THE HAMILTON PROJECT

Advancing Opportunity, Prosperity and Growth

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Peter Orszag

Michael Deich

Growth, Opportunity, and Prosperity in a Globalizing Economy

THE BROOKINGS INSTITUTION

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving current economic policy—calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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Introduction

International trade presents our nation with a complex and growing challenge. On the one hand, the global system of open trade has brought substantial and widespread benefits to the U.S. economy. On the other hand, trade has led to dislocation in certain industries and has introduced new risks and uncertainties into the lives of many American workers. Achieving an equitable distribution of the benefits and costs of trade will require strong, effective government policies. The need for such policies will only grow more urgent, as nations like China and India become increasingly dominant forces in the world economy.

Trade's pattern of widespread economic benefits and concentrated harm mirrors the broader process of "creative destruction" of a dynamic economy. Indeed, technological advances that produce overall economic gains but dislocate workers in specific sectors are very similar in effect to trade expansions. The invention of the automobile, for example, not only significantly reduced transportation costs and thus raised overall economic productivity, but it also displaced a variety of firms and workers associated with a transportation sector that was based on horses.

This strategy paper articulates a philosophy of embracing international competition while investing in workers and market-friendly insurance. The underlying goal of this philosophy is to boost overall productivity while also sharing more broadly both the benefits and costs of trade. Not surprisingly, given the similarities between trade and other forces contributing to creative destruction, this approach to trade is consistent with The Hamilton Project's overall economic strategy of embracing the dynamism of a modern economy supported by effective government programs that spread the benefits of growth more broadly. Indeed, the specific policy steps needed to raise overall economic productivity and achieve more broad-based economic growth—steps such as improving education, investing in research, and improving the social safety net—are the same, albeit perhaps more urgent, in a global context than they are in a purely domestic one. Thus, rather than constructing programs designed to assist only those workers displaced specifically by trade, the government should build broad-based and market-friendly forms of protection to help families experiencing economic hardship for any number of reasons.

For the trade philosophy discussed here to be fully realized, the nation must take seriously the need to invest in education, basic scientific research, greater economic security for households, a world-class infrastructure, and effective government. To help advance this approach, The Hamilton Project will continue to release innovative policy ideas—based on experience and evidence, not ideology and doctrine—to restore broad-based economic growth and achieve a more inclusive distribution of the benefits and costs of trade.

The Changing Nature of International Trade

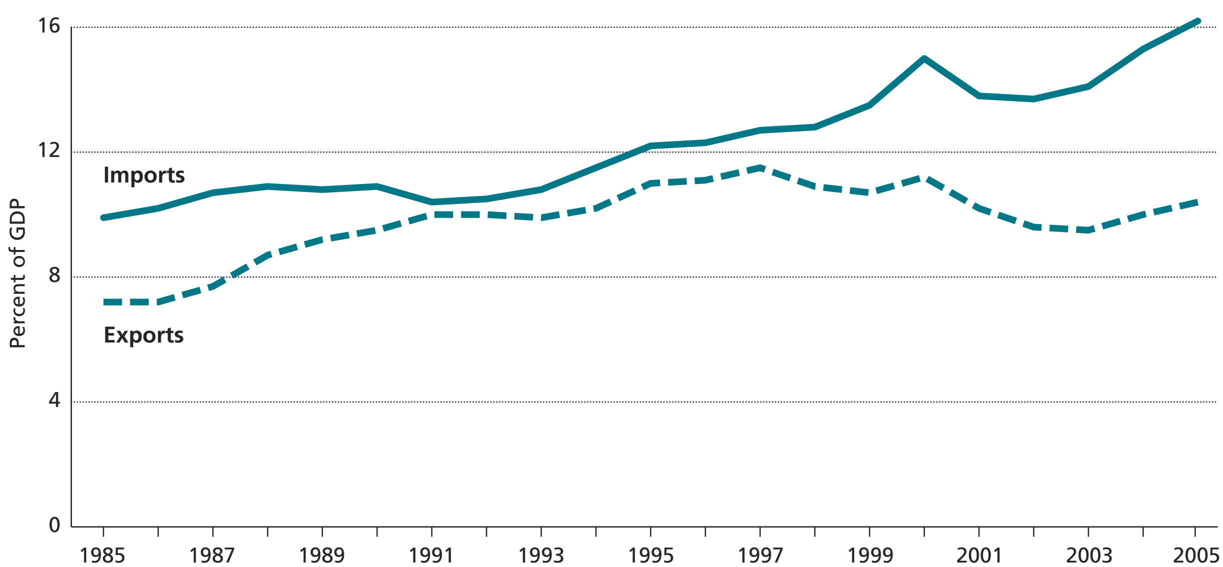
The U.S. economy has become increasingly integrated with the economy of the rest of the world over the past 20 years. The economy's trade exposure is commonly measured by the sum of exports and imports as a share of GDP. As shown in Figure 1, the U.S. economy has become increasingly open as trade has risen relative to GDP. In 2005, the sum of exports and imports amounted to more than 25 percent of GDP.

This open trade has created a variety of economic advantages—through the introduction of technological innovations from other countries, the opportunity for specialization arising from different cost structures in different countries (the so-called comparative advantage), the ability of firms to capture economies of scale by operating on a global basis, and the spur to productivity caused by greater competition in domestic markets. The resultant benefits include the following, among others:

- **Lower consumer prices.** International trade promotes competition, which both introduces new low-priced goods and services, and constrains price markups on existing goods and services. As the Council of Economic Advisers notes, "there is now ample evidence across many countries that greater trade openness and the resulting exposure to foreign competition reduces the ability of a country's firms to charge high markups above production costs.… At the detailed product level, many studies have linked lower prices and/or price-cost markups to measures of trade openness such as tariff rates."[1]

1. The White House, *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, 2006), 155. See also Dean A. DeRosa and Morris Goldstein, "Import Discipline in the US Manufacturing Sector" *IMF Staff Papers* (1981): 600–34; Ian Domowitz, R. Glenn Hubbard, and Bruce C. Petersen, "Business Cycles and the Relationship between Concentration and Price-Cost Margins," *The RAND Journal of Economics* 17 (1986): 1–17; Michelle M. Katics and Bruce C. Petersen, "The Effect of Rising Import Competition on Market Power: A Panel Data Study of US Manufacturing," *The Journal of Industrial Economics* 42 (1994): 277–86; Martha K. Field and Emilio Pagoulatos, "Foreign Trade Elasticities and Import Discipline," *Applied Economics* 30 (1998): 105–11.

Figure 1. Exports and Imports as a Share of GDP, 1985–2005



- **Greater product variety**. International trade allows U.S. consumers to enjoy a wider array of products, from agriculture to electronics to automobiles. Christian Broda and David Weinstein estimate that the increased choice produces benefits equal to roughly $300 billion a year.[2]

- **Increased productivity and GDP.** International trade bolsters competition; increases exposure to global best practices; expands the range of available intermediate inputs for U.S. firms and reduces the prices of those inputs; facilitates the flow of knowledge across national boundaries; and provides opportunities for relatively rapid growth by the most productive firms. All of these improvements raise productivity. Empirical studies document a strong link between open trade and productivity growth.[3] The evidence suggests that open trade does not cause every firm to become more productive; instead, trade appears to allow the most productive firms to grow more quickly (and forces less-productive firms to face more intense competition) than otherwise would have been the case.[4]

2. Christian Broda and David E. Weinstein. "Globalization and the Gains from Variety," Staff Report 180, Federal Reserve Bank of New York, New York, 2004.
3. See, for example, Juann Hung, Matt Salomon, and Stacia Sowerby, "International Trade and U.S. Productivity," Technical Paper 2003–5, Congressional Budget Office, Washington, DC, 2003; Wolfgang Keller and Stephen Yeaple, "Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the US," Working Paper 9504, National Bureau of Economic Research, Cambridge, MA, 2003; Claire Economidou and Antu Panini Murshid, "Testing the Linkages between Trade and Productivity Growth in a Panel of OECD Countries" (paper presented at the EcoMod 2005 International Conference on Policy Modeling, Istanbul, June 29–July 1, 2005); Sebastian Edwards, "Openness, Productivity and Growth: What do We Really Know," *Economic Journal* 108 (1998): 383–98; David T. Coe and Elhanan Helpman, "International R&D Spillovers," *European Economic Review* 39 (1995): 859–87; Catherine L. Mann, "Globalization and Productivity Growth in the United States and Germany," in *Globalization, Technological Change, and Labor Markets*, ed. Stanley Black (Boston: Kluwer Academic Publishers, 1998), 17–41; Jeffrey A. Frankel and David Romer, "Does Trade Cause Growth?" *American Economic Review* 89 (1999): 379–99; and Andrea Bassanini and Stefano Scarpetta, "The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries," OECD Economic Studies No. 33, Organisation for Economic Co-operation and Development, Paris, 2001/2.
4. See Andrew B. Bernard and J. Bradford Jensen, "Exporting and Productivity in the USA," *Oxford Review of Economic Policy* 20 (2004): 343–57.

Table 1. Benefits of International Trade to U.S. Economy

Methodology Source	Estimate, 2003 (US$ billions)
OECD (2003)[a]	$1,451
Bernard et al. (2003)[b]	$940
Bradford and Lawrence (2004)[c]	$800
Richardson (2004)[d]	$1,058

Source: Bradford et al. 2005

a. Organisation for Economic Co-operation and Development, *The Sources of Economic Growth in OECD Countries* (Paris: OECD, 2003).
b. Andrew Bernard, Jonathan Eaton, J. Bradford Jensen, and Samuel Kortum, "Plants and Productivity in International Trade," *American Economic Review* 93 (2003): 1268–90.
c. Scott C. Bradford and Robert Z. Lawrence, "Non-MFN CGE Simulations" (photocopy, Brigham Young University [Provo, UT] and Harvard University [Cambridge, MA], 2004).
d. J. David Richardson, "'Sizing Up' the Micro-Data Benefits" (photocopy, Institute for International Economics, Washington, DC, 2004).

A recent study attempts to aggregate these various benefits.[5] Using a variety of methods, Bradford, Grieco, and Hufbauer (2005) estimate that international trade provided aggregate benefits to the U.S. economy totaling between $800 billion and $1.5 trillion in 2003 (see Table 1). It suggests a central estimate of about $1 trillion a year.

Trade's substantial benefits tend to spread widely throughout the economy. The costs associated with trade, however, tend to be concentrated. (See Box 1 for a discussion of NAFTA in this context.) Trade can impose significant costs on the workers and firms displaced by international competition. As Gene Sperling notes in his recent book, *The Pro-Growth Progressive*, the "damage wrought by dislocation depends critically on the skills and ages of workers who lose their jobs, the concentration of job loss within communities, and the degree to which new jobs can replace the lost wages."[6]

5. See Scott C. Bradford, Paul L. E. Grieco, and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," in *The United States and the World Economy*, eds. C. Fred Bergsten and the Institute for International Economics (Washington, DC: Institute for International Economics, 2005). Bradford and colleagues adjust the estimates to avoid the double counting that would arise from simply adding the benefits from different sources (e.g., increased productivity and lower prices).
6. Gene Sperling, *The Pro-Growth Progressive: An Economic Strategy for Shared Prosperity* (New York: Simon & Schuster, 2005), 49.

Box 1. The Effects of the North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) illustrates the broader point about trade: Although it can improve overall economic efficiency and generate aggregate benefits, it also can impose significant costs on specific sectors and workers.

Economic studies generally have found a positive economic effect from NAFTA, although the effects are modest as a percentage of total U.S. economic activity. Relatively small effects are perhaps not surprising, since tariff rates between the countries were already low and the agreement did nothing to change major nontariff barriers, principally immigration quotas. The potential benefits of NAFTA were further limited by the fact that Mexico is much smaller than the United States. Studies by the Congressional Budget Office (2003), the United States International Trade Commission (2001), and Audley and others (Carnegie Endowment for International Peace 2004) provide recent evidence on NAFTA's overall effects.[a]

Despite the overall gains, NAFTA has also imposed concentrated costs. Workers dislocated as a result of NAFTA are eligible for the NAFTA Transitional Adjustment Assistance Program.[b]

NAFTA has had relatively larger effects on the Mexican economy than it has had on the U.S. economy. The World Bank concludes that Mexico's GDP would have been 4 to 5 percent lower by 2002 without NAFTA.[c]

a. Congressional Budget Office, *The Effects of NAFTA on U.S.–Mexican Trade and GDP,* (Washington, DC: CBO, May 2003); United States International Trade Commission, *The Impact of Trade Agreements: Effect of the Tokyo Round, U.S.–Israel FTA, U.S.–Canada FTA, NAFTA, and the Uruguay Round on the U.S. Economy,* Investigation TA-2111-1, Publication 3621 (Washington, DC: ITC, August 2003); John J. Audley, Demetrios G. Papademetriou, Sandra Polaski, and Scott Vaughan, *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere* (Washington, DC: Carnegie Endowment for International Peace, 2004).

b. By the end of 2003, the U.S. Department of Labor had certified 525,000 workers for the program. These job losses have been more than offset by other job gains, however. For example, Audley and his coauthors find that, depending on the assumptions of the model used, NAFTA could have led to a net gain (that is, any job gains minus any job losses) of between zero and 270,000 jobs over the past decade. The U.S. Department of Agriculture (1997) uses a dynamic general equilibrium model and finds that U.S. rural employment in 1996 was 0.07 percent higher with NAFTA than it would have been without the agreement. Audley et al., *NAFTA's Promise and Reality,* 28; Department of Agriculture, *NAFTA,* WRS-97-2 (Washington, DC: Department of Agriculture, 1997).

c. Daniel Lederman, William F. Maloney, and Luis Serven, *Lessons From NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings* (Washington, DC: World Bank, December 2003).

International trade also has slightly exacerbated the underlying trend in the United States to greater income inequality and increased levels of income volatility. (As discussed below, most estimates suggest that trade has played a very modest role in these trends, relative to more significant factors such as technological change. The effects of trade, however, may be more visible than other factors, heightening the importance attached to trade in popular perceptions.) These trends are striking. Between 1947 and 1973, productivity and real median family income both grew by 2.8 percent per year.[7] Since 1973, however, productivity growth has continued to average 2.7 percent per year, while real median family income has risen only 1.0 percent per year. (The meager income gains that most American families have enjoyed since the 1970s, furthermore, have come largely from increased participation in the paid workforce among married women. This increased labor force participation has many benefits, but it also has forced more families to navigate the challenges and costs of having two working parents.) Between 1973 and 2003, real GDP per capita increased 73 percent, while real median hourly compensation rose only 13 percent.[8] Prosperity has neither trickled down nor rippled outward. Furthermore, even as macroeconomic fluctuations in GDP and unemployment have declined relative to previous decades, the volatility of family incomes has grown markedly. As Jacob Hacker of Yale University shows, the probability that a U.S. family will experience a substantial drop in family income has doubled since the early 1970s.[9]

The vast bulk of the explanation for these trends appears to be associated with factors other than trade, including technological changes that have raised the return to skill, and institutional changes such as the decline in the real

7. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *State of Working America 2004/2005* (Ithaca, NY: Cornell University Press, 2005), 46.
8. Mishel et al., *State of Working America*; Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts Tables*: *Selected Per Capita Product and Income Series in Current and Chained Dollars*, Table 7.1 (Washington, DC: Bureau of Economic Analysis, 2006), http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=N.
9. Jacob S. Hacker, "The Privatization of Risk and the Growing Economic Insecurity of Americans" (Social Science Research Council, New York, February 2006), http://privatizationofrisk.ssrc.org/Hacker.

value of the minimum wage and the decline in unions.[10] International trade has nonetheless somewhat exacerbated the trends. Typical estimates suggest that trade explains perhaps 10 percent of the recent increases in inequality between more-skilled and less-skilled workers.[11] One recent summary concludes that, "despite using very different methodologies, to date, on balance, most labor and trade economists agree that trade has accounted for a relatively small share of rising U.S. income inequality across skill groups."[12] In other words, trade may have accentuated income inequality, but most of the widening would have occurred even in the absence of trade. The same conclusion appears to hold with regard to income volatility.

Whatever their historical importance, the effects of trade are increasingly salient as advances in technology and transportation bring the people of China, India, and other developing nations into the global economy. (See Box 2 for a discussion of a recent paper by Paul Samuelson on trade in this context.) For U.S. workers, global competition is no longer limited to manufacturing; increasingly, workers from these populous countries are competing in high-skilled, high-wage sectors. As the *New York Times* columnist Thomas Friedman puts it, "They are not racing us to the bottom. They are racing us to the top."[13] Indeed, as an influential recent article by Alan Blinder emphasizes, they may ultimately compete in all "services that can be deliv-

10. For a nuanced discussion of recent trends and explanatory factors that emphasizes that wage inequality has stabilized in the bottom part of the wage distribution while continuing to rise in the top part, see David Autor, Lawrence Katz, and Melissa Kearney, "Trends in U.S. Wage Inequality: Re-Assessing the Revisionists" (Working Paper 11627, National Bureau of Economic Research, Cambridge, MA, 2005).

11. George J. Borjas, Richard B. Freeman, and Lawrence F. Katz find a modest effect of international trade on income inequality. "Increased LDC [Least Developed Countries] trade…explains less than 10 percent of the declining relative wage of dropouts.... Immigration and LDC trade have similar, relatively modest effects on the college-high school wage differential. In combination, they probably account for

Box 2. Paul Samuelson on the Benefits of International Trade

In a recent journal article, Paul Samuelson argues that the aggregate economic gains to the nation from trade may decline in the future if other countries become more productive in those sectors in which the United States now holds a comparative advantage.[a] The reason is that as other countries become more productive in those sectors, they become more similar to the United States; as a result, the benefits of trade that derive from specialization are diminished.

As an example, imagine that trade historically has generated $1 trillion in benefits for the United States, so that U.S. income would be $9 trillion without international trade and $10 trillion with it. As other countries become more productive in our relatively productive sectors, the $1 trillion benefit of trade could theoretically be reduced, say to $500 billion. U.S. income would then fall from its historical level of $10 trillion to $9.5 trillion. Note, however, that U.S. income would still be higher with trade ($9.5 trillion) than without it ($9 trillion).

It is not clear whether this theoretical possibility would hold in practice. As explained in the text, comparative advantage is merely one of the many channels through which trade generates overall economic benefits. The change in relative productivities may not have the same impact on the other channels as it does on the benefits from comparative advantage.

Samuelson's observation that some benefits of trade might decline over time has been misinterpreted as endorsing protectionism. It does not. Indeed, in a subsequent letter about the article, Samuelson states that "economic history and best economic theory together persuade me that leaving or compromising free trade policies will most likely reduce growth in well being in both the advanced and less productive regions of the world. Protectionism breeds monopoly, crony capitalism and sloth."[b]

Regardless of whether or not the effect that Samuelson highlights is likely, the conclusion is the same: Pursuing open trade and competition, along with increased economic security for workers, is the better option for promoting overall growth and prosperity.

a. Paul A. Samuelson, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives* (Summer 2004): 135–46.
b. Paul A. Samuelson, "Response from Paul A. Samuelson," *Journal of Economic Perspectives* (Summer 2005): 242.

ered electronically over long distances with little or no degradation in quality."[14] The global telecommunications revolution already allows many relatively high-end services that were previously viewed as location specific, such as investment banking research, to be undertaken by workers even at substantial physical distances.[15]

no more than 10 percent of the large, 0.191 log point increase in this differential from 1980 to 1995." Borjas et al., "How Much Do Immigration and Trade Affect Labor Market Outcomes," *Brookings Papers on Economic Activity* (1997): 1–90, 62.

12. David G. Blanchflower and Matthew J. Slaughter, "The Causes and Consequences of Changing Income Inequality," in *Growing Apart*: *The Causes and Consequences of Global Wage Inequality*, eds. Albert Fishlow and Karen Parker (Washington, DC: Council on Foreign Relations Press, 1999), 67–94, 75–78.
13. See Thomas L. Friedman, "Still Eating Our Lunch," *New York Times*, September 16, 2005.
14. Alan S. Blinder, "Offshoring: The Next Industrial Revolution?" *Foreign Affairs* 85 (2006): 113–28. For further discussion of offshoring, see Lael Brainard and Robert E. Litan, "'Offshoring' Service Jobs: Bane or Boon and What to Do?" Policy Brief 132, Brookings Institution, Washington, DC, 2004.
15. It is worth noting that the expansion of international competition into high-skilled occupations may reduce wage inequality in the future, as high-skilled workers face increased competition from abroad.

Policy Responses to Trade

The key policy issue is how to respond to the substantial benefits and concentrated costs generated by trade, outsourcing, and global competition.

The most auspicious approach is for the nation not only to continue embracing international trade, but also to make significant new investments in the skills of our workers, our infrastructure and scientific research, and the economic security we provide to U.S. families. To see why this approach is preferable, consider two popular alternatives: a pure laissez-faire approach that welcomes international trade but largely ignores the importance of broad-based economic growth and economic security, and a "sand-in-the-wheels" approach that, in a well-intentioned but misguided effort at providing more security, imposes barriers designed to slow the growth of international trade and competition.

The first approach, which is dominant in the United States today, has been called YOYO ("you're on your own") economics.[16] YOYO economics celebrates the benefits of free trade and calls for policies that rely almost exclusively on individual incentives such as reduced marginal tax rates. YOYO economics pays little attention to market failures, such as those that result from imperfect information, or to the reality of individual decision making that differs significantly from the perfectly rational behavior assumed in classical economics, or even to the fact that government sets the rules under which markets operate. Instead of tempering a deep respect for market forces with a knowledge of their limitations, YOYO economics assumes that unfettered markets always produce the best of all possible outcomes. As a result, YOYO economics opposes policies that would lean against the wind of inequality and insecurity: Under the YOYO view, such policies would cause economic distortions and inhibit growth.

The extremes to which the YOYO view has been taken, combined with the potent forces of globalization, create significant risks to economic performance. Under YOYO economics, workers must increasingly fare for themselves, which will ultimately result in lower economic growth for a variety of reasons. For example, without a quality public education, the middle-income child is less likely to become the highly productive worker of the future; without adequate access to capital, the potentially successful moderate-income businesswoman is less likely to get her business off the ground. In an increasingly integrated international economy, the United States cannot afford to leave a significant share of the population behind. Furthermore, without adequate levels of economic security, U.S. workers will not take the risks (such as starting a business or moving to take a new job) that lead to economic growth, and may eventually seek interventions that could prove substantially harmful to overall economic growth. Thus, YOYO economics may ultimately lead to the other extreme of protectionism.

The second approach seeks to protect specific jobs by turning inward and shutting out the forces of international competition. The "sand-in-the-wheels" approach is just as unrealistic and unwise as YOYO economics. It is unrealistic, given the substantial cross-border connections that already exist: More than 40 percent of U.S. trade occurs between U.S. firms and their foreign affiliates or between foreign firms and their U.S. subsidiaries.[17] Pervasive global supply chains raise significant questions about the practicality of turning inward. As Gene Sperling emphasizes, "however admirable it is to want to take every imaginable step to save existing U.S. jobs, when we impede the economic logic of producers seeking to meet consumer demands by finding the lowest-cost inputs, we are engaging in a losing game."[18] Furthermore, even if

16. The term "YOYO economics" was coined by Jared Bernstein in *All Together Now: Common Sense for a Fair Economy* (Washington, DC: Economic Policy Institute, 2005).

17. U.S. Census Bureau, *Imports & Exports by Related Parties: 2005* (Washington, DC: Census Bureau, 2006).

18. Sperling, *Pro-Growth Progressive*, 12.

it were practical, turning inward would be ill advised: It would forgo the aggregate economic benefits that can be obtained from trade (including by raising the prices of intermediate inputs that American firms use and the prices of goods and services that American consumers buy) and risk tit-for-tat retaliatory steps.

Related to this approach is a belief that economic security for those workers facing increased global competition can best be promoted by protecting specific jobs in the domestic economy. But just as we recognize the folly of trying to avoid technological innovation that leads to overall growth but also dislocates workers and causes turmoil in specific sectors, our stance with regard to trade should be to provide workers with the tools and support systems needed for them to succeed in a globalized economy, rather than to engage in an ultimately futile effort to insulate particular jobs from the rigors of competition. Thus, economic security must be provided, but it must be provided in the form of skills and market-based social insurance schemes, not by holding back the tide of competition through the protection of one or another industry. Our view is thus firmly in line with a recent white paper on the topic from HM Treasury in the United Kingdom and the ministry of finance in Sweden: "The best way to manage the insecurities associated with globalisation, and maximise the opportunities, is to provide security by equipping people to manage and take advantage of change, but not to protect specific jobs."[19]

The most effective response to an increasingly globalized economy rejects both the excessively laissez-faire YOYO approach and the protectionist sand-in-the-wheels approach. Instead, it combines international market competition with strong, effective measures to bolster personal economic security and promote broad-based economic growth. Workers exposed to fierce competition should be provided with the tools they need to navigate such a competitive world, including adequate preparation (in the form of quality education and training programs) and targeted, pro-work assistance if economic difficulties arise. After families suffer a job loss or some other economic shock, the government can use market-friendly policies to help them get back on their feet. Furthermore, these assistance policies should not be trade specific, since the precise cause of a family's economic woes is often difficult to ascertain and since a patchwork of different programs for workers harmed by, say, technological advances rather than expansions in trade is unlikely to be as effective as unified programs that do not segregate workers in this way. (The United States is the only country among the advanced industrialized nations that has a separate adjustment program for workers who have been displaced by trade.[20])

To be sure, embracing international trade and then providing security through increased skills and market-friendly insurance cannot fully offset all the costs imposed on every worker displaced by international trade. No one should pretend otherwise. Nor is there a credible way to design policies that anticipate precisely the nature of job growth in particular economic sectors. Projections of future job growth are fraught with uncertainty, since a dynamic economy evolves in ways that are often difficult to predict ahead of time. The Bureau of Labor Statistics at the U.S. Department of Labor does regularly provide 10-year job growth projections by industry and occupation. The most recent projections were issued in December 2005.[21] Given the inherent uncertainty in predicting the future, however, these projections will undoubtedly turn out to be incorrect in some way. Instead of attempting to protect specific jobs or predict where job growth will occur, policy makers should instead focus on creating the best underlying conditions for broad-based economic growth. If policy makers tackle the significant challenges facing the nation, U.S. workers will have attractive job possibilities available to them, even if it is impossible to know now precisely what those jobs will be.

19. Swedish Ministry of Finance and HM Treasury (UK), *Social Bridges: Meeting the Challenges of Globalisation* (London and Stockholm: HM Treasury, April 2006).

20. Raymond Torres, "Globalisation and Socio-economic Disparities," *APEC Symposium on Socio-economic Disparity* (Seoul, the Republic of Korea, June 29, 2006).

21. Department of Labor, Bureau of Labor Statistics, *2004–14 Employment Projections* (Washington, DC: Bureau of Labor Statistics, December 2005).

The Path Forward

The world economy is becoming increasingly integrated, presenting both substantial opportunities and substantial risks. At a time when the United States faces growing challenges to its global economic leadership, we are in danger of breaking the quintessential American promise of upward mobility for the next generation, thereby threatening not only our national character, but also our future economic progress. To meet these challenges, the nation must not only embrace the promise of international competition, but also find new ways to secure a more equitable distribution of the benefits and costs of open trade and to provide greater security to U.S. families struggling with the risks associated with globalization. Breaking either part of this compact—by adopting protectionist measures or by embracing trade but not investing adequately in our own workers—would endanger the nation's economic future. To be sure, this approach does not provide precise guidance on critical details of trade policy (such as whether the president should be granted renewed fast-track authority or the degree to which labor and environmental standards should be incorporated into trade agreements), but it does provide a conceptual framework within which to proceed.

The economic strategy envisioned by The Hamilton Project in response to the challenges posed by globalization is based on three key principles: (1) economic growth must be broad-based to be strong and sustainable over the long term; (2) economic security and economic growth can be mutually reinforcing; and (3) effective government can improve economic performance. The Hamilton Project's overarching economic strategy, and a plan to develop specific policy proposals consistent with these principles, was published earlier.[22] In the months ahead, we will release new policy proposals and strategy papers from leading economic thinkers across the nation. These proposals will contain specific, actionable steps to achieve more broad-based growth and, in the process, to share more broadly both the benefits and costs of trade.

The United States has great strengths—entrepreneurship, flexibility, education, pro-market institutions and laws, and openness to new people and new ideas—which can be applied to meet the challenges of globalization. With sound public policies, grounded in real-world experience and evidence, we can secure the benefits of trade while simultaneously expanding individual opportunity and promoting growth.

22. Roger C. Altman, Jason E. Bordoff, Peter R. Orszag, and Robert E. Rubin, *An Economic Strategy to Advance Opportunity, Prosperity, and Growth* (Washington, DC: The Hamilton Project, 2006).

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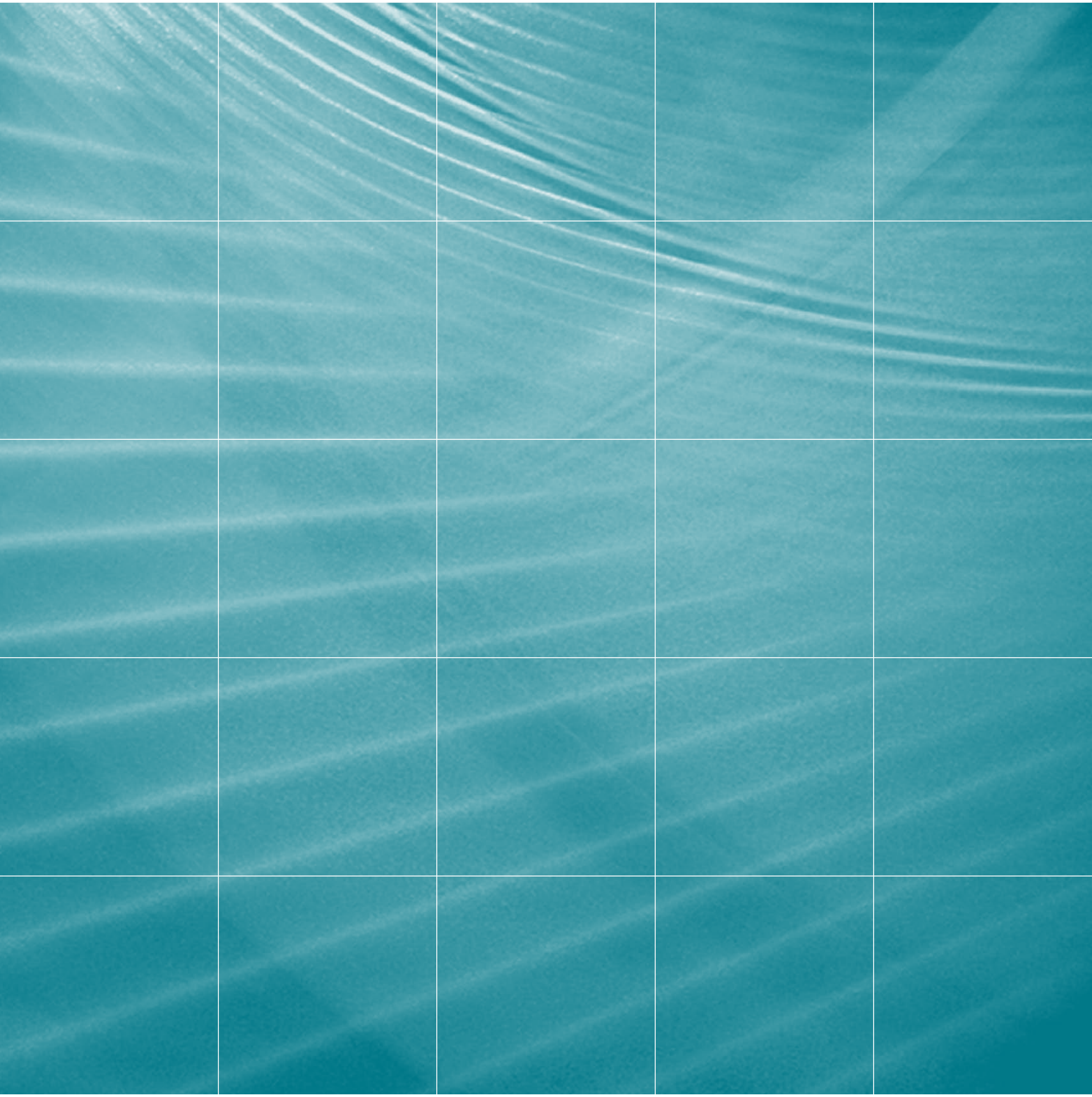

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