THE SMART GLOBALIST'S AGENDA

A Plan for Responsible U.S. Economic Engagement in the World

CLYDE PRESTOWITZ

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ABOUT THE AUTHOR

Clyde Prestowitz is founder and President of the Economic Strategy Institute (ESI) and is also Chairman of the ESI Global Forum and Publisher/Editor in Chief of the webzine www.smartglobalist.com.

Prior to founding ESI, Mr. Prestowitz served successively as Deputy Assistant Secretary of Commerce, Acting Assistant Secretary of Commerce, and Counselor to the Secretary of Commerce in the Reagan Administration. In these positions he led key trade and investment negotiations with Japan, China, Latin America and Europe and advised the Secretary on the development of U.S. international economic policy.

Before joining the Commerce Department, he was Director of Global Marketing with the American Can Company, Vice President-Japan for Eqon Zehnder International, and Director of European Marketing and Plannng for Scott Paper Company. He served as vice chairman of the President Clinton's Commission on Trade and Investment in the Asia-Pacific Region and as a member of the U.S. Export-Import Bank Advisory Board. He also served on the Intel Corp. Advisory Board and is Strategic Advisor to the Chairman of FormFactor Corp.

Clyde Prestowitz regularly writes for leading publications, including *The New York Times*, *The Washington Post*, *Fortune* and *Foreign Affairs*. He is the author of three best-selling books including: *Trading Places* (on U.S.-Japan competition), *Rogue Nation*, and *Three Billion New Capitalists*. He is also the co-author and editor of several other books on international trade and business strategy including *Asia After the Miracle*, *Powernomics*, *Bit by Bit*, and *The New North American Trade Order*.

Mr. Prestowitz has a B.A. with honors from Swarthmore College; an M.A. in East-West Policies and Economics from the East-West Center of the University of Hawaii; and an M.B.A. from the Wharton Graduate School of Business. He also studied at Keio University in Tokyo. He speaks Japanese, Dutch, German and French.

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TABLE OF CONTENTS

I. INTRODUCTION **1**

II. GLOBALIZATION IN THEORY – AND PRACTICE **3**

An Inadequate Theory of Trade 3

Imperfect Markets 4

One Global Economy, Two Economic Systems 5

The Dollar as the Great Facilitator 6

Companies and Countries 6

III. THE PRICE OF GLOBALIZATION **7**

Rising Inequality 7

Disappearing Jobs 8

Globalization’s Exaggerated Benefits 8

Undermining Democracy 9

The Environmental Costs 9

IV. A NEW GEO-ECONOMIC STRATEGY **10**

The Dollar *10*

Trade Agreements 10

Ending Fast Track and Setting New Rules for Trade Agreements 10

Immigration and the H-1B and Similar Programs 11

A NAFTA Renaissance 11

WTO Reform 12

Aligning Corporate and U.S. Interests 12

Strengthening Manufacturing 12

Eliminating Perverse Tax Incentives 13

Supporting Effective Research and Technology Development 13

Re-Emphasizing Industrial Extension Services 13

A National Energy Development Program 13

V. A NEW SOCIAL CONTRACT **15**

Training and Education 15

Lifting the Burden of Benefits 15

VI. REGULATING GLOBAL CAPITALISM **16**

International Labor Rights 17

International Environmental Standards 17

Global Financial Regulation 17

Organizing for Better Policy Making 17

VII. CONCLUSION: GLOBALIZATION AND LAISSEZ-FAIRE **19**

I. INTRODUCTION

Since the end of World War II, American leaders have promoted globalization as a force that would automatically raise U.S. and global living standards while also spreading democracy and establishing international peace. Indeed, globalization was seen as largely synonymous with Americanization and became a major element of America's geo-political strategy.

For a time, especially between 1950 and 1975, it seemed to work, as American and global median family incomes rose dramatically along with the volume of world trade and investment. Of course, this was a period when the present wave of post World War II globalization had just begun. In retrospect, it might be argued that trade, prior to the 1970s, was only a small part of GDP, and that lingering constraints against currency speculation and foreign capital movements actually contributed to the rapid, stable growth of this golden period.

As globalization advanced in the 1980s and early 1990s, incomes stagnated in conjunction with the relocation of much U.S.-based production to offshore locations and the development of chronic trade deficits. As a result, the pros and cons of globalization became a matter of increasing debate. Still, most U.S. leaders and thinkers held fast to their faith in the power and benefits of international economic integration.

Today, with household wealth, income, and jobs evaporating as Wall Street has gone onto the Washington life support machine amidst the collapse of the international financial system, it is apparent that the globalization emperor is no longer wearing any clothes. We are in what George Soros calls the worst financial and economic crisis since the Great Depression of the 1930s, and we must face the fact that "globalization" has many possible forms and many meanings. The one we have been pursuing since the 1970s has crashed along with financial markets.

In principle, the world trading system is expected to operate in a balanced fashion over time. Chronically large trade deficits and surpluses are understood to be ultimately unsustainable and therefore undesirable. Yet East Asia and the United States have now been running such surpluses and deficits for the better part of 30 years.

U.S. TRADE WITH ASIAN NATIONS HAS COME TO RESEMBLE A HUGE PONZI SCHEME IN WHICH THE UNITED STATES CONSUMES FAR MORE THAN IT PRODUCES, INCURS DEFICITS, AND BORROWS MONEY FROM THE REST OF THE WORLD.

Indeed, U.S. trade with Asian nations has come to resemble a huge Ponzi scheme in which the United States consumes far more than it produces, incurs deficits, and borrows money from the rest of the world (especially China, Japan and the Middle East) to finance its ever growing international debt that as of September 2008 totaled over $13.6 trillion.[1] Meanwhile, East Asian countries along with Germany produce far in excess of domestic consumption and export these surpluses to America and the rest of the world. Further, they provide a kind of vendor financing that long enabled excessively high rates of American consumption which in turn kept the exporters' economies growing and their employment rising. This, of course , resulted in chronic trade imbalances and the accumulation of enormous global dollar reserves and international capital flows that were a prime cause of the economic crisis of 2008-09. No one believes that these imbalances are sustainable going forward.

In principle, exchange rates are expected to adjust to facilitate the adjustment of trade deficits and surpluses. In fact, a major reason why the global imbalances have become so large and so chronic is that a number of key exchange rates have not been allowed to adjust sufficiently.

Under all the conventional rules, the governments of developing countries are not supposed to be bailing out the private banks of rich countries—as they are now doing. Indeed, orthodox economic doctrine holds that capital flows to where it can achieve the highest returns; that rich countries will supply capital to poor countries; that developing countries with a lot of unskilled, inexpensive labor will produce labor intensive products and services that they will trade for capital and technology intensive products and services produced by developed countries; that the dollar will be a secure store of value anchoring the entire global economy; that globalization will be driven largely by private enterprise; that it will be a win-win phenomenon providing net gains to all participating countries; and that the few losers will be adequately compensated by the large number of winners. It has been further assumed not only that environmental impacts and costs would be minimal, but also that by creating greater wealth, globalization would inevitably foster the spread of democracy and thus of peace.

At the present moment, however, just the opposite of all this appears to be the actual case. Capital is flowing from the poor to the rich countries where it is being invested in relatively low yield U.S. treasury bonds. Developing countries are accumulating trade surpluses in capital and technology intensive products and services while the United States has a large deficit in these advanced technology sectors.[2] Although exchange rates have not adjusted effectively in Asia and the Middle East, the dollar, until the recent economic crisis, had been steadily losing value relative to freely traded currencies like the euro and its role as a store of value is increasingly in question. Indeed, the Chinese and others are suggesting movement away from a free dollar standard.

While globalization has helped tens of millions of people climb out of poverty in countries like India and China, other countries like Mexico have experienced decelerating growth under conditions of greater globalization, and

most countries—including the United States—have experienced a growing divide between the few rich who have made great gains in recent years and the vast majority whose incomes have stagnated or fallen. (In the United States, for example, the top 1 percent of earners doubled its share of total income between 1979 and 2000 while it is estimated that the median income of an American married couple in 2006 was reduced by $2135 due to globalization.)[3] Finally, globalization appears to be accelerating environmental degradation and its benefits for democracy worldwide are anything but clear. Democracy has grown stronger in some countries that have been integrated into the global economy, but in recent years globalization has also bolstered undemocratic regimes in China, Russia and the oil producing countries. Meanwhile, the growing power of increasingly stateless corporations has undermined popular rule in those countries where democracy has long been strongest, including the United States.

II. GLOBALIZATION IN THEORY – AND PRACTICE

Inevitably many interrelated factors have produced these perverse results. A theory of trade rooted in the past has resulted in policies whose assumptions are increasingly divorced from reality as changing conditions have turned globalization into something far more complex than mere commodity trade. This problem has been exacerbated by the mathematization of economics and the rise of market fundamentalism.

Out of these factors has arisen a global economy in which roughly half the countries are more or less market driven, while the other half are neo-mercantilist. All claim to be playing by the same free trade rules when in fact they are in adversarial competition. The persistence of this one economy/two systems global structure has been facilitated by the peculiar role of the dollar as the world's money. The contradictions have been further exacerbated by the tendency of global corporations to be more responsive to the authoritarian governments that globalization is strengthening than to democratic governments. This has combined with market fundamentalism to foster comprehensive deregulation and unequal competition between corporations and workers around the world. Finally, because the theory takes little account of institutions or of public goods and public interests, it not only enables but justifies activities and policies that degrade the environment while increasing global dependence on autocratic oil producing countries.

AN INADEQUATE THEORY OF TRADE

The conventional Hecksher/Olin/Samuelson (HOS) model of international trade is an evolution of David Ricardo's brilliant concept of comparative advantage which he famously explained through the example of Britain specializing in production of cloth and trading that for the wine in whose production Portugal specialized even though Portugal could make both cloth and wine with fewer man years of labor than Britian. (But it could make wine with many fewer man years than cloth.)

Whereas Ricardo's trade flow determinants were differences in climate and technology, those of HOS are broad factor endowments including land, capital and skilled and unskilled labor. Thus countries rich in capital and skilled labor are predicted to export capital intensive, high technology products in exchange for commodities and labor intensive products from countries with much unskilled labor.

Under this model, there is one, unique combination or equilibrium of production and trade that produces optimal benefits for each country and for the world economy as a whole. Thus, specialization and trade is always and everywhere a win-win proposition, and even if one country protects markets or subsidizes exports, its trading partners remain better off by maintaining open markets. Given the assumptions on which it is based, the mathematics of this model are irrefutable. That it can apparently increase welfare and international comity without government intervention has made this model extremely popular. Thus, it has become deeply rooted as the orthodox guide to policy.

THE DIFFICULTY IS THAT THE MODEL WAS NEVER INTENDED TO DEAL WITH AN INCREASING NUMBER OF GLOBALIZATION SITUATIONS TO WHICH ITS CONCLUSIONS ARE NEVERTHELESS ROUTINELY APPLIED.

The difficulty is that the model was never intended to deal with an increasing number of globalization situations to which its conclusions are nevertheless routinely applied. As Paul Krugman has explained, the conventional models rest upon a number of unrealistic assumptions such as perfectly competitive markets, absence of economies of scale and technological innovation, fixed exchange rates, full employment and full utilization of resources, no cross border movements of capital, technology or labor, no costs of entering or exiting a business, no market failures, no spillovers of know-how from one industry to another, full ability of labor and machinery to switch from one industry to another without cost within national economies, and perfect information. At a time when trade was mostly in commodities and there was little cross border investment, these assumptions may have approximated reality, and trade patterns more or less reflected the conclusions of the standard models.

None of this is true any longer. Indeed, Krugman wrote in 1986 that

> *...we are forced to recognize that industries that account for much of world trade are not at all well described by the supply and demand analysis that lies behind the assertion that markets are best left to themselves. Much trade appears to require an explanation in terms of economies of scale, learning curves, and the dynamics of innovation—all phenomena incompatible with the kind of idealizations under which free trade is always the best policy.*[5]

Indeed, Krugman pointed the way to so called New Trade Theory by demonstrating that a combination of consumer preferences and scale economies provided a much better explanation. He further noted instances when the technological advances of a developing country could diminish the overall welfare of a more advanced trading partner.

What was true in 1986 is even truer today. Pursuant to the unconventional analysis of Krugman, former IBM chief scientist Ralph Gomory and economics Professor William Baumol have recently developed trade models that incorporate the assumptions of economies of scale, rapid technological change, and sudden shifts in productivity to more nearly approximate conditions in the real

world. Once these conditions are introduced, the conventional conclusion of one equilibrium optimal for all participants is replaced by the potential for several different equilibria with some more advantageous for one party and others more advantageous for other parties. The key here is that achievement of economies of scale or of innovation and other productivity changing techniques is idiosyncratic and largely unrelated to climate, geography, and factor endowment.

IN MODERN GLOBALIZATION, THE ROLE OF EXCHANGE RATES, TAXES, REGULATIONS, LABOR RULES, AND INVESTMENT SUBSIDIES IS FAR MORE IMPORTANT THAN THAT OF TARIFFS AND IMPORT QUOTAS.

Once achieved, however, these conditions constitute barriers to entry for newcomers that will be reinforced by normal market dynamics. Think Boeing or Intel or Microsoft. Having achieved global dominance in their industries, they tend to be kept dominant by the normal dynamics of free markets. This dominance enables them to earn extraordinary profits and to pay above average wages and makes having them or other dominant companies and industries very attractive to national governments trying to improve the living standards of their citizens. Because economies of scale and innovation can be very much influenced by policy considerations and because countries with these kinds of industries will do better than those without them, many national leaders will be tempted to pursue activist policies to obtain them. But this means that trade can be adversarial as well as win-win, and that those who abstain from activist policies may wind up as net losers.

A further problem is that the standard models are very much trade models and not globalization models. They take productive capabilities as fixed and describe the trade that those capabilities provide. But as Erik Reinert and Korean economist Ha-Joon Chang emphasize in their recent books *How the Rich Countries Got Rich and the Poor Countries Stay Poor* and *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*, globalization is all about changing productive capabilities. The objective is not so much to make more chariots more efficiently, but to get from chariots to tanks. Or to look at it another way, what would happen in Ricardo's classic example if Portugal offered a tax holiday and the British textile companies began outsourcing production to Portugal? Gomory and Baumol demonstrate that Portugal makes economic gains while Britain suffers net economic losses.

This is an absolutely critical point because globalization today is much more about investment and the shift of production bases through out-sourcing and off-shoring than it is about traditional trade. In modern globalization, the role of exchange rates, taxes, regulations, labor rules and investment subsidies is far more important than that of tariffs and import quotas. Singapore, for example, did not get rich because it had no tariffs. It got rich because it had a relatively weak currency, no taxes, tame unions, a very pro business regulatory environment, and plenty of capital grants and free infrastructure for companies that would agree to off-shore production from their home base to Singapore. The same has been true of China, Ireland, and many other "miracle" economies. None of these elements are included in standard trade models and none are covered by international trade agreements.

In this context, the Gomory/Baumol findings with regard to the effects of off-shoring are extremely important because they directly contradict the current conventional wisdom. This has been best articulated by former Council of Economic Advisors Chairman Greg Mankiw who explained in February, 2004, that the outsourcing and off-shoring of its service jobs is a good thing for the U.S. economy.[6] Mankiw's orthodox argument was that trade in services over the Internet is just another form of trade and because trade is always win-win, this new form must be as much a plus for the U.S. economy as more traditional forms.

But Mankiw was assuming that workers whose jobs were off-shored would find new jobs with equivalent pay and benefits. He was also assuming that the off-shoring was in response to market forces rather than policy actions and that there would be no negative implications in terms of long run innovation and productivity shifts or overall wage levels for the U.S. economy. What Gomory and Baumol demonstrate is that these assumptions are not necessarily valid. Their views in this regard have recently been supported by such as Stiglitz and Krugman and Intel Chairman Craig Barrett who has commented that "the United States no longer has a lock on high tech, white collar jobs." Barrett has gone on to say that "Companies may still form in Silicon Valley and be competitive around the world. It's just that they are not going to create jobs there (in the Valley).[7]

In short, conventional economic theory no longer very well explains the reality of globalization and thus tends to lead to sub-optimal policies.

IMPERFECT MARKETS

The domestic analog to the conventional HOS international trade model over the past 40 years has been the Efficient Markets (EM) model that holds the market to be always correct in the sense that it self-corrects to a unique equilibrium that optimizes general welfare.

Just as the HOS model is an evolution of 19th century Ricardian concepts, the Efficient Markets model is rooted in the 18th century thinking of Adam Smith who posited a world of perfect competition (perhaps not too far from reality at the time) and then famously concluded that welfare is optimized through a unique equilibrium price of supply and demand established by each agent pursuing his/her own selfish interest. The modern EM version of this is based not on an assumption of perfect competition, but on the notion that the expectations of market actors

incorporate all available information and that each market actor pursues his/her own interest in the expectation that all other actors will do the same. Supply and demand are taken as given and the choices and expectation of the actors then determine a unique optimizing equilibrium price. In this way, the market is efficient and always correct. It is recognized that individuals often have incomplete information and may make individually incorrect decisions, but it is held that the sum of the decisions of all the actors is correct. Or, to be more precise, it is argued that actors' deviations from the path of the long term equilibrium are not biased, but rather are random and self correcting. Thus, the market must always be right and can only be distorted or sub-optimize as a result of government intervention.

THE EFFICIENT MARKETS MODEL NOT ONLY ACCELERATED THE ALREADY RAPID PACE OF GLOBALIZATION, BUT ENSURED THAT ANY PROBLEMS IN U.S. FINANCIAL MARKETS WOULD QUICKLY BECOME GLOBAL PROBLEMS AS WELL.

In the wake of the Crash of 1929 and the Great Depression when markets obviously did not optimize or self-correct, the U.S. along with the rest of the capitalist world developed a mixed economic system that remained essentially one of market capitalism but with a significant degree of government regulation and oversight of markets along with Keynesian intervention to provide stimulus from time to time.

When this system started to falter amid the stagflation that arose in the wake of the Vietnam War in the 1970s, many blamed the problems on mistaken government intervention. Indeed, Ronald Reagan famously argued that government was the problem and that if we just deregulated and got the government out of things, the free market would solve all the problems. Thus, from the early 1980s, EM was invoked as the guide to U.S. domestic and international economic policy. The ensuing wave of deregulation and downsizing of the nonmilitary oriented parts of the government (economic analysis, weather forecasting, trade negotiating offices, etc.) carried from the Reagan Administration through both Republican and Democratic administrations to the present. Particularly important was the continuous deregulation and removal of oversight of the financial markets that took place over a period of more than twenty years. And even where regulation remained, the regulators were in thrall to EM thinking and simply refrained from regulating.. This not only accelerated the already rapid pace of globalization, but ensured that any problems in U.S. financial markets would quickly become global problems as well.

The fallacies of this market knows best EM model are now being demonstrated by what is generally acknowledged to be the worst economic crisis since the Great Depression, ironically, for many of the same reasons. It turns out that, while government can be a problem, so also can lack of government be a problem, and the government is now being asked to save the system from itself. Just as the assumptions of HOS have proved invalid, so also are many of the assumptions of RE and efficient, self correcting markets at odds with reality.

ONE GLOBAL ECONOMY, TWO ECONOMIC SYSTEMS

The conventional win-win view of liberal trade and the confusion of trade with globalization have led to a world economy that flies the banner of universal free trade but that in reality is half free trade and half neo-mercantilist. For the United States and other liberal traders, market outcomes are an end in themselves, government direction of economic development is limited, and achievement of a particular composition of trade or of a particular economic structure is not a policy consideration. Markets are generally open, and it is believed that development should be guided by the natural unfolding of comparative advantage. These countries allow their currencies to float freely in the markets, and do not aim as a matter of policy to accumulate current account surpluses.

THIS HYBRID ECONOMIC STRUCTURE... RESULTS IN THE ACCUMULATION OF HUGE TRADE SURPLUSES AND DOLLAR RESERVES BY THE NEO-MERCANTILISTS WHILE THE NEO-CLASSICISTS INCUR ULTIMATELY UNSUSTAINABLE DEFICITS AND GO EVER DEEPER INTO DEBT.

On the other hand, several important countries pursue a form of neo-mercantilism. For them the market mechanism is important but as a means to achieve rapid and/or a particular kind of growth rather than as an end in itself. The structure of the economy and what the nation makes and trades are matters of the highest priority. Growth is export led. Domestic markets are not closed to exporters but are selectively protected in a variety of formal and informal ways, and it is a policy objective to accumulate continuous current account surpluses. Currencies are managed to promote exports and comparative advantage is not seen as fixed but rather as something to be altered to improve performance. A favored tool for doing this is investment incentives that induce companies to relocate production and research facilities.

This hybrid economic structure tilts the "flat world" to slide production and provision of tradable goods and services and the jobs attached to them from the neo-classical to the neo-mercantilist economies. It also results in the accumulation of huge trade surpluses and dollar reserves by the neo-mercantilists while the neo-classicists incur ultimately unsustainable deficits and go ever deeper into debt.

This apparently deleterious and unfair structure has endured because the argument of conventional economics that the mercantilists are only hurting themselves by distorting their own economies has inhibited the introduction of counter policies.

THE DOLLAR AS THE GREAT FACILITATOR

The role of the dollar as the world's money is the key to the enduring distortions of globalization because it allows both America and the neo-mercantilists to be irresponsible. Only the United States can buy and borrow in its own currency. As long as other countries keep large dollar reserves, America can consume more than it produces and simply print dollars to cover the difference. Savings and deficits really don't matter to the United States. America can cut taxes, reduce saving, and increase spending with no apparent cost. At the same time, however, the neo-mercantilists can over-save and over-produce because they can tilt the world by intervening in currency markets to keep the dollar strong and their exports rising. (Germany, of course, runs large trade surpluses in the face of a strong, floating euro. But Germany's surpluses are mostly with other EU countries. On balance, the EU runs a current account deficit and a big trade deficit with Asia). They can also fund the excessive consumption of the Americans by providing vendor financing in the form of purchases of U.S. assets, thereby providing the last link in the Ponzi scheme chain.

In this way all discipline is removed from the system. The United States is free to over-consume and over-borrow while the neo-mercantilists are free to over-produce, over-export, and over-lend. All parties may feel good for a while, but when the music stops, as it appears now to be doing, there is going to be much pain. This could not be the case but for the peculiar facilitator role of the dollar.

COMPANIES AND COUNTRIES

As part of their export-led growth strategies, many countries offer big financial incentives (tax holidays, capital grants, free land, etc.) to induce foreign companies to move export-producing factories and key technologies to their shores. Most U.S. companies with production facilities in countries like Singapore, China, Ireland, and Israel have benefited from these kinds of incentives.

This highlights two key new aspects of globalization. First, although not incorporated into conventional trade analysis, these kinds of investment incentives along with management of the value of the dollar have increasingly become the major determinants of the structure of international production and trade flows. Second, this has become possible because the interests of companies and countries have diverged as never before.

Fifty years ago, then General Motors Chairman "Engine" Charlie Wilson told the U.S. Congress that what was good for General Motors was good for America. He was largely correct. More recently, Intel Chairman Craig Barrett commented that: "Intel will be okay no matter what. We can adjust to do our R&D and manufacturing wherever it is most economically advantageous."[8] Conventional wisdom holds that America has a comparative advantage in production of micro-processors. In fact, it is Intel that has the advantage, and that advantage can be shifted to many other countries.

DEREGULATION HAS ENABLED MERGERS, THE CREATION OF TAX SHELTERS, AND INTRA-FIRM PRICING THAT HAS RESULTED IN GLOBE-STRADDLING COMPANIES THAT CAN EASILY AVOID UNWELCOME OBLIGATIONS.

In 50 years, the corporation has evolved from a kind of national institution into a quasi sovereign entity frequently more powerful than national governments. The wealth of nations now depends substantially on how and where global corporations deploy their assets, and those decisions are increasingly being made in response to neo-mercantilist policies rather than market forces. A phenomenon that led Barrett also to note that: "In addition to being Chairman of Intel, I am also a grandfather, and I wonder how my grandchildren are going to make a living."[9]

This quasi sovereignty of the global corporation has been greatly stimulated by the laissez-faire wave of deregulation and willy-nilly globalization of the past 30 years. Deregulation has enabled mergers, the creation of tax shelters, and intra-firm pricing that has resulted in globe-straddling companies that can easily avoid unwelcome obligations while also inducing many governments and international organizations to strengthen protection of corporate interests. Thus, for example, over the past thirty years global protection of intellectual property rights has been enormously strengthened, while promotion of consumer, labor, and environmental interests has lagged.

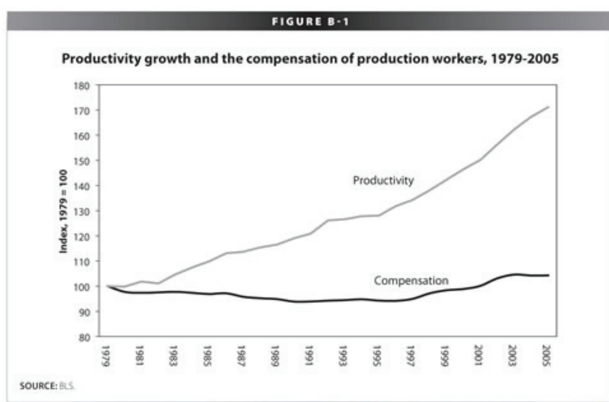
A particularly problematic aspect of the evolution of the new global corporation is the impact it is having on many societies. The excesses of the raw capitalism of the 19th and early 20th centuries were eventually tamed in nearly all market/capitalist countries by means of nationally based regulations, union agreements, rules of incorporation, welfare and unemployment insurance and so forth. These were all largely based on the assumption of nationally rooted corporations. Globalization has enabled the corporation to escape these harnesses with the result that capitalism is increasingly showing flashes of its old tooth and claw nature. Of course there are corporate codes of conduct and in many instances global corporations introduce best practices standards that upgrade the working environment in developing countries. But the fact remains that over the past twenty five years the returns to capital have far surpassed those to labor and workers have not enjoyed income gains commensurate with the gains in their productivity.

III. THE PRICE OF GLOBALIZATION

Since 1979, as globalization has advanced and the dollar has floated, imports to the United States have grown faster than exports, directly impacting millions of American jobs. For example, trade with China alone has displaced over 2 million U.S. workers since 2001.[10] The mere threat of jobs being shipped overseas has in turn translated into reduced wages and benefits and a general decline in the bargaining power of U.S. workers. A 2004 Gallup poll showed that 61 percent of Americans fear that they or someone close to them will lose a job because the employer is moving to another country. The threat to off-shore production, real or exaggerated, gives employers substantial leverage over their employees. It is interesting that while the advocates of conventional Ricardian/HOS trade insist that trade is always win-win, they rarely note the Stolper/Samuelson finding that open trade tends to equalize wages between trading partners. The implication, of course, being that average wages in high wage countries like America will fall toward the average in low wage trading partners like China.

RISING INEQUALITY

Not surprisingly, workers are receiving a shrinking share of the economic pie. The gap between what workers produce and what they receive has dramatically widened: between 1980 and 2005 productivity in the U.S. economy rose 71 percent, while the real compensation (including benefits) of nonsupervisory workers rose 4 percent (nonsupervisory employees make up about 80 percent of U.S. workers). In the tradable manufacturing sector, productivity rose 131 percent while compensation of nonsupervisors gained 7 percent. (**Figures B-1** and **B-2**).



Since the end of the last recession in 2001, the purchasing power of the typical American worker's weekly paycheck has dropped 3 percent. Among working males, real hourly wages are now about where they were in 1973.

TRADE WITH CHINA ALONE HAS DISPLACED OVER 2 MILLION U.S. WORKERS SINCE 2001.

Economists differ in their estimates of precisely how much of the rise in wage stagnation and overall income inequality is attributable to imbalanced trade, but there is little doubt that it has been substantial. Research on the 1980s and early 1990s shows that trade flows alone account for 10-30 percent of the growth in wage inequality, with some major studies suggesting even greater contributions.[11] Such estimates are sufficiently high by themselves to warrant attention—even as they may understate the case by missing many of the ways that globalization influences other factors that contribute to wage inequality, like de-unionization, the threats by employers to move jobs overseas, and the growing political influence of multinationals.[12]

That trade will make the distribution of income worse is embedded in fundamental economic logic. When workers in a high-wage nation are thrown into competition with workers in less-developed countries, those at the bottom end of the wage ladder in the former will be relatively worse off and those at the top end better off.[13]

Defenders of the present mode of globalization tend to dismiss this as a problem for a small number of unskilled workers that can be handled with better job retraining and unemployment insurance. But globalization's "losers" now extend way beyond the uneducated—and their ranks are growing. Twenty-five years ago, American workers were assured by the promoters of "free-trade" agreements that their better education and access to superior U.S. technology would allow them to produce more high-value-added products. Americans would move up the global wage ladder, while workers from other countries would get the vacated lower-wage jobs at the bottom. But when skilled, high-paid jobs began to disappear, American workers were

told that they were still not skilled and educated enough. So if they want to maintain their living standards they are told they will have to become much more educated and productive and work harder and longer hours.

Yet Americans are working longer and are certainly more educated. The share of the workforce with college degrees doubled from 15 percent in 1973 to 30 percent over the last three decades, while the share of high school drop-outs fell from 29 percent to 10 percent. Still, the American economy is not generating the promised good jobs. Projections by the Bureau of Labor Statistics conclude that by 2014 the number of occupations filled by people with college degrees will rise by merely one percentage point—from 28 percent to 29 percent. The share of jobs for which college-level education is actually required is projected to be just 21 percent.[14]

DISAPPEARING JOBS

The evidence is overwhelming that what was once thought of as America's natural comparative advantage—skills, technology, and organization—can now often be duplicated or even surpassed by other nations. Outsourcing off-shore has now ratcheted up to jobs in research and development that Americans had assumed would always be ours because of our advanced technology, prestigious universities, and Nobel-prize-winning scientists. American transnational companies are locating R&D in India, Taiwan and China, where the skills are high and come cheap. An analysis of 57 recent major research initiatives of the U.S. telecommunications industry showed that all but five were located outside the U.S. According to one estimate, 80 percent of engineering tasks in product development can be "easily outsourced." Another suggests that as many as 60 million U.S. workers are vulnerable to having their jobs shipped to another country.[15] Princeton economist Alan Blinder, former vice chairman of the Federal Reserve Board, recently warned that "tens of millions of additional workers will start to experience an element of job insecurity that has heretofore been reserved for manufacturing workers. It is predictable that they will not like it."[16]

THE GROWING DISCONNECT BETWEEN MANY LARGE AMERICAN EMPLOYERS AND THEIR EMPLOYEES IS FURTHER SHREDDING THE SENSE OF MUTUAL DEPENDENCE THAT LIES AT THE HEART OF A PRODUCTIVE WORKPLACE.

The notion that the U.S. economy can prosper by selling high-value services while the rest of the world sells us their goods is now clearly not credible. Manufacturing is our most important source of productivity and motivator of technological innovation. In fact, most of the jobs and wealth creation associated with the information economy is tied to the production of goods. Our highest value services are imbedded in the Boeing jets, Intel chips and John Deere tractors that we produce; success results from setting trained people to work on problems in the context of day-to-day production, whether autos or pharmaceuticals or Hollywood films. The more we off-shore production, the harder it is to compete in the world on the basis of higher productivity and creativity.[17]

The growing disconnect between many large American employers and their employees is further shredding the sense of mutual dependence that lies at the heart of a productive workplace. Employers who are searching the globe for cheaper labor have less incentive to invest in the long-term development of their U.S. labor force. And workers who are constantly threatened by off-shoring have little reason to feel loyal to the firm. Again, these attitudes have spread beyond the sectors immediately impacted by trade and increasingly pervade the U.S. economy. As Thomas Kochan of MIT has observed, writing with Beth Shulman, "employers have replaced the basic social contract at work—the norm that hard work, loyalty, and good performance will be rewarded with a good wage, dignity, and security—with a norm that gives primacy to cutting operating costs and obtaining the highest possible short term profit."[18]

GLOBALIZATION'S EXAGGERATED BENEFITS

While there is no doubt that globalization can generate economic benefits, those obtained to date have been routinely exaggerated in ways that tend to justify rising inequality, job loss, and other costs.

For example, one recent analysis claims that expanded trade over the past 30 years provided gains of between $800 billion and $1.5 trillion to the U.S. economy in 2004—over 8 percent of that year's GDP.[19] If so, it would have been a substantial contribution to the country's growth. But the evidence doesn't clearly support this claim.

Most of the assumed economic gains came in the form of lower prices. The principal source cited for the lower price benefit is the Bush Administration's 2006 *Economic Report of the President*, whose evidence is that import prices rose 9 percent between 1990 and 2004 while the prices of all goods and services rose 60 percent.[20] But imports are concentrated in goods. Comparing the price change of domestic and imported goods under the same methodology yields a savings from imports to the average American of about $36 a year. A gain, but hardly "substantial" enough to justify any costs. Further, the calculations used to show vast benefits from greater variety and productivity gains are based on unrealistic and internally contradictory assumptions. An analysis more consistent with standard economic principles suggests a one-time 2004 gain from imports not of 8.0 percent of GDP, but of 0.7 percent.[21]

A central problem with claims of huge gains from expanded trade is that they come not from actual experience but from simulations of what might happen under extremely unrealistic conditions. Among other things, they assume a state of permanent full employment. Thus, by definition, trade can never permanently cost any workers their jobs. Moreover, these models simulate only trade under idealized assumptions and circumstances, not globalization. They do not incorporate the findings of Baumol and Gomory nor the cost to America of relative loss of production, and loss of scale economies by dint of industrial displacement. Nor do they incorporate the $13 trillion loss of U.S. asset values as the result of the trade imbalance induced economic crisis of 2008-09.

A more comprehensive effort to estimate the impact of a possible free trade deal in the Doha Round of Trade Talks was done by the Carnegie Endowment for International Peace in 2006. It came up with a benefit to the U.S. economy from a potential deal of $4.6 billion—a gain of less than one half of one percent of U.S. GDP, or about $15 per person.[22] The U.S. International Trade Commission estimates the total costs to America of import constraints at roughly $14 billion, or $50 per person.[23]

While trade surely provides some benefits, it is not likely that the benefits received by the majority of working families outweighs the costs they suffer from the lower wages and benefits, job losses, insecurity, declining asset values and other forms of fallout from the present mode of globalization.

Statistically, it may be possible to show net benefits from globalization on an overall national basis. But if 98 percent of the population is not receiving these benefits, there must be some question as to whether they are really net benefits. Moreover, if the rising inequality is due to the company/country disconnects, then no amount of retraining, education, and portable pensions and health care—the normally recommended nostrums—will change the situation.

FAR FROM SPREADING DEMOCRACY, GLOBALIZATION SEEMS TO HAVE THE OPPOSITE EFFECT IN SOME PLACES.

UNDERMINING DEMOCRACY

There are also growing reasons to question another promised benefit of globalization: That it strengthens democracy worldwide. Far from spreading democracy, globalization seems to have the opposite effect in some places. The state capitalist autocracies of Russia, China and the oil producing nations have grown in power as globalization has gained momentum.

These nations are financing the United States while increasingly challenging it on the international stage. They are also intimidating and to some extent guiding global corporations. For example, many companies accept Chinese censorship on their websites and even turn employees over to the Chinese police upon request. Many also readily assist the Chinese Internet Police with equipment and technology. Indeed, it is striking that Washington has raised no human rights fuss about this. But the reason is not too hard to find. All these major corporations are big political players with significant lobbying operations in Washington.

GLOBALIZATION IS EXACERBATING GLOBAL DEPENDENCE ON A FEW, AUTHORITARIAN OIL PRODUCING COUNTRIES IN A DANGEROUS WAY.

The key problem is an asymmetry of power over corporations between democratic and authoritarian regimes that disadvantage the democracies. In Washington, a major global CEO is not only a business leader. He or she is also an important political player who makes big PAC donations, maintains legions of lawyers and lobbyists, helps to shape legislation, and influences regulatory decisions. Top political leaders have many reasons to court CEOs. In Beijing or Riyadh or Moscow, however, the CEO is a supplicant just like everyone else. He doesn't file law suits against these governments, and he needs to maintain favor and keep the bureaucrats and party operatives happy. Moreover, he will use his influence in Washington to do what is necessary to curry favor in the authoritarian capitals. In this way, many in the global business community have become lobbyists for autocratic regimes. This is not to say that it can't or never works the other way around, but the power relationships are such as to make it more natural for global firms to yield to China's Internet police than to demand that they drop their censorship.

THE ENVIRONMENTAL COSTS

Globalization is now accelerating global warming and environmental degradation. This is because the tilted world is relocating energy intensive production to the least energy efficient countries while also increasing the energy intensiveness of the supply system. Many world girdling supply chains are only possible by dint of express air freight operations. But these gobble much more energy than sea shipment or local production. With a carbon tax much off-shoring would make no sense. By the same token, great strain is being put on water and other natural resources because many developing countries are unable or unwilling to manage them on a sustainable basis. So again, the supply chains exploit them without paying the full cost.

By the same token, globalization is exacerbating global dependence on a few, authoritarian countries in a dangerous way. This is partly due simply to rapid economic growth in China, India, and elsewhere, but also to the fact that production is being moved to less energy efficient areas and also to the fact that as a result of the tilted distortion, production is being moved uneconomically in ways that lengthen the supply chain.

IV. A NEW GEO-ECONOMIC STRATEGY

Just as the United States has a geo-political strategy, it must have a geo-economic strategy. Indeed, to have the first without the second is simply nonsensical. This strategy must be based on the recognition that without being economically competitive America will not be able to provide an attractive future for its children nor adequately defend its interests and freedoms in the present. It must also be recognized that neither domestically nor internationally is the market always right. It needs oversight and occasional policy guidance or correction. Finally, in this age of globalization in which market/capitalism has slipped the traces of national regulation and taming mechanisms, it will be necessary to establish global regulatory and taming arrangements. Thus, under a new globalization regime, the rights of workers need to get the same attention as the intellectual property rights of corporations, the interests of consumers and the environment should be treated as seriously as those of investors, and global finance must be transparent and sensibly regulated.

The new agenda can be divided into those issues that must be addressed immediately and those that are longer term in nature.

IN THIS AGE OF GLOBALIZATION IN WHICH MARKET/CAPITALISM HAS SLIPPED THE TRACES OF NATIONAL REGULATION AND TAMING MECHANISMS, IT WILL BE NECESSARY TO ESTABLISH GLOBAL REGULATORY AND TAMING ARRANGEMENTS.

THE DOLLAR

Negotiations similar to those of the Plaza Agreement of 1985 should be launched immediately to coordinate a substantial (40 to 50 percent) revaluation of a number of managed Asian currencies versus the dollar and the euro over the next two to three years. This would also have to entail an agreement to halt strategic currency management activities. A second longer term objective of the deal would be a reversal of savings and consumption patterns in the United States and Asia. Once the current recession is behind us, Washington would promise to balance the federal budget over the business cycle and to reform poorly targeted consumption incentives like the tax deductibility of interest on home equity loans, while key Asian and oil producing countries and Germany would undertake to increase domestic consumption. China could upgrade its social safety net, and a true liberalization of Japan's housing and consumer credit markets might do wonders. The oil countries also need to improve social safety nets and greatly upgrade their infra-structure.

After this initial deal, the IMF or a new body representing the major currencies (dollar, euro, yen, and yuan) must continue to coordinate policy and manage appropriate currency adjustment. Its mission must be to push the global system toward balance. To this end it should effect a transition to a more stable global currency system. One possible option would be a basket of currencies. Indeed, the IMF's Special Drawing Rights (SDRs) already represent a currency basket and an exchange of dollars for SDRs (China has actually suggested something like this recently) might be used as a device to get away from excessive reliance on the dollar. Regardless of how it is done, the end result must be a system that makes neo- mercantilist currency management and U.S. abuse of the privilege of printing the dominant currency impossible.

If starting such discussions proves difficult, Washington could jump-start them by declaring a balance of payments emergency under appropriate articles of the WTO and announcing plans to impose a surcharge on imports. It could also initiate unfair trade proceedings against a number of countries on grounds of illegal subsidies (The Agreement on Subsidies and Countervailing Measures) and/or nullification and impairment of concessions. It could also formally call for official consultations by the IMF with certain of its members regarding their currency management practices. This, of course, would be strong medicine, but it would surely stimulate discussion, and it is all perfectly legal and in keeping with both the rules and spirit of open, rules based trade.

TRADE AGREEMENTS

No matter what one thinks is the core problem of our exploding trade deficit (e.g., low savings, currency distortions, trade deals, skill deficiencies, the tax code, foreign mercantilism) the reality of America's present condition is that the more trade deals it does, the larger the trade and current account deficits grow. Thus, the knee jerk promotion of more trade agreements before we address the flaws in our trade policy simply makes our competitiveness problem worse and drives us further into debt.

The first step therefore is to do no further harm. Congress should immediately impose a strategic pause on all trade negotiations and postpone approval of agreements not yet signed until we have a credible program, agreed to by Congress and the President, (1) to reduce the current account deficit at least to the point at which it is not rising faster than our income—roughly about 2 percent of GDP; (2) to improve American competitiveness. This does not mean opposition to trade or to trade talks in the near future. But it does mean having a serious strategy before proceeding.

ENDING FAST TRACK AND SETTING NEW RULES FOR TRADE AGREEMENTS

The President's authority to put trade agreements to an up-or-down vote has essentially stripped Congress of any significant role in their negotiation. The result is trade deals that are written by influential lobbies—commonly the people the trade negotiators have worked for or will work for when they leave government.

New rules for the trade agreement process should include required measurable objectives for U.S. negotiators, such as:

- Core labor rights (those already agreed to by the members of the International Labor Organization) and internationally agreed environmental standards having the same enforceable status as investor rights;
- No restrictions on U.S. or state governments from favoring domestic production (including the U.S. based production of non-U.S. corporations) in economic development policies;
- No extraordinary investor privileges for the settlement of disputes;
- Inclusion of protections against currency manipulation;
- Objective measures of reciprocally open markets and enforcement provisions; and,
- Assurance of basic levels of judicial independence and democratic norms in the negotiating partner.

Specific milestones should be included in negotiating instructions that provide Congress an opportunity to judge whether key objectives have been achieved. The President would, of course, continue to have the right to submit to Congress whatever agreement he or she wishes, but, if the objectives are not met, the agreement would not get fast track privileges.

IMMIGRATION AND THE H-1B AND SIMILAR PROGRAMS

It is clear that the future will belong to those countries with the most skilled workers. America should make every effort to develop the skills of its own people and to be a magnet that will attract skilled people from other countries. At the moment, U.S. immigration policy is skewed toward attracting low skill people while making it difficult for high skill people to stay. For example, many students from around the world get their Ph.D. degrees at top U.S. universities. Having graduated, they are often required to leave the country. In fact, our policy should be to grant a green card to any foreigner graduating from a U.S. university with an advanced degree, especially if it is a degree in science or engineering. We should also make it easy for skilled foreigners to come to America to start new companies.

At the same time, there is a need to be discriminating with regard to our H-1B visa programs. Although there is justification for companies in special temporary situations to be allowed to import workers with critical skills and unique talents, there is no justification for a government policy that systematically encourages importing skills instead of creating them at home or that encourages importing low wage workers who compete with domestic workers under the pretense of providing special skills that are not readily available domestically. It is a mockery of the promises that have been made to Americans that globalization would provide job ladders with upward mobility.

Moreover, the H1-B and similar programs have been abused. The definition of a labor shortage is vague and increasingly stretched to the point where the approval is hardly more than a routine rubber stamp. Among other abuses, employers have been found to request foreign workers for facilities in low-wage states with relatively small supplies of highly technical labor, only to employ them at low wages in higher-wage areas.

SINCE WE CANNOT GO BACK, WE MUST GO FORWARD AND REPLACE NAFTA WITH A MORE COMPREHENSIVE AGREEMENT.

A thorough congressional review of these programs' purposes and an evaluation of their operation are needed. Existing contracts must be honored, but, with carefully defined exceptions, new applications should not be approved pending such a review.

A NAFTA RENAISSANCE

The North American Free Trade Agreement (NAFTA) succeeded in integrating the three North American economies to the point of no return. Too many economic channels have been redirected north-south to reverse the course of economic integration. But it failed to deliver on its promises—including its promise to stem the tide of undocumented workers crossing the border in search of jobs that pay enough to support them. The immigration issue cannot be solved with walls or guest worker programs. It can only be solved with the creation of sustained and broadly shared growth in the places the vast majority of immigrants come from—primarily Mexico.

Since we cannot go back, we must go forward and replace NAFTA with a more comprehensive agreement. The first task is to establish a set of rules for the common market that recognizes the three NAFTA nations' joint economic future. The rules would include, at a minimum, a "bill of rights" for citizens of North America, enforceable in all three countries, which would reestablish rights for people at least as strong as the extraordinary protections NAFTA gives to corporate investors. These rights would include guarantees of freedom of association and collective bargaining across borders, as well as public transparency in government dealings with the private sector.

To support this revision, we also need a continental "grand bargain" in which Canada and the United States would commit substantial long-term aid to Mexico in order to nurture higher and sustainable economic growth, while Mexico commits to policies (independent trade unions, adequate minimum wages, equitable taxes, assistance to its depressed farm sector) that assure wages in all three nations rise with their productivity.

Finally, we should begin discussions toward a North American customs union to manage foreign trade in the service of the needs of the people of all three countries and to develop a North American option in response to the growing regional economies in Europe and Asia.

WTO REFORM

Over the longer term, the currently prevailing half-free trade, half-mercantilist system of globalization must be replaced by the establishment of a one economy-one system regime. To do this the WTO will have to be completely revamped with new standards, rules, and authority. Most Favored Nation and National Treatment standards are no longer sufficient. There must be just one kind of WTO Treatment in all economies. Global rules must be created to break up and regulate cartels. Distribution and marketing channels must be equivalently open in all markets not only de jure but de facto. It must be possible to appeal on such issues not just to national courts but to objective international dispute settlement bodies. Sovereign investment funds and state controlled enterprises must be subject to international scrutiny and to transparency and rules that assure they are operating completely outside the political realm. Likewise, tax holidays, capital grants, and other financial incentives used to bribe global corporations with regard to location of plants, labs, and headquarters must be subject to common WTO and IMF discipline. Nor should the WTO and other international bodies wait for complaints to address these issues. Rather, they should maintain continuous monitoring of real market developments and apply discipline wherever and whenever necessary.

MOST FAVORED NATION AND NATIONAL TREATMENT STANDARDS ARE NO LONGER SUFFICIENT. THERE MUST BE JUST ONE KIND OF WTO TREATMENT IN ALL ECONOMIES.

Again, it may be difficult to obtain agreement on negotiating such rules. Therefore, the United States and other interested countries should not hesitate to file WTO and IMF complaints and take the actions allowed by international law against measures and policies that distort globalization. Financial investment incentives targeted to particular industries and companies can be attacked under the anti-subsidy rules while toleration of cartels and favored positions for state related enterprises can be attacked under the nullification and impairment rules. Again, the U.S. authorities should not wait for complaints. Because of their greater sensitivity to authoritarian regimes than to democracies, global corporations will hesitate to bring complaints for fear of retaliation from authoritarian neo-mercantilist regimes. Therefore, U.S. and other affected officials should monitor conditions proactively and self-initiate appropriate actions. Again, these are sure to stimulate negotiations.

ALIGNING CORPORATE AND U.S. INTERESTS

Washington must give serious thought to measures that will better align the interests of global corporations with those of the United States. A start could be the creation of a war chest with which to match the financial investment incentives of the neo-mercantilists. There is precedent for this. In the late 1980s, the Bush administration created a war chest to match the export subsidies of other countries. The objective was to force negotiation of some disciplines on export subsidies in the Uruguay Round of WTO negotiations. It worked. In this new case, Washington could undertake to match the tax holidays and capital grants that other countries routinely offer to induce global companies to locate within their borders. Washington could also apply the corporate income tax so as to give a tax credit, like the R&D tax credit, for creation of certain levels of value added production or certain kinds of jobs.

At the same time, the asymmetry in the relationship of the global corporation to authoritarian and democratic regimes must be corrected. One step would be for the United States and other democratic governments to work with business leaders to develop codes of conduct to govern corporate responses to such things as censorship and coercion of employees. Such codes could be incorporated into the WTO or could be established independently by the International Chamber of Commerce which could monitor behavior and also adjudicate complaints and impose penalties. A second step must be much more restrictive rules on the type and amounts of donations by corporate political action committees and by corporate executives to political leaders and political campaigns. A third step could be establishment of an active monitoring project by the U.S. Commerce Department to determine when U.S. corporations are being coerced and to bring this activity into the sunlight.

STRENGTHENING MANUFACTURING

A competitiveness agenda for the 21st century must make manufacturing a priority. Despite the conventional portrait of manufacturing as an obsolete economic sector, it must be a part of our future. We cannot earn our way back to trade balance (or anywhere near it) in a way that increases real incomes without increasing exports more rapidly than imports—and because goods account for a far larger portion of our exports than services, we will have to achieve most of the export increase with exports of goods.

Moreover, developing technological comparative advantages that can employ large numbers of people depends on the existence of manufacturing. There is much about the process of technological innovation that remains a mystery, but we do know that it involves trial-and-error and requires hands-on access to the production process.

A manufacturing base is also essential for national security. Today, components of systems that are essential to military security are outsourced and supply lines are extended around the world.[24] This structure not only makes U.S. national security vulnerable to disruption, it creates constant pressure for an expanded American military presence around the world to protect the outsourced supply lines.

The targeting of manufacturing is not an argument for preserving any single industry, particularly since many of the products we will make in the future will be different from the products we are making today. Rather, it is an argument for providing the necessary supports and incentives for a healthy foundation of skills, technology, infrastructure, and capital for goods production that can exploit the changing demand in the domestic and global marketplace in ways that support high wages.

WE NEED GOVERNMENT POLICIES THAT INCREASE THE CHANCES THAT RESEARCH AND DEVELOPMENT WILL BE CHANNELED TO PRODUCTION IN THE UNITED STATES.

A high-wage strategy will require a shift in the pattern of future growth toward an industrial base of perhaps 10 million more workers over the next decade. This is certainly not an impossible goal in a labor force that now numbers 150 million, but it will require a dramatic change from policies that have discouraged long-term investment in manufacturing and have signaled to young people that they would be better off becoming international lawyers or financiers than engineers. Some of the specific ways to send the appropriate signal regarding competitiveness to the private sector are included in the following sections.

ELIMINATING PERVERSE TAX INCENTIVES

Many countries use special tax incentives, capital grants, and other financial incentives to induce direct investment by global corporations. This has often caused off-shoring of perfectly competitive U.S. based production. The United States should match such incentive packages while calling for establishment of international rules to govern them. Further, U.S. tax rules should be amended to remove provisions that make it more attractive to invest abroad than at home.

Indeed, U.S. integration into the global economy requires us to rethink our whole approach to taxation. Other nations, for example, use "border-adjustable" value-added taxes to favor exports over imports. A progressive VAT is something that ought to be considered as an instrument to level the playing field.

Further, U.S. corporate tax rates are among the highest in the world. Yet, as a result of some of the above provisions and other loopholes, actual corporate tax payments have been relatively low. It would be better to reduce the corporate tax rate to 15 to 20 percent and at the same time to remove the complicated and distorting loopholes.

SUPPORTING EFFECTIVE RESEARCH AND TECHNOLOGY DEVELOPMENT

Federal support for R&D and innovation has dangerously diminished and should be at least doubled. But in integrating the global economy, simply providing funds for companies, universities, and research centers for this work can easily be counterproductive, because the resulting products and processes are increasingly likely to be produced in other countries. Not only have American firms become global, but so have universities, with partnerships and subsidiaries around the world. Harvard, for example, now refers to itself as a "world university."

TODAY, THE MOST PRESSING ECONOMIC ISSUE AFFECTING OUR NATIONAL SECURITY IS OUR DANGEROUS RELIANCE ON IMPORTED ENERGY.

In the global economy, ideas cannot be stopped at the border. By its very nature, research and innovation need to be free of bureaucratic constraints. We need government policies that increase the chances that research and development will be channeled to production in the United States. Precedents for guiding the location of end-use production already exist in the area of military-sensitive R&D.[25]

RE-EMPHASIZING INDUSTRIAL EXTENSION SERVICES

We do not have to invent a new program for aid to U.S. manufacturing. Over the past 20 years local and state-based efforts to provide technical, managerial, and financial assistance to small- and medium-sized firms producing in the U.S. have grown into a rich network of talented people. States and municipalities have developed an institutional infrastructure that connects businesses with technical and business schools. These efforts—with the great advantage of being locally based—should be enriched and expanded throughout the country.

A NATIONAL ENERGY DEVELOPMENT PROGRAM

American history is full of examples of successful government leadership in the creation of great industries that propelled U.S. growth and prosperity. The U.S. government financed the first assembly line; subsidized railroads, metal ships, and jet planes; organized the highways for the auto industry; and nurtured long distance communication, electric power, and computer technologies. It organized the technical assistance, marketing, and financing that made American agriculture the most profitable in the world.

Many of these great national enterprises were motivated by security concerns. Today, the most pressing economic issue affecting our national security is our dangerous reliance on imported energy. Although this dependence is widely recognized by the public and policy makers, the policy debate is stalled. Ideological blinders have limited the discussion to supply-side proposals to accelerate the draining of U.S. off-shore oil reserves and demand-side proposals for large increases in the price of energy that are fiercely resisted by a public that has come to rely on cheap energy.

But there is now a great opportunity to develop a series of 21st century industrial sectors devoted to the generation of alternative energy that can spur technological advances and at the same time generate high-wage jobs.

The federal government began such an effort during Jimmy Carter's presidency in the 1970s. But in the wake of the radical free market ideology that later dominated federal policy and the drop in oil prices in the 1980s, forward motion was abandoned. One result is that the European and Japanese governments nurtured their own alternative industries and overcame our lead in this area. Today, the Japanese have 50 percent of the global market for solar technology, and the Europeans serve 90 percent of the market for wind turbines.

IDEOLOGICAL BLINDERS HAVE LIMITED THE DISCUSSION TO SUPPLY-SIDE PROPOSALS TO ACCELERATE THE DRAINING OF U.S. OFF-SHORE OIL RESERVES AND DEMAND-SIDE PROPOSALS FOR LARGE INCREASES IN THE PRICE OF ENERGY.

We should mount an Apollo-like project to aim for America to become energy independent and even to become an exporter of energy. No single "silver bullet" program will do it. It is impossible to say exactly which combinations of alternative fuels— hydrogen, solar, bio-mass, wind, geo-thermal—will prove the most effective. But neither was it possible to know just what combination of technologies would get us to the moon when John F. Kennedy made that commitment in 1960. What is critical is the commitment that gives American workers and investors the confidence that time and money spent developing skills and businesses in the alternative energy sector can pay off.

The Apollo Alliance, a coalition of business, labor, and environmental organizations, has proposed a $300 billion effort over 10 years to kick-start and nurture a major effort.[22] American policy makers have the skills, the resources, and the public support for such a program. All we need is the will.

V. A NEW SOCIAL CONTRACT

TRAINING AND EDUCATION

The experience of the advanced nations that have been most successful in competing in the global economy while maintaining high incomes and financial security (e.g., Sweden, the Netherlands, Denmark) has demonstrated how social safety nets and partnerships with trade unions can enhance competitiveness by using the periods of unemployment that accompany economic growth and change to upgrade the skills and flexibility of workers while supporting their incomes.

Because the U.S. has lagged far behind these best practices, we need a large and serious upgrading of our transition assistance in ways that support good jobs.

First, any such strategy must provide for much more generous assistance for the unemployed. The current levels of support (averaging roughly $260 a week for a maximum of six months) are obviously inadequate. Second, the system of education and job training needs to be completely revamped and upgraded to the levels of our more advanced competitors. The cost of a minimal system for adjustment is in the order of $75 billion per year. The Danes, whose economy competes in the world and who enjoy high and rising incomes, spend 4 percent of their GDP on such programs—the equivalent in the U.S. economy of about $500 billion.

The recent flurry of proposals to solve the adjustment problem with "wage insurance" does not meet the criteria for an efficient and humane program: the proposals on the table encourage a downgrading of skills and are financed by taxing workers and/or reducing unemployment compensation. Thus, they propose that the losers in the economic transition, not winners, support the other losers.

LIFTING THE BURDEN OF BENEFITS

For much of the American middle class, the social safety net has depended on a system of health care and pension benefits provided by employers. But globalization has put employers under great competitive pressures to cut costs. The pressure comes from both low-wage countries, where workers get few if any benefits at all, and more advanced nations, where government shoulders more of the health care and pension burden. Globalization also gives U.S. companies that can afford such benefits the opportunity to escape paying them. As a result, benefits are shrinking and jobs with benefits at all are becoming scarcer. For middle-aged and older workers, losing such a job can be a calamity.

The reality is that American workers can no longer rely on a voluntary employer-based social safety net, nor can American products be sufficiently competitive if employers have to compete with foreign firms that do not have that benefits burden. Successfully competing in the world market will demand greater government participation in health care and the provision of pensions.

In both areas, efficiency and mobility require universal access and public accountability. It should be possible to build universal systems for health care and pensions that can be built on existing successful programs like Medicare and Social Security.

AS A RESULT [OF GLOBALIZATION], BENEFITS ARE SHRINKING AND JOBS WITH BENEFITS AT ALL ARE BECOMING SCARCER.

VI. REGULATING GLOBAL CAPITALISM

Globalization means different things to different people, but as U.S. national policy it has meant the following:

- Removal of traditional barriers to trade, such as tariffs;
- After 1980, removal of "non-tariff barriers" such as subsidies and quotas, as well as some forms of social regulation;
- Unilaterally open U.S. markets. When countries following export-led, neo-mercantilist growth strategies restricted access to their markets, U.S. policy has been to avoid any counter action and even to avoid any domestic industrial policy action that might assist U.S. industries impacted by the industrial policies of our trading partners;
- A double standard applied to some U.S. industries that continued to enjoy subsidies and protections, such as agriculture;
- A tilting towards the interests of U.S. financial capital, at the expense of U.S. workers and manufacturing industries. Especially, emphasis on maintaining a strong dollar has worked to the benefit of Wall Street but to the detriment of Main Street producers;
- The deregulation not just of barriers to trade, but of financial regulations limiting speculative movement of global capital;
- The unthinking (for lack of an overall economic strategy and policy coordination) creation of myriad tax, investment, and regulatory incentives that have the effect of encouraging the outsourcing of domestic production to foreign locations;
- The negotiation of bi-lateral and regional so called free trade agreements such as NAFTA that are really more about facilitating U.S. investment overseas than about trade; and,
- Emphasis on market fundamentalism, the notion that markets always optimize and always self-correct. This has led to the dismantling or weakening of regulatory and other institutions that served to balance market failures and volatility such as trade unions, wage regulations, taxation of capital, and tacit or explicit industrial policies.

What's needed now is to revisit this de facto American definition of globalization. We need to redefine the rules of global commerce so that the self-destructive tendencies of a market system are harnessed once again to serve a broad public interest; and the interests of America as a nation of citizens and working families take precedence over the interests of financial speculators and stateless corporations. Ultimately, the challenge goes beyond a better and more balanced set of rules for trade, or a more deliberate manufacturing policy for the United States. The larger issue is how to regulate global capitalism.

Just as the past century was punctuated by struggles within nations to balance property rights with social and later environmental protections, and to make sure that unregulated financial markets did not set off periodic depressions, the effort to harness a market system to serve a broad social purpose must now be global. This is far more difficult an enterprise, since there is no global government, no global citizenship, weak global civil society, and even weaker global regulatory institutions. So multinational corporations and global financiers have a much easier time evading nation-bound democratic counterweights.

THE EFFORT TO HARNESS A MARKET SYSTEM TO SERVE A BROAD SOCIAL PURPOSE MUST NOW BE GLOBAL.

These counterweights include the entire range of areas where markets generate either excessive risks or socially intolerable extremes: labor rights and safeguards, environmental hazards, financial speculation, and social standards generally.

Regulating global capitalism really operates in two dimensions. The first involves questions of economic and social equity. To the extent that nation-states once provided counterweights to the inequality of private market forces, globalization under current ground rules undercuts all of those balancing mechanisms. It is not accidental that the past 30 years of rising inequality and weakened social safeguards was precisely a golden era for global laissez faire. And despite the claims of its partisans, this was not a golden economic age for sustainable growth.

The second dimension involves symmetry between and among nations. The alliance between western multinational corporations and mercantilist, autocratic countries, has produced advantages for the corporations, but disadvantages for the United States. Global corporations can benefit from and therefore acquiesce in the mercantilist practices of some countries. It is a Devil's bargain that undercuts American competitiveness in the long run, deprives American workers of decent jobs, while contributing to a pattern of development abroad that leads to grotesque extremes of inequality, reinforces a lack of democratic rights, and worsens the pillaging of the environment.

At the same time, we need to appreciate that the current rules of globalization harm ordinary people in the developing global South as well as in the advanced North. This is not an argument or a rivalry between working people in different nations, but a necessary effort to wrest control from elites who play off workers in the north against workers in the south to the detriment of both, and who are willing to sacrifice broadly based prosperity in our own nation for the sake of their own advantage by driving down global wages and social standards. Properly reconstructed, a global trade and regulatory regime could lead to a more balanced form of capitalism, North and South.

So regulation of global capitalism is necessary, both to defend and expand social balance within nations, and to have more symmetrical trading practices between trading nations. The WTO has utterly failed to achieve either.

The current set of rules governing global economic relations—what Renato Ruggiero called the "constitution of a single global economy"—is inadequate, and should be revised, on at least three major fronts.

INTERNATIONAL LABOR RIGHTS

The absence of any social and human dimension to the regulation of the market would not be tolerated within the domestic economy of most developed nations nor in many less-developed nations. The institutions charged with managing the global economy—the WTO, the IMF, and the World Bank—not only reject responsibility for such a dimension, but by ideological culture and policy actively undermine social and human concerns in their operations. When challenged, the bureaucratic response is that labor rights are the responsibility of the International Labor Organization. This assertion is disingenuous. While the WTO has the power to protect investors through trade sanctions, and the IMF and the World Bank through their loans and grants, the ILO, a tripartite structure in which business, government, and labor representatives have equal voting rights, has neither the ability nor the authority to protect workers.

It is often charged that labor rights are a smoke screen for "protectionism" and that developing nations do not want their workers protected. Surveys show that most people in the world's nations think that labor rights and environmental standards should be a part of trade agreements. The resistance comes from elites in both rich and poor nations who have a common interest in weakening workers' bargaining power everywhere.

It is time for the United States government to stop dragging its feet on the issue of international labor rights. We should not be a party to any new WTO trade negotiating round that does not provide workers the equivalent protection that it gives investors. At a minimum this means making the core standards prescribed by the ILO, including the right to join a union and bargain collectively, enforceable with trade sanctions.

INTERNATIONAL ENVIRONMENTAL STANDARDS

One of the paramount challenges for global governance is a new global regime for reducing carbon emissions. Sir Nicholas Stern had called global climate change history's greatest case of market failure. Only a global regulatory structure will produce a comprehensive shift to a clean energy path. This may entail carbon trading schemes or carbon taxes, but whatever the instruments the overall production of greenhouse gases must be reduced.

Since the wealthy countries expect newly emergent economies such as China and India to follow a much cleaner energy path than the rich countries did, this new global regime will require the advanced countries both to set a good example by drastically reducing their own carbon emissions, and to facilitate transfer to the third world. However this is achieved, it will not be accomplished by "free trade."

> **AS FINANCIAL STANDARDS WERE WEAKENED IN THE U.S. AND THE U.K., NEW INSTITUTIONS AND PRODUCTS WITH THE POTENTIAL TO CREATE GRAVE SYSTEMIC RISK WERE ALLOWED TO GROW, OUTSIDE THE REGULATED SYSTEM.**

GLOBAL FINANCIAL REGULATION

The current financial collapse is vivid evidence of the dangers of deregulated global capitalism or, worse, capitalism that is privately regulated for private financial interests. As financial standards were weakened in the U.S. and the U.K., new institutions and products with the potential to create grave systemic risk were allowed to grow, outside the regulated system. Hedge funds, private equity, mortgage brokers, credit rating agencies all were essentially non-transparent and had no capital standards. New products such as sub-prime loans and derivatives based on them were also unregulated. Though these practices began in the Anglo-Saxon countries, the damage has spread worldwide.

Deregulation produced more deregulation in a race to the bottom. Ostensible efforts to begin global regulatory harmonization, such as the Basel Accords, actually allowed banks to define their own capital standards. When the crisis came, the Basel standards, written largely by and for bankers, proved oblivious to every major abuse.

ORGANIZING FOR BETTER POLICY MAKING

Seen from the vantage point of the U.S. national interest, trade should be an instrument for expanding American living standards and opportunities, not a goal in and of itself. But the way both the Congress and the executive branch are organized makes negotiating and approving trade deals the number-one priority and obscures the more fundamental questions of the U.S. role in the global economy—both to the public and to policy makers themselves. It also makes it even easier for special private interests to drive public decision making.

Refocusing globalization policy on economic policy, rather than deal making, would be enhanced with two shifts in government organization:

- Each branch of the Congress should establish a Select Committee on Globalization, to include members not only from the Ways and Means and Finance Committees (whose present jurisdiction over trade

stems from the even narrower reason that changes in tariffs affect government revenue), but also from the committees dealing with education, labor law, transportation, telecommunications, foreign affairs, armed services, and other relevant areas. The purposes would be to connect the dots of economic integration among the various committees. Select committees would have the power to hold hearings, issue reports and recommend legislation.

- The Office of the U.S. Trade Representative should be relieved of its cabinet rank. The USTR serves neither a special administrative function (as does the Office of Management and Budget) nor a generally acknowledged national goal (e.g., environmental protection, drug control). Rather, it should be an instrument for negotiation of trade objectives set by policy makers with a responsibility for a vision larger than deal making. A new department of industry and trade should be formed out of the USTR and Commerce Department, and its mandate should define its mission as the support of job creation in the United States.

VII. CONCLUSION: GLOBALIZATION AND LAISSEZ-FAIRE

There are only two ways to temper global capitalism. Either nation states reassert more sovereignty to prevent abuses. Or the regulatory enterprise becomes global—not pseudo regulation such as the Basel Accords but the real thing. Reform will entail some of each approach.

In this regard, it is worth recalling that there is more than one form of globalization, and that international trade and finance need not follow laisser-faire principles. History's great counter-model is the Bretton Woods system that flourished between 1944 and 1971. The architects of Bretton Woods appreciated that if individual nations were to pursue policies of high growth and full employment at home, they could not be at the mercy of deflationary speculative private capital movements transnationally. Under Bretton Woods, exchange rates were fixed; capital controls were utilized; the original design proposed an International Trade Organization that linked labor and trade. And liberalized trade was conditional and reciprocal. While it is not practical to revert to the original Bretton Woods model, the Bretton Woods vision suggests that globalization can be organized to promote managed capitalism, and not laissez faire.

ENDNOTES

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3. Josh Bivens, "Trade, Jobs and Wages," Economic Policy Institute, May 6, 2008.
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Economic Strategy Institute | 3050 K St. NW, Suite 200 | Washington, DC 20007 | 202.965.9484 | **www.econstrat.org**

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Media Inquiries:

Tim Rusch, Communications Director
trusch@demos.org
212.389.1407

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