of the U.S. vulnerabilities—likely even more so now and in the post-COVID-19 era.

There are serious strategic implications associated with reorienting activities to address these priorities, however. A focus on promoting global stability will make disengagement untenable, because a world without effective U.S. presence and leadership is a world where preventable or containable events can quickly escalate into international crises with devastating economic consequences. Americans are experiencing the effects of disengagement right now with COVID-19. But a focus on preventing global shocks also makes escalating geopolitical competition untenable, especially with China. Such competition could generate beggar-thy-neighbor policies or spark deadly confrontation, which could, in turn, cause dramatic economic shocks, inhibit effective global responses to them, and divert much-needed investments in the middle class.

To chart a different path forward, policymakers need to build and invest in international cooperation structures that provide the best insurance against those shocks and better manage the risks of systemic instability due to growing geopolitical competition, particularly with China.<sup>77</sup> They must also closely assess U.S. vulnerabilities to future potential shocks and invest in greater economic resilience at the community level. Seven lines of effort offer a starting point:

1. Bolster U.S. diplomatic leadership to mobilize effective global action and better advance middle-class interests.

**To chart a different path forward, policymakers need to build and invest in international cooperation structures that provide the best insurance against those shocks and better manage the risks of systemic instability due to growing geopolitical competition, particularly with China.**

2. Manage strategic competition with China to mitigate risk of destabilizing conflict and counter its efforts toward economic and technological hegemony.
3. Anticipate risks in a digital future and improve international policy coordination to reduce the threat of a digital crisis and promote an open and healthy digital ecosystem.
4. Boost strategic warning systems and intelligence support to better head off costly shocks and build up protective systems at home.
5. Shift some defense spending toward R&D and technological workforce development to protect our innovative edge and enhance long-term readiness.
6. Strengthen economic adjustment programs to improve the ability of middle-class communities to adjust to inevitable changes in the pattern of economic activity.
7. Safeguard critical supply chains to bolster economic security.

### **Bolster U.S. Diplomatic Leadership to Mobilize Effective Global Action**

Future shocks are likely to arise from international developments that no nation can fully predict or manage on its own. COVID-19 is a perfect example, of course, but looking ahead to the long-term effects of the pandemic, more surprises will be in store. Episodes of political instability seem inevitable as governments worldwide struggle to manage severe political stress, deliver adequate healthcare, curb behaviors (and freedoms) that spread the virus, and boost their economies.

Many middle-class Americans interviewed across Colorado, Nebraska, and Ohio understood the risks of political isolation and rejected the idea that the United States is somehow better off alone. They want the United States to remain a positive and constructive force around the world and to defend its core values. They appreciate that noneconomic considerations—like humanitarian crises, long-term economic development needs, and human rights—need to play a role in U.S. foreign policy. But they remain concerned about serious problems at home and the potential costs of political overreach abroad.

Most interviewees see U.S. foreign aid as about more than short-term transactional gains. They understand it serves a wider purpose. It alleviates human suffering, helps to stabilize societies, and reduces the risk of civil and social unrest. It improves health, promotes schooling, and fosters economic development, which creates new markets for U.S. goods and services. It strengthens the political and diplomatic ties between the United States and others and creates good will toward Americans.

These middle-class Americans also accept that at times the United States needs to speak out against human rights abuses and punish nations whose

actions undermine these values. They understand that these regimes make the world less safe and less free and hence less stable and less prosperous over the long term. Governments that severely restrict political freedoms at home may find free speech in other countries threatening and seek to curtail it. They may seek to undermine neighboring democracies that threaten their political legitimacy. They may deeply oppress minorities in their own country, which can escalate to the point of genocide and mass migration that destabilizes whole regions.

But middle-class Americans are concerned about the costs and unintended consequences of international confrontations and the potential for political overreach. They want the country to exercise its power judiciously and to selectively seek out the best opportunities for effecting positive change.

Instead of quitting the international system out of frustration, the United States needs to decide when and where to lead in international organizations—such as the United Nations, multilateral development banks, international financial institutions, and specialized agencies with universal membership, such as the WHO. Working from within, U.S. diplomats and official representatives need to anticipate and head off problems, steer the coordination of international responses to global crises, and direct aid to the most vulnerable countries.

To accomplish these goals, the international affairs budget must be protected—even in the face of severe fiscal constraints. It is currently \$54.4 billion (Fiscal Year 2019), or about 1 percent of the federal budget.<sup>78</sup> Those interviewed during this research understand that the federal government spends only a small portion of its budget on diplomacy and development, and very few support cuts to those budgets. Over the next several years, the United States should increase that level of funding by at least 20 to 30 percent to ensure a robust, modern twenty-first-century State Department and well-resourced development agencies, particularly the U.S. Agency for International Development.

A healthier budget also helps to meet financial commitments and obligations to international organizations, so that they have the resources to deploy in a crisis and so the United States maintains considerable influence in setting their agendas. As of April 2020, before the Trump administration pulled out of the WHO, the United States owed roughly \$200 million in arrears in membership dues and assessed fees.<sup>79</sup> Undoubtedly, international organizations created decades ago must be remodeled to effectively meet the looming challenges of this century. The United States should not be writing blank checks to international organizations. Yet, at the same time, their shortcomings can hardly be improved with little or no engagement. The United States not only sits on their governing boards but wields tremendous influence in setting their policy and management agendas. It has significant leverage over the appointments of senior officials in these organizations and has ample opportunity to hold them accountable. Granted, the United States does

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**It will take highly skilled diplomats and security professionals to manage growing strategic competition with China—a country that represents a security threat, economic competitor, and global partner all at once.**

not have a completely free hand. The very thing that makes such international organizations so valuable as a means of mobilizing global burden-sharing—their universal membership—also makes their governance extremely complicated and cumbersome. But this just underscores the importance of sending more, and seasoned, U.S. diplomats into battle to fortify these international organizations—which are often the first and only line of defense against global developments that could spell economic disaster for Americans.

Finally, there is a sense that we need to get our own house in order. U.S. credibility needs to be rebuilt through the redress of democratic deficits and social, racial, and economic injustice at home even as it seeks to reclaim the moral high ground abroad. For the foreign policy community, this means assessing the distributional impacts of proposed policies. It also means recruiting a more diverse workforce into the U.S. foreign policy community, including people from less privileged socioeconomic backgrounds, and incorporating more stakeholders into the policy formulation processes.

### **Manage Strategic Competition With China**

It will take highly skilled diplomats and security professionals to manage growing strategic competition with China—a country that represents a security threat, economic competitor, and global partner all at once. China's opaque political decisionmaking, its ambition for greater regional hegemony, and its huge economy make it an ongoing potential source of major shocks and antagonistic power plays. On the other hand, China is essential to devising solutions to common problems. This duality should guide U.S. policy toward China—not naïve

assumptions about China's benign intent or growing calls in both political parties to wage a new Cold War. The U.S. foreign policy establishment must prioritize managing the risks to middle-class well-being emanating from this strategic competition, such as potential job losses and financial instability owing to a major economic showdown and intrusions into their personal data, online activities, and privacy (see box 2).

Given the high stakes involved, the United States must seek to deter major power conflict and ensure freedom of access in all major arteries of global commerce. To do that, the U.S. military will need to retain dominance within the global commons and sustain alliances that provide critical platforms to project power globally—even though the Chinese will often construe these measures as hostile. The U.S. military should sustain and increase investment in new offshore capabilities, including in the areas of intelligence, command and control, cyber, and space. It should also invest more in advanced unmanned systems, including the artificial intelligence and machine learning required, as well as advanced munitions and other

### **A Multifaceted and Strategic Approach to China**

A foreign policy that works better for the middle class argues for a broader and more strategic approach to the challenges posed by China. That will necessitate a wide range of policy tools and a careful balancing act between the economic benefits of continued trade and investment and the many risks associated with China's unfair trade practices and its growing use of investment and aid programs to gain influence abroad.

- Many different proposals in this report have relevance for creating a more multifaceted approach to China.
- In foreign economic policy and diplomacy, the United States should coordinate a global economic recovery that protects economic freedoms, engage in multilateral fora to counter Chinese influence, build new coalitions with like-minded allies and trade partners to address emerging challenges in the digital realm, create policy responses to state-led industrial policies, and support developing nations seeking an alternative to Chinese leverage.
- In the national security realm, the United States should fund healthy military budgets that allow it to blunt Chinese destabilizing incursions in the Asia-Pacific region, repurpose some defense dollars into strategic industries and critical workforce skills, and counter China's push for technological dominance in certain sectors.
- In economic security and domestic resilience, the United States should combat unfair Chinese trade practices, aggressively defend the country's innovative edge and intellectual property, and reduce undue reliance on Chinese suppliers for critical goods.

long range, penetrating strike options.<sup>80</sup> Given more flexibility by Congress, the Department of Defense could make these investments within existing or somewhat reduced appropriations, such as in ground forces, legacy platforms, and possibly nuclear forces if the appropriate arms control agreements are in place and being honored.<sup>81</sup>

In addition to a well-calibrated defense posture, the United States must develop a more robust strategic posture on technological competition with China. The government of President Xi Jinping has come to see technological prowess as the key to China's continued economic rise and its ability to defend its national sovereignty against Western interference. Influential circles in China argue that technological dominance is a source of "comprehensive strength" and that the government can use its unique powers (and control) to create home-grown champions in the high-tech industries of the twenty-first century.<sup>82</sup> As a result, the Chinese government offers state subsidies to strategic industries, spends heavily on R&D, and invests in global technology fora and international governing bodies. Reflecting China's initial thinking, Made in China 2025 was a ten-year plan (issued in 2015) to encourage the production of higher value-added products. The China Standard 2035 plan (expected later this year) will

lay out the country's long-term goal for global technology standards. The United States needs to take this technological competition very seriously, as discussed in the next section.

While hardening U.S. postures in some arenas, the United States needs to carve out other diplomatic spaces where it can engage constructively with China to their mutual benefit. For example, the United States often needs Beijing's

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cooperation to neutralize rogue regimes, nonstate actors, and unconventional threats that could harm the United States. To do so, U.S. diplomats engage with their Chinese counterparts across a range of international fora to deescalate those situations. When bilateral engagements become excessively politicized, it puts Americans' safety at risk. Mutual recriminations between the United States and China are now dominating meetings in the WHO, the UN Security Council, and the G20, drawing attention away from the public health and economic dimensions of the

coronavirus crisis, among other concerns. Endless confrontation and impulsive escalation between the world's two largest economies sow public fear, undermine investment, and cost jobs—none of which serves the interests of the American middle class.

A more nuanced approach to China would yield greater benefits to middle-class Americans. Most of those interviewed in the three states want the United States to push back more effectively against unfair Chinese trading practices and make investments at home to compete more successfully with China.<sup>83</sup> But otherwise they tend to see China pragmatically and are not inclined to view the geopolitical rivalry as an organizing principle of U.S. foreign policy.

Such an approach would also enjoy far greater support among U.S. allies and partners, who prefer military deterrence over intervention and want clearer parameters for economic competition among the world's two leading economies. As such, the United States would be far more likely to have other nations by its side when it confronts China on unacceptable behaviors, including human rights violations, as it must. That would be far preferable to the current trajectory, where U.S. allies are increasingly hedging their bets between the United States and China.

### **Anticipate and Manage Risks to the Digital Future**

An arena of growing competition with China and others, including the European Union, is the nature of the digital future—on which so much economic activity and so many middle-class jobs will depend.<sup>84</sup> Data-driven innovation promises to improve productivity, competitiveness, and growth across virtually every sector in the global economy. At the same time, digitalization generates operational risks from hacking and data breaches; regulatory risks from inconsistent legal

frameworks; and societal risks from unauthorized use of personal data, possible bias in algorithms, and wholly autonomous systems powered by artificial intelligence that, among other things, reduce demand for labor across a range of lower- and middle-income occupations.

In response to these challenges, many governments are pursuing new regulations but are doing so without the level of international coordination necessary given the global nature of the digital ecosystem. The result is growing digital fragmentation that will slow economic growth and innovation and hurt both small and large businesses that are increasingly dependent on digital technology. The lack of policy coherence on digital issues also could harm efforts to address global challenges or even trigger a global crisis. For example, if countries adopt divergent standards to govern data analytics, it could create disputes over medical diagnostic, product, or drug safety data, undermining efforts to tackle health issues such as the current pandemic. Without global coordination, a collapse of GPS navigational systems could suspend air, sea, and surface traffic; and a telecommunications breakdown could cascade through integrated systems, even triggering automatic countermeasures from a supposed adversary.

It will be challenging for the United States to forge such cooperation, both with its rivals and its partners. Authoritarian states seek to use vast data collection and digital technologies to suppress political opposition and control their populations. But there is also tension between the United States and the European Union over competing approaches to digital regulation and about its efforts to achieve “strategic autonomy” through the creation of new national champions as part of its new digital transformation industrial strategy.

Given the global nature of the digital ecosystem and the growing importance of the digital economy to U.S. economic growth and geopolitical interests, the United States must take the lead in promoting international cooperation, coordination, and, where appropriate, standard setting. The United States should consider establishing a new international body to manage the risks of a digital crisis and promote common approaches to digital regulation. Starting with allies and like-minded countries, it should work to address one of the principal concerns about cross-border access to data and sensitive infrastructure: the trust deficit. The lack of trust has spurred efforts to restrict data collection, storage, and processing to a prescribed local environment; to build firewalls that block internet traffic into certain locations; and to impose strict privacy rules that can encumber data mobility. The Japanese government highlighted the broad concern during its G20 presidency and presentation of former prime minister Shinzo Abe’s concept of “data free flow with trust.”<sup>85</sup> To address the growing risks, the international community will need to strengthen standard setting, verification of compliance with standards, and regulatory supervision.

The United States should also work through this new body and existing fora, including the OECD, to build common approaches on such issues as competition policy, ethical use of artificial intelligence, and workforce displacement that tie

back to the needs of the middle class. As the United States seeks to develop new policies to promote competition and innovation, including by small businesses, it must work with other countries to ensure that U.S. companies are not unfairly targeted. Exchanging more information and ideas on how to handle the challenges middle-class workers and businesses will face during the emerging fourth industrial revolution could also be beneficial.

### **Boost Strategic Warning Systems and Intelligence Support to Reduce Vulnerability**

Missteps associated with the U.S.-China strategic relationship or a global digital crisis pose clear risks to the American middle class, but threats can also erupt from other remote corners of the world. And because it is hard for Americans to connect these often distant threats with potential economic turmoil in their local communities, it is up to national security and foreign policy professionals in Washington to shed light on them. Groups of intelligence analysts and security experts are trained to track unconventional threats to the United States and flag them for senior policymakers. They watch the horizon for global pandemics, cyber attacks, biological or technological terrorist attacks, animal diseases and other threats to the global food supply, humanitarian crises, geopolitical hostilities that block commercial shipping, and disinformation campaigns that roil markets. Unfortunately, their warnings can go unheeded for a wide range of reasons.

Strategic warning systems and tactical preparation deserve greater policy attention and resources. Some of the obstacles are structural. First, these important national security functions compete for funds with major weapons systems, military operations, and military intelligence, which have much more identifiable constituencies. Second, because the credit for preventing a crisis is hard to attribute,

**Strategic warning systems and tactical preparation deserve greater policy attention and resources.**

the political rewards for championing these functions are comparatively low. Third, the necessary expertise—in public health, plant biology and food safety, critical infrastructure, psychological operations, and emerging technologies—tends to fall outside traditional security silos, meaning that personnel systems and budgets are not built to recruit and retain them. Fourth, the foreign policy

community often becomes absorbed in the crisis of the moment, which diverts resources to day-to-day policy support and away from the strategic analysis of more slow-moving unconventional global threats. Finally, the intelligence community relies on sensitive and classified sources of information, inhibiting its ability to share critical information with domestic partners and build public confidence in its capabilities and intentions.

A series of modest changes could help in this regard. For example, while the National Intelligence Council produces an unclassified analysis of long-term threats, that product comes out only once every four years and covers a long

horizon of twenty years. A more frequent annual product with a shorter time horizon (perhaps five years) could build credibility, raise public awareness of the threats, and strengthen institutional capabilities in warning. In addition, a wider mandate to provide intelligence support to domestic policy agencies with clear stakes in preventing global threats could strengthen tactical preparedness and sharpen intelligence priorities. Finally, investments in data analytics and open source intelligence could improve the analysis of specific threats of interest to domestic constituencies; make it easier to share some of the warning information among domestic partners in federal, state, and local governments; and build and calibrate event simulations to illustrate potential consequences and analyze policy options. In the realm of economic intelligence—which involves threats associated with economic espionage, investment security, financial and economic sanctions, sources of economic and market instability abroad, and supply chain and critical infrastructure, among others—a national fusion center like the National Cyber Intelligence Integration Center or National Counterterrorism Center could lead these efforts and signal stronger support for defending U.S. economic security.

### **Shift Some Defense Spending Toward Broad Technologies and Technical Upskilling**

While superior U.S. military capabilities have helped secure the peace globally, long interventions—for example, in Iraq and Afghanistan—have proven costly to middle-class economic interests. In recent years, public support for large-scale nation building has largely evaporated while domestic economic concerns have grown, and this is a reality that the foreign policy and national security community cannot ignore. The situation has led to calls for immediate and major cuts to the defense budget, especially among some progressives. But many good middle-class jobs are tied to defense-related activities. It is vital to invest in the diversification of those local economies before subjecting them to a sudden drop in federal spending. A gradual and carefully thought-through approach is key.

For the middle class, drastic defense cuts can be just as damaging as excessive military build-ups. For example, during the interviews in Colorado, Nebraska, and Ohio, many expressed strong support for sustaining (or even increasing) this spending because it provides working families in communities an economic lifeline that might not otherwise come from the federal government. The Dayton region would be devastated by the closure of the Wright-Patterson Air Force Base, Ohio's largest single-site employer. Colorado Springs, Colorado, would suffer greatly if funding for aerospace research was substantially reduced or halted. And thousands of families across all three states count on the National Guard and Reserves as a way to contribute toward their educational expenses, acquire coveted training, earn a livable wage, provide healthcare, and add to their portfolio of retirement benefits.

## BOX 3

### **Thinking About Defense Spending Differently**

A foreign policy that works better for the middle class argues against major cuts to defense spending and calls for a moderate realignment of spending priorities.

Although cutting large defense budgets is very tempting, it is important to keep in mind that the middle class has a strong interest in global stability. Even if the country decides to invest more heavily at home, it will need the breathing room to do that. The ability to deter adversaries and contain foreign crises prevents major disruptions in the domestic policy sphere and, in this way, can be a positive enabler of change at home.

Moreover, most defense dollars are already spent at home. They support good middle-class jobs across the country and bolster many state and local economies. Major cuts to the defense budget will hurt many middle-class households. Rather, the defense budget should be pared back sparingly.

At the same time, some of the defense dollars spent at home could do more to support long-term security readiness and overall competitiveness of the U.S. economy. Using defense spending to protect the country's innovative edge and upskill technical workforces is a form of national security investment.

The U.S. military will remain a critical instrument of U.S. national power, as it has for many decades. The country must remain prepared to fight and win large-scale conflicts, although it should certainly not invite them. The country also needs sufficient forces and appropriate weapons platforms to deter adversaries, defend freedom of navigation and secure global commons, maintain key overseas positions like on the Korean Peninsula, train foreign militaries, and contribute to stability operations and peace keeping that contain conflict, preferably with close allies. These are investments in global stability that make the country safer. Dramatic budget cuts—like the \$200 billion proposed by some progressives—are simply too risky (see box 3).

More modest cuts should be sought, while making the associated activities work better for the American middle class. The funds could then be shifted toward supporting areas that promote both long-term security readiness and long-term economic competitiveness. A Presidential Task Force could bring together national security leaders, state and local leaders, educators, industry and business leaders, and other stakeholders to map out a set of significant longer-term public investments in pre-commercial R&D and technical education. Of course, the administration would need to work closely with members of Congress to make such a shift happen. Although some congressional members may resist, others will understand that these investments could diversify local economies and upskill local workforces. The funds could improve upstream innovation and build the national workforce in certain strategic industries, thus enhancing national security. Such an approach could leverage the significant

expertise that the U.S. military already has in building public-private partnerships around R&D and in educating and training large numbers of personnel in applied technical fields. No equivalent levels of federal government spending would likely enjoy as much broad-based political support or create as much long-term growth potential.

A strong push to increase national spending on R&D, including through defense-related programs, is not a pipe dream. Between 1941 and 1964, federal research and development spending increased twenty times, catalyzing an economic and innovative boom.<sup>86</sup> Importantly, the fruits of this investment were felt across the country in the form of both good jobs and new technologies that improved everyday life for countless Americans. Again, in the 1990s, the first generation of internet-based companies took flight and productivity surged, partly thanks to foundational public investments in communications technologies. Concerted efforts to invest broadly in basic science and advanced technologies can occur again and bring similar benefits.

In Fiscal Year 2019, federal R&D funding fell to 2.8 percent of the federal budget—the lowest amount in more than six decades.<sup>87</sup> From 2007 to 2017, the real value of federal R&D expenditures only grew by 0.5 percent annually, compared with an average annual rate of more than 6 percent from 1953 to 1973.<sup>88</sup> Moving some defense funds into revitalizing the public R&D sector would help reverse this slowdown. Programs, similar to those in national energy and defense labs, could focus on a broader range of civilian technologies, such as machine learning and artificial intelligence, advanced manufacturing, quantum computing, materials science, and green technologies. These efforts could create breakthroughs of economic, social, and national security value. The NCS, discussed in Chapter 3, could identify the specific fields of long-term importance to the United States.

A second set of investments should be directed to workforce development programs that enhance long-term security readiness, create decent-paying middle-class jobs, and help certain towns and smaller cities diversify their economies. For example, a recent study estimates that 2.4 million of the 4.6 million manufacturing jobs that could potentially be created in the United States in the decade 2018-2028 will go unfilled—mostly because American workers lack the skills needed for the increasingly technical work.<sup>89</sup> The Trump administration pinpointed this skill deficit as a threat to the defense industrial base workforce.<sup>90</sup> Under Executive Order 13806 on Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States, an interagency task force led by the Department of Defense was formed to look at the development of the United States' manufacturing and STEM workforce as a national security imperative.<sup>91</sup> The Department of Defense is therefore now working closely with the nine national manufacturing innovation

**The funds could improve upstream innovation and build the national workforce in certain strategic industries, thus enhancing national security.**

institutes (collectively referred to as Manufacturing USA) to advance manufacturing education.<sup>92</sup>

Workforce shortages in cybersecurity are projected to be even greater. Industry experts estimate that the United States requires approximately 1.3 million cybersecurity professionals today but has only about 800,000.<sup>93</sup> The Cyberspace Solarium Commission, co-chaired by Maine's Republican Senator Angus King and Wisconsin's Republican Representative Mike Gallagher, noted that there were currently more than 470,000 cybersecurity job vacancies in the private sector and more than 33,000 in the public sector.<sup>94</sup> Some in the industry estimate that cybersecurity vacancies could grow to anywhere between 1.8 and 3.5 million globally within the next few years.<sup>95</sup> The commission therefore proposed an expansion of the nation's cybersecurity workforce, including through educational reforms at the K-12 level, cybersecurity clinics at colleges and universities, and public-private partnerships that help grow the cybersecurity ecosystem.<sup>96</sup> It is worth noting that cybersecurity professionals now earn \$69,000 per year on average, making the industry a solid source of middle-class jobs.<sup>97</sup>

This type of thinking should extend to the renewable energy sector, where jobs focused on combating climate change will be increasingly abundant. Two of the fastest-growing occupations in the United States between 2016 and 2026 will be solar photovoltaic installers and wind turbine service technicians, according to the U.S. Bureau of Labor Statistics.<sup>98</sup> That will add tens of thousands of well-paying jobs to the hundreds of thousands that already exist in the clean energy sector—many of which require significant analytical and technical skill.<sup>99</sup> Given the abiding national interest in energy security, and the increasing demand for energy that comes from cleaner sources, these workers should be considered part of the broader national security workforce. Their work will reduce an existential security threat and mitigate systemic shocks to the U.S. economy over the long term. And, in the process, many of them will earn enough to sustain a middle-class standard of living, as jobs within the clean energy economy offer wages that exceed the national average by 8 to 19 percent.<sup>100</sup>

Finally, the ongoing COVID-19 crisis is making a clear case for building a national security workforce that can prevent and contain global health crises. This workforce should include the governmental and nongovernmental personnel needed to sufficiently man a global early warning system, so possible future pandemics (and other health-related shocks) can be detected earlier. It also should include the manpower the Department of Homeland Security requires to effectively staff ports of entry to screen for and delay passage of those carrying infectious diseases. Lastly, it should include the public health and medical professionals needed to contain the spread of a pandemic in the United States through testing and contact tracing and to provide surge capacity for overwhelmed hospitals. After-action reports on the COVID-19 crisis—to be produced in the months and years ahead—should help determine the precise projected workforce requirements and the anticipated gaps related to pandemic preparedness.

## Strengthen Economic Adjustment Assistance

Shifts in the U.S. defense posture, global trade patterns, and other structures will continue to challenge American communities. For decades, the United States has offered federally funded economic adjustment assistance programs to help workers and communities adapt to the shocks associated with major foreign policy decisions, such as trade and defense base realignments. However, current efforts are far too reactive by design, and programs are often too little, too late.

In the mid-1990s, adjustment programs struggled to absorb the major military drawdown, and they have been generally inadequate in managing the negative effects of globalization. In our urgent desire to address climate change, it is not hard to imagine that policymakers in Washington could commit the United States to sweeping regulatory changes that decimate energy-dependent communities like the ones in Colorado. Likewise, ambitious efforts to head off future global pandemics could dampen U.S. businesses that rely on low barriers to foreign travel. Or new trade agreements could drive companies out of certain locations and into others. All these developments—many of which are only partly under our control—will create both “winners and losers” within America’s middle class.

Existing adjustment programs lack a coherent framework and strategic oversight and are not linked to U.S. goals to enhance its global competitiveness or to policies that address distributional issues. The Department of Defense’s Office of Economic Adjustment, which helps states and communities manage shifts in defense posture, can only do so much when upfront investments in workforce development and infrastructure were not made. Meanwhile, the Departments of Commerce and Labor have seen steady reductions in funding for military base reuse and workforce training and reemployment. Economic adjustment assistance programs related to trade (TAA programs) or energy developments are managed entirely separately and without any significant government efforts to systematically learn and apply lessons across them. Indeed, the emerging thinking on adjustment assistance for fossil-fuel dependent workers and communities is still in its early stages and has yet to fully penetrate beyond progressive circles outside the government.

To better protect American communities from current and future global shocks, the federal government needs to improve its use of economic adjustment assistance. Local knowledge and expertise will be essential to make these programs more effective, but they would also benefit from a stronger strategic framework. The NCS could incorporate a section on economic adjustment needs and strategies to meet them. Local stakeholders could be convened to identify the best upstream investments in workforce development and infrastructure and to find ways to attract new businesses *before* a factory, military base, or coal mine closes. The

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technical training initiatives discussed in the preceding section could link back to these economic adjustment programs as well.

Finally, as with the competitiveness-related efforts outlined in Chapter 3, the federal government could play a role in devising creative financing solutions that strengthen economic adjustment programs. For example, the Trump administration's Opportunity Zones provided capital gains tax benefits to encourage investments in areas lagging growth. Progressives have criticized these efforts because some of the money has gone to gentrify areas that might draw investment anyway and because the investment response through early 2020 was tepid. But rule changes could make the underlying approach more sound. For example, recent changes to the Community Reinvestment Act of 1977 have created stronger incentives for commercial banks to lend for projects in these areas, and follow-on changes could sharpen the focus on projects with the greatest benefit to local workers and households.<sup>101</sup>

### **Safeguard Industrial Resilience**

The rapid expansion of global supply chains has lowered production costs, allowed for greater efficiency and specialization within the global value chain, and created opportunities for businesses around the world to participate in the global economy. At the same time, it has heightened the logistical complexity of international trade, made the United States more vulnerable to global supply shocks, and heightened the economic leverage of foreign suppliers such as China. The scramble to acquire personal protective equipment and medical supplies during the coronavirus pandemic is a salient example, and it has raised unsettling questions about the supply of food, essential consumer items like medicines, and critical industrial components, as well as the resilience of the defense industrial base.<sup>102</sup>

The United States faces a long-term challenge of balancing the loss of domestic productive capacity—often the natural result of declining global competitiveness in certain market segments—and the need to ensure reliable access to critical goods during crises. To date, government officials have resisted direct intervention in domestic markets, arguing that policy measures would distort production and possibly increase costs (and consumer prices). They also argue that it is hard to anticipate specific requirements for the next crisis, implying that government could bet on the wrong horse. But with so much of the world's production of critical goods now located in China, these arguments are less persuasive.

A more multifaceted strategy could ensure that vital goods are available during a crisis, as well as build the resilience of industrial supply chains. One prong of the strategy should be strategic stockpiling—particularly of goods that have few

foreign suppliers, rely on highly vulnerable supply lines, have no close substitutes, and are relatively easy to store. These goods could include certain medicines, medical supplies, seed banks and food supply components, hard-to-produce parts critical for power production, and elements of the defense supply chain. A closely related effort involves carefully targeted reshoring—the deliberate build-up of domestic production capability in certain sectors. These efforts should focus more narrowly on manufactured goods that are difficult to store (perishable, unstable, bulky, and so on) and that require specialized facilities or personnel to produce. For example, reshoring could be useful when complex parts are needed for heavy industrial processes or vital transportation, communications, or energy networks and when skilled workers are necessary to increase overall supply chain flexibility. The United States should avoid reshoring, however, for highly tradable, noncritical goods like clothing, consumer durables, and goods that could be stockpiled instead. That could introduce unnecessary distortions that prove costly to middle-class households. For example, bringing the production of all N95 face masks to the United States could make them unaffordable for local and regional hospitals. Stress tests on essential supply chains could help to identify appropriate cases for stockpiling and reshoring.

A second prong of the strategy should be building a trusted and diverse set of trade partners to meet critical supply needs. In the aftermath of the 1970s boycott of the Organization of the Petroleum Exporting Countries, the United States combined a national scheme to stockpile petroleum (the Strategic Petroleum Reserve) with an international effort to stand up the International Energy Agency, a multilateral forum dedicated to responding to global supply disruptions, improving energy security, and enhancing international policy cooperation. This approach blended an effort to build resilience at home with international outreach to strengthen policy transparency and innovation in the wider global community. Nearly five decades on, this type of approach still has relevance.

In the digital realm, an alliance-based approach could blunt Chinese ambitions for technological dominance and strengthen domestic digital resilience. For example, the United Kingdom, France, and possibly India are starting to align with the United States, Australia, and other countries in sharply curtailing the presence of Huawei equipment in their 5G networks. This presents an opportunity for the U.S. and other like-minded governments to pursue a broader multilateral effort that improves confidence in alternative systems and fosters solutions acceptable to foreign partners. The basic elements of a path forward include creating a secure domestic 5G infrastructure free of untrustworthy vendors, assisting allies and like-minded partners to do the same, and investing (including jointly) in R&D around new approaches to deploying advanced mobile infrastructure. But first, senior-level leadership must work with Congress to establish sufficient funding levels and flexibility and to create a multilateral public-private partnership that will serve as the focal point for implementation. Unfortunately, a recent similar effort led by Virginia's Democratic Senator Mark Warner only secured 5 percent

of the requested \$500 million in funding. Given growing concerns about secure supply chains and increasing unease within industry and financial circles about the United States falling further behind China in deploying 5G networks, failure to act decisively could allow Chinese tech companies to forge ahead with innovations beyond its robust nationwide 5G infrastructure.

A third prong involves leveraging technology to promote the resilience of industrial supply chains. The United States will need to rely on regeneration and redundancy for complex logistics systems, operations that depend on continuous connectivity, and/or activities that need high levels of data integrity, such as precise date-stamping in financial clearing operations and precise geolocating in shipping and aviation. Focusing on resilient design also could diminish reliance on vulnerable supply chains—for example, through designing gas turbine engines that have material tolerances allowing for 3-D printed parts.

A fourth prong is improved disaster assistance to allies and partners serving as global hubs for vital industrial supply chains. A prime example is when the United States aided Japan, a major global hub for auto parts, following the earthquake and tsunami in 2011 that caused a meltdown of a nuclear power plant in Fukushima. The United States and its allies should each diversify production capacity to diminish total reliance on any particular source, such as China in the case of Huawei and 5G.

Finally, defensive economic tools should be deployed, in coordination with U.S. allies, to protect the United States' innovative edge in key sectors. These tools include export controls, foreign investment reviews by the Committee on Foreign Investment in the United States, licensing reviews by the Federal Communications Commission, and targeted sanctions. For example, some of these tools can be used to prevent or redress unlawful or undesirable appropriation of U.S. technology that would threaten national security. At the same time, concerns about a particular transaction should focus on incremental threats and be deployed in a manner sensitive to economic interests, such as the benefits of foreign direct investment for local communities. Accordingly, creative tools for mitigating the risk of certain deals or devising new ownership schemes that address legitimate security concerns while still garnering economic benefits should be explored.

### **Need for a Stabilizing and Cooperative Approach**

Foreign policy professionals have a major role to play in helping the American middle class to prosper. Success will require a sustained effort to refocus U.S. leadership away from its reliance on military intervention toward a diplomatic and security stance consistent with promoting global stability and domestic resilience. The United States has adversaries that must be deterred and confronted, making major defense cuts unwise. But it also has many friends and partners that can share the burden of maintaining stability and that are interested in

mutually beneficial trade, investment, and technological relationships that raise living standards for all. It is easy and popular to blame globalization for all our ills, but many Americans know that we can thrive in an open and competitive global economy. They know that U.S. influence is a powerful tool in making us safer and richer. They just want to share in the benefits more equitably.

A more tempered, disciplined foreign policy approach along these lines—focused on heading off threats, working with like-minded nations to address shared challenges, and strengthening resilience at home—would also enjoy the support of many U.S. allies and adversaries alike because it is not oriented toward remaking other states in the United States' image, especially not under the force of arms. In turn, this support would better position the United States to press for an effective international division of labor and equitable burden-sharing. The goal is to help the American middle class and those struggling to join it. But an isolated United States cannot do it.



## CONCLUDING THOUGHTS: REBUILDING TRUST

It is easy to assume that making foreign policy work better for the middle class is largely about making international trade policy work better for manufacturing workers. And that is indeed an important part of the story, as often told in interviews across the three states, especially Ohio. But this study also hopefully illustrates that it is about a lot more than that (see box 4).

Many other aspects of foreign policy affect middle-class well-being. A foreign policy that works better for middle-class Americans includes the pursuit of international economic policies that will grow the global economy and lead to new middle-class jobs and increased wages. It involves domestic investments in R&D and workforce development to enhance the competitiveness of U.S. workers and small businesses in a global economy. It requires massively scaling up assistance to SMEs to exploit new market openings, export more, and generate export-related jobs. It entails promoting international tax policies that make it harder for corporations to shelter profits in tax havens that might otherwise help to finance such public investments. It requires employing the right diplomatic, development, defense, and intelligence strategies to detect and head off global economic shocks that could devastate middle-class households and their communities. It means avoiding drawn-out military interventions that cost too many lives and taxpayer dollars. And it requires investing in the resilience of American communities to better weather unforeseen shocks and the side effects of necessary policy decisions, including changes to repurpose defense spending or new regulations to combat climate change.

And it is not even just about foreign policy. “Foreign policy” is too restrictive a term, because the line between domestic and foreign policy is artificial. Many of those interviewed across Colorado, Nebraska, and Ohio perceived issues such as trade adjustment assistance, foreign direct investment, and immigration as “foreign policy” issues, even though they tend to be dealt with in the domestic policy arena. And they saw a clear connection between domestic and foreign policy. When economic growth slows and inequality deepens at home—due in no small

**Many of those interviewed across Colorado, Nebraska, and Ohio . . . saw a clear connection between domestic and foreign policy.**

**Implications for U.S. Government Reforms**

This report touches on numerous obstacles to responsive policy formulation at the national level. It suggests that the U.S. government is not currently structured to pursue a foreign policy for the middle class as effectively as it could be. While the development of a detailed plan for government reorganization is beyond the scope of the task force's remit, some broad areas should be the focus for future reform efforts:

- Reorienting policy processes at economic agencies, including a major revamp at the Commerce Department so that it can lead whole-of-government efforts to raise long-term competitiveness and a significant effort at the Treasury Department so that it can lead an inclusive growth agenda, address long-term middle-class priorities, and strengthen strategic frameworks guiding financial and economic statecraft.
- Strengthening trade enforcement activities, including stronger leadership of interagency processes, an upgrade of enforcement authorities, and new tools to fast track critical decisions.
- Breaking down barriers between foreign and domestic policy silos, especially around U.S. competitiveness initiatives, to improve coordination and better manage resources.
- Fostering policy innovation and creative financing solutions—perhaps through policy labs and mini Advanced Research Projects Agencies—to respond better to the problems facing middle-class communities.
- Revamping diplomatic capabilities to better address middle-class interests, particularly related to heading off global shocks, and to build flexible international coalitions around emerging issues.
- Improving the integration of intelligence across foreign and domestic spheres—perhaps through an economic intelligence fusion center—to bolster the warning function and protect economic security.

part to a failure of domestic and fiscal policies—then it stands to reason that the United States must rethink its foreign policy ambitions abroad.

Further, the American middle class is not monolithic or static: it expands and shrinks as people struggle to reach and maintain a middle-class lifestyle. The manufacturing sector still provides among the best-paying jobs for the approximately two-thirds of the American workforce who do not possess a college degree or advanced degree. But the number of manufacturing jobs will continue to decline steadily in the face of technological advances. Meanwhile, middle-class jobs will continue to expand in sectors as diverse as cybersecurity, information technology, nursing and telemedicine, and professional business services. Many American middle-class jobs in the twenty-first century may be found online, not on the assembly line. And the interests of such middle-class workers will not always align with manufacturing workers or other important constituencies constituting middle-class America, including the majority of Americans who

work in nontrade sectors but are consumers of traded goods and services and care about their affordability and availability.

So much of what is required to make U.S. foreign policy work better for the middle class will not be visible to, or verifiable by, most Americans at the local level. And in many instances, it will require working through difficult trade-offs, where the interests of industries, workers, or communities do not align. The American people need to be able to trust that U.S. foreign policy professionals are managing this tremendous responsibility as best they can, with the interests of the American middle class and those striving to enter it at the forefront of their consideration. The problem, however, is that such trust has steadily and significantly eroded over the last several decades.

None of the individual foreign policy recommendations in this report will solve all the struggles and anxieties confronting America's middle class. And none, individually or collectively, can substitute for the domestic and fiscal policies that matter more for middle-class well-being. But taken together, the proposed new ways of thinking can stimulate discussion among U.S. foreign policy professionals about how to win back Americans' trust.

They will also help to rebuild the trust of U.S. allies and partners, which no longer have confidence that the deals struck with one U.S. administration will survive the transition to the next and are therefore increasingly hedging their bets—trying to stay in the United States' good graces while also keeping their options with China and other U.S. rivals open.

The recipe for restoring some predictability and consistency in U.S. foreign policy lies in building broad-based political support for it. And the best and perhaps only viable path right now to rebuilding such support lies in making U.S. foreign policy work better for the middle class. The ideas in this report represent a starting point for discussion—one that will hopefully lead to healthy debate and bring many more innovative and actionable ideas to the table.

**The best and perhaps only viable path right now to rebuilding such support lies in making U.S. foreign policy work better for the middle class.**



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Although a collective effort, the task force members alone bear responsibility for the report's contents. Furthermore, the report does not represent each author's views in all chapters; some authors preferred different language and emphasis in some places.

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