

Pillar Two: Shared Prosperity in a Global Economy

Our future depends upon securing the American middle class, the engine of our democratic strength and economic power. As the world economy grows increasingly interlocked, and the American economy invests further in our comparative advantage in creative and information-based industries, our security and prosperity become even further linked to the expansion of the global middle class of consumers. We must lead the way based on the core American principles of fairness and responsibility, so that we offer hope and opportunity for all, instead of deepening inequities that fuel hatred and desperation, both at home and abroad.

Expanding Opportunity for the American Middle Class

America's greatest asset is the vibrancy of our own economy – if we can maintain that, there is no doubt that we will remain the single most influential nation in the world. Our policymakers must work hard in the coming years to ensure that Americans are equipped to compete and thrive in an increasingly competitive, global world. We must ensure that we continue to be a leader in innovation and scientific research, and are home to the best universities in the world.

At the same time, given our diverse economy, we must also focus on generating jobs for different skills, talents, and educational backgrounds. Social policies must be rewritten to maximize opportunities and lessen income inequality. We must create an economic system in which all Americans can contribute, earn good wages, and achieve the American Dream.

But while global competition for talent is intense, the U.S. immigration system strictly limits legal channels for economic migration. U.S. asylum policy—especially on the southern border—remains a source of domestic political strife, and has discredited the image of the U.S. abroad. Meanwhile many first, second, and third generation immigrant communities increasingly believe the American dream is drifting out of reach. They experience the life on the U.S. economy as a series of official obstacles, social rejections, and frustrated opportunities. These conditions sow the seeds of economic, civil, and social dissatisfaction. We must ensure that the system provides opportunity for all, and leverages the incredible advantages of our pluralistic society.

Recommendations:

- 1. Help American workers compete with their global counterparts.** Support Trade Adjustment Assistance to train U.S. workers negatively impacted by globalization and help those in transition develop skills relevant for the future.

- 2. Ensure trade is a level playing field.** Future trade agreements must regulate work conditions, wages, and environmental standards to our level – deals should not be a race to the bottom. We must protect American workers by penalizing countries that violate trade agreements and undercut U.S. competitiveness.
- 3. Help American companies of all sizes sell their products overseas.** Congress should reauthorize the Export-Import Bank, a wholly owned U.S. government corporation that is the official export credit agency of the United States with a mandate to finance, insure, and facilitate U.S. exports of goods and services and, in doing so, contribute to U.S. employment. Last year, the Export-Import Bank supported 3,400 transactions and over \$5 billion in loans – 85% to small businesses, many of which would not have otherwise been able to enter the global market. Nations such as Brazil, China, Germany, and Japan have far larger versions of their own export-import banks; the United States must do the same in this competitive global economy. Without this kind of support, these small and medium-sized businesses, which are so critical to providing employment throughout the country, will remain at a severe disadvantage – and the U.S. will miss out on a vital opportunity to support economic progress abroad and at home.
- 4. Encourage U.S. clean-tech manufacturers.** Support initiatives and policies that provide incentives for establishing U.S. clean-tech manufacturing facilities like the Regional Greenhouse Gas Initiative (RGGI), a cap-and-trade program in America’s Northeastern states that is projected to save customers money on electricity bills and create jobs. In addition, existing programs that encourage veterans to become entrepreneurs should be leveraged and expanded to spur clean energy deployment in emerging markets.
- 5. Attract the best and brightest from around the world.** Pluralism is central to the success of America’s economy. To maintain this strategic asset, all of America’s communities must be empowered to contribute. Establishing mentoring programs that identify and place talented emerging professionals of color in leadership roles in government, business, educational institutions, and volunteer organizations will help America maintain this advantage.

America must continue to be the most attractive destination for talented hard-working people from around the world who want to contribute to the American economy. Existing immigration policy should be modified to encourage those with valuable skills to come to America to work and live. Current quotas for employment-based immigration should be raised and a smarter set of visa criteria should be established so that it is easier for those with nascent or new businesses to come and create jobs in America.

- 6. Create a fair immigration system that enhances competitiveness.** Congress should pass comprehensive immigration reform that provides a pathway to citizenship for those currently here who have not committed serious crimes, which will yield both economic and security benefits for our communities. Legislation should provide permanent

residence or a roadmap to citizenship for young people who were brought to America as children, and who wish to attend college or join the U.S. military. These young people should be allowed to stay without fear of deportation. Law should also promote legal migration in key economic areas while protecting American workers and making our borders more secure.

Strategic Investments for a 21st Century Economy

Critical to ensuring our own economic strength will be making strategic investment choices, both public and private, over the coming years and decades. One of the greatest obstacles to strategic spending at the federal level is sequestration, which remains in force, and which hampers policymakers by enforcing across the board cuts at the Pentagon, the Department of Veterans Affairs, Department of Homeland Security, and other agencies critical to our national security. Instead of making smart and deliberate funding choices based on our national security priorities, across the board underfunding of every program is the definition of unstrategic budgeting.

The drawdown from two wars requires us to determine how to allocate the funding that will no longer be spent in those warzones. Rather than doing so with across the board cuts that require little thought or decision, we should reduce our military budget in a strategic and thoughtful way. That strategic conversation must also involve prioritizing resources to boost non-military efforts in areas like diplomacy and international investment.

Some of the costliest programs in the government are holdovers from the Cold War. One example is the bloated U.S. nuclear arsenal of approximately 4,700 weapons, which is estimated to cost \$35 billion per year to update and maintain over the next decade, or five to six percent of the plans for national defense spending. Every dollar spent sustaining an outdated nuclear arsenal is a dollar that can't be spent on more pressing national needs. Our national security will be better served by investments in capabilities more relevant to the current threat environment and which ensure a strong and vibrant American economy – while still allowing the U.S. to maintain a survivable and credible nuclear deterrent.

We must focus spending on programs that provide the greatest benefit to our national security and economic strength. This includes the Pentagon, which must prioritize developing the flexibility of our military forces to ensure that we have the right tools for increasingly diverse and delicate challenges. It also means investments in human capital through greater funding for education, especially in science, technology, engineering and math (STEM).

In the private sector, too, American firms will need to invest for the future, rather than fighting in vain to maintain the economy of the past. In the energy sector, this means ensuring that China does not continue to outflank us in the explosively growing market for renewable energy generation, like solar and wind. As the energy sector is transformed, American providers must modernize and adapt, and manufacturers must embrace the opportunities this transformation provides, as China has.

Ultimately, the area of greatest growth in the 21st century will be the economy of ideas. Fortunately, this is also a sector in which Americans have a tremendous comparative advantage. Many of our exports will not be things, but ideas coded in the language of ones and zeros, from apps, to entertainment, to vast amounts of data. But ideas and transmissions can be stolen far more easily than goods or services. The United States must prioritize the establishment of strong international norms of intellectual property protection while developing and fielding technologies to secure data. Failure to accomplish both of these goals will seriously jeopardize our economic future.

Recommendations:

- 1. Invest in innovation.** Support domestic programs that encourage innovation in areas critical to economic growth, such as STEM education, skills-based job training, clean energy, bio- and nanotechnology, space capabilities, health care, and sustainable urban development. The development of such areas will ensure that the United States remains the bedrock of the global economy.
- 2. Lead the way on clean energy.** The United States currently spends nearly twice as much on research and development as any other country in the world, yet only 2% of federally funded research and development is budgeted for energy science. We must support America's comparative advantage in clean-tech research and development by investing heavily in solar, wind, and hydro energy. Investments in early-stage companies and pilot projects in the energy field should receive long-term funding, and renewables incentives programs should be fully funded. The Department of Defense should continue to increase renewable energy use on its bases and installations and partner with local communities to do the same.
- 3. Make personally-owned vehicles more fuel efficient.** Incentivize auto manufactures to electrify personally-owned vehicles, either partially through hybrid electric vehicles (HEV) and plug-in hybrid electric vehicles (PHEVs), or completely through battery electric vehicles (BEVs) by 2020. Existing fuel economy standards on cars and light trucks have already begun to reduce America's reliance on oil and have saved consumers money on billions of gallons of fuel.
- 4. Bring high speed internet to every corner of America.** Economic growth in the 21st century is increasingly and irreversibly dependent on the internet. Access to high-speed wireless internet means access to markets. However much of the country lacks affordable and reliable means to participate in this modern economy, leaving businesses and consumers impaired. High-speed wireless internet should be subsidized so all Americans can contribute to the domestic economy and compete in an interconnected world.
- 5. Protect intellectual property.** Apply honest, persistent diplomacy to address foreign intellectual property theft and where possible, restrict travel and freeze assets of at-

large individuals known to steal information from U.S. companies through cyber crime. Cooperate with international law enforcement organizations to create international security norms to combat global cyber crime.

- 6. Preserve internet freedoms.** Establish international standards for privacy, internet freedom, and openness to ensure the internet supports the free flow of information, ideas, exchange, and commerce.

Global Economic Leadership & Security

Since the end of World War II, U.S. overseas interests have been in part secured by the growth of a liberal economic system. A crucial component of this regime has been the various international economic, financial, and trade institutions that the United States helped to establish. But in light of the changing global economic landscape, such as the rise of new economic powers with different and sometimes contrary economic values, these institutions face greater challenges and more competition. To remain relevant, these institutions must adapt to realities on the ground while continuing to support American interests. Failure to do so will result in the rise of alternative organizations that may not necessarily support liberal economic ideals.

Institutions due for reform include the World Trade Organization (WTO), which allows the United States to challenge unfair practices by trading partners, including currency manipulators like China. It also includes the World Bank and International Monetary Fund, which serve critical American interests around the globe like promoting growth in the developing world, and shoring up vulnerable economies that might lead to state failure. Domestic institutions, like the Export-Import Bank, which promotes the sale of American goods abroad, and the Overseas Private Investment Corporation, which helps American firms expand abroad, must also adapt.

History shows that when America's workers are on a level playing field, we are able to produce high quality goods and services while keeping costs competitive. But it is hard to match the low wages found in places like China, India, and Vietnam, where existing policies to manipulate the value of their currencies, inadequate enforcement of intellectual properties, unfair government subsidies, dangerous work conditions, and lax environmental standards allow producers to keep production costs lower than what the United States can support. Such practices take jobs away from the American middle class by encouraging U.S. companies to move production offshore. Trade agreements can require such countries to improve their environmental and labor standards, making American goods more competitive, while lowering prices for consumers and expanding the export markets available to American firms.

Asia is currently one of the world's most important engines for global economic growth. The region is not only home to half the world's population, but also more than 50 percent of the world's trade and economic output. Asia will play an increasingly important role in U.S. economic growth. America's bilateral trade with the region was approximately \$1.5 trillion in 2014. By 2020, Asia will import about \$10 trillion worth of goods from around the world, and many in the region's burgeoning middle class will want to buy quality products made here in

the United States – which in turn would generate more quality jobs for Americans here at home. Encouraging the continued economic growth of this region and helping keep Asia peaceful and stable will further U.S. national security and economic interests.

For these reasons, we need to ensure that American workers profit from this opportunity and are protected from unfair labor and trade practices, and, more importantly, are ready and equipped to compete in this globalized, interconnected world. Our continued economic growth depends upon fair and open trade with and within the region –all countries play by the rules – including and especially China, whose rapidly growing influence in the region has enabled it to shape trade and commercial practices in Asia and around the world. Giving American workers and businesses the chance to compete on equal ground with Asian companies will help ensure the long-term well-being of America’s middle class.

Asia is not the only region in which trade will be critical to developing and defining our economic strength. Entire continents, such as Africa and Latin America, are blossoming with opportunity, human capital, natural resources, and increasingly important emerging markets. Today more than ever, prosperity in the United States is tied to that of our northern and southern neighbors. The Americas are the destination for 42 percent of U.S. exports, and are home to the United States’ top two export markets. We trade more with Brazil than with India, more with Colombia than Spain, more with Chile than Turkey, and more with Canada than anyone. U.S. producers export three times more to Latin America than to China, and trade between the U.S. and Latin America nearly tripled over the last decade. Latin America’s expanding middle class provides a growing market for U.S. goods and services. At the same time, Latin America remains the most unequal region in the world, with pockets of widespread poverty—particularly in Haiti and Central America. These realities too affect the United States directly, in the form of migration flows, illicit trafficking, and fragile states in our near abroad. Promoting inclusive economic growth in Latin America and the Caribbean is of direct benefit to U.S. economic and security interests.

Recommendations:

- 1. Promote our values and economic interests through trade.** In an increasingly globalized world, trade is inevitable and serves as an opportunity for international partnerships and a vehicle for economic growth. Trade agreements are also a vital diplomatic tool for advancing fair labor and environmental standards around the world. The U.S. government should strengthen trade relationships with countries that share our values and our interests in a fair and open trading system by promoting high standard trade agreements that regulate work conditions, wages, and environmental standards. The United States should support reform of global and regional entities, such as the World Trade Organization, the Association of Southeast Asian Nations, and the East African Community, to promote fair and open trade.
- 2. Encourage regional economic growth through trade.** Utilize existing bilateral Free Trade Agreements (FTAs) to encourage greater dialogue on trade and investment opportunities within countries and as a tool to encourage regional integration. The U.S.

government should also support efforts to establish regional FTAs in areas where they could promote state-to-state cooperation, such as the Africa Growth and Opportunity Act. American and foreign businesses seeking to increase bilateral trade and investment should be encouraged to participate in regional commercial forums and bilateral business councils to elevate economic growth impediments to the highest levels of government.

- 3. Encourage and support U.S. business values abroad.** The hallmarks of the American private sector – from major brands, to business practices, to our entrepreneurial spirit—deeply admired by citizens around the world. Even when our policies are doubted, we are still respected for globally renowned innovators and entrepreneurs. The U.S. can build on that foundation to promote transparency initiatives, entrepreneurship and investment programs, anti-corruption campaigns, and clear and sustainable procurement practices in local economies. This benefits American companies: U.S. businesses are extremely competitive when investing in or bidding on projects abroad, but face challenges when there is an uneven playing field, and U.S. investors benefit from tapping into the innovation of emerging market entrepreneurs. These values of transparency and business ethics also benefit the growing middle class in trading partner countries.
- 4. Encourage American investment overseas.** In the race to invest in accelerating frontier markets, American companies have fallen behind, in part because the policy tools at our disposal lack the scalability required to facilitate large multi-national investments. (To help American companies better compete with their Chinese counterparts and capitalize on the potential of rapidly growing emerging markets, the U.S. government should take a lead role in helping to lower transaction costs and barriers to entry. It should facilitate key investments in priority countries, particularly in Africa and the Middle East, and in targeted sectors, such as renewable energy.) Congress should adjust current restrictions on the Overseas Private Investment Corporation (OPIC), the independent government agency charged with facilitating American investment abroad, to ensure greater direct loan financing to more American investments each year and to allow OPIC to make equity investments to catalyze U.S. venture capital and angel investments in early-stage entrepreneurs overseas.
- 5. Promote and preserve global internet access, freedom, and privacy.** The United States should support global internet access and the participation of multinational corporations and civil society in multi-stakeholder initiatives, like the Global Network Initiative, where members commit to put in place guidelines to protect online freedom of expression and privacy. The U.S. government should use all the leverage it has through the World Trade Organization and other international organizations to push restrictive countries to abandon internet censorship regimes that stifle free expression and commerce.

- 6. Modernize and reaffirm our commitment to critical economic institutions.** The United States should ensure that the necessary reforms are carried out at the World Bank and the International Monetary Fund, so that the interests of all nations are effectively represented. The U.S. should play its part by fully funding commitments to the multilateral development banks, such as the African Development Bank and Inter-American Developmental Bank. Aid agencies, in general, must break down institutional barriers like the ‘humanitarian-development divide,’ with donors providing more flexible, long-term funding. Congress should also pass the IMF’s 2010 quota and governance reforms.

Development Abroad for Security At Home

After World War II, the U.S. invested in the Marshall Plan for Europe, saving many from hunger, undermining the spread of extreme ideologies, and reestablishing partners for trade and prosperity across the continent. President Kennedy, with the Alliance for Progress, provided \$20 billion in loans to support democratic and economic reforms, reduce poverty, and expand opportunity in Latin America.

Today, economic challenges facing individuals and states around the world continue to have significant implications for Americans’ prosperity here at home. As current Special Envoy and U.S. Marine General (Ret.) John Allen stated in 2011, “in many respects, USAID’s efforts can do as much over the long term to prevent conflict as the deterrent effect of a carrier strike group.”

American support for good governance and broad-based economic development through USAID and many other organizations helps communities around the world to thrive. By addressing fundamental development constraints – from rule of law and good governance to deficits in health systems – American investments in development and democracy are growing markets and trade for American-made goods. They are reducing the threat of crises – from bird flu to violent extremism – that can disrupt international cooperation and commerce. And they are expanding the global middle class, while fighting for equal opportunities for all.

Aid is only one tool we have to promote development and economic opportunity abroad. With globalization, quality of life is improving for billions of people around the world. The world’s rapidly expanding middle class contributes to the global economy while increasing demands for good governance. But risks abound, and the same globalized institutions that fuel economic growth have also given rise to illicit trafficking, corruption, and related violence on new scales. The U.S. must stand with burgeoning democracies today, and others as they develop, by supporting effective approaches to the kinds of corruption, lawlessness, and violence that can eat away at government institutions and legitimacy.

Recommendations

- 1. Connect economic development to security in policymaking.** The lack of sustainable development and the growth of transnational criminal networks are connected. The U.S. government should leverage its diplomatic, programmatic, and financial resources to spur economically and socially inclusive public policies in Latin America and the

Caribbean that include a strong focus on providing skills and employment opportunities to poor and vulnerable members of society. These policies should be focused particularly in areas of greatest outward migration to the United States.

- 2. Make energy more affordable world- wide.** Provide technical assistance and financial incentives to help fossil fuel dependent countries transition to native renewable energy resources. Reduce energy costs by working with energy poor countries to develop energy blocs that pool supply and demand, and encouraging countries to connect more of their citizens to the grid. Cheaper electricity will make economies more competitive, allow governments to shift resources to pressing issues of insecurity and development, and reduce dependence on subsidized fuels from petro-states that employ energy as a geopolitical tool.
- 3. Increase global clean energy use and energy efficiency.** Build on the Clean Energy Finance Facility for resource-scarce developing countries and build off of successful experiences, such as Power Africa, to provide funding and incentives for clean energy companies to bring their technologies to the region. Expand and export successful U.S. energy efficiency financing models, such as Energy Savings Companies (ESCOs), innovative renewable energy leasing, “yeildco” models, and Green Banks and Resilience Banks to developing countries.
- 4. Export American innovation.** Encourage venture capitalism and entrepreneurship and invest in tech-driven economies around the world. Encourage American tech businesses to invest in and partner with foreign local accelerators and incubators, while providing support to educational institutions to train the world’s substantial youth population in high demand skills. Technological skills will continue to be applicable throughout many economies, especially with improvements to and further investments in robust information technology and broadband infrastructure.
- 5. Expand women’s economic rights.** We must ensure women’s participation in the global economy by supporting women’s access to capital, increasing their access to markets, and building their capacity and skills. Whether as a result of discrimination in government institutions or in the marketplace, women owned businesses - and female workers - face challenges their male counterparts do not. Technical assistance and access to information that is frequently unavailable to these women can help overcome these barriers. The U.S. government and private sector should take steps to break down these walls, including by establishing match-making and mentoring programs and promoting greater opportunities to obtain government and corporate contracts.
- 6. Support small business abroad.** Help develop capacity for local Small and Medium-size Enterprises (SMEs) through U.S. direct assistance programs, such as U.S. SME-African SME trainings, and through encouraging U.S. businesses to subcontract and purchase equipment and services through local companies.

- 7. Train global workers and entrepreneurs.** Provide direct support to local vocational and technical training initiatives, such as like Morocco's OFPPT, and invest in programs at universities and trade schools that provide youth competitive skills training. Encourage U.S. direct investors in local economies to undertake internship programs or develop partnerships with local educational institutions. Support local entrepreneurship initiatives, particularly those geared towards youth and women. This can be done through training programs, financial inclusion initiatives, and enlisting successful U.S. entrepreneurs to be mentors.

- 8. Foster sound economic management and attractive business climates overseas.** Expand U.S. technical assistance geared toward supporting better economic management in key ministries and central banks of developing countries. For example, the U.S. Department of the Treasury Office of Technical Assistance provides technical assistance in areas such as debt management, banking and financial services, tax policy, budget formulation, and anti-money laundering. Encourage and provide technical assistance for reforms to improve the business climate, including reforms to simplify business registration and taxation procedures, concessionary finance programs, and import/export procedures such as customs requirements and trade financing. An example would be USAID's efforts to develop one-stop shops to streamline procedures for new business registration in countries across the region.

- 9. Increase non-criminal flows of remittances.** Remittances serve as an important source of income for many families around the world, yet U.S. banks are shuttering remittance services because authorities hold them responsible for monitoring those systems for terrorists, drug lords, or money launderers. While maintaining regulation and scrutiny, the U.S. should: bolster the regulation regime required for money service businesses (MSB) and simultaneously reduce the liability for banks that hold accounts for those businesses. Additionally, the U.S. should lead an international effort to pressure MSB clearinghouses to track and share information on remittance transfers from western countries to final destinations; invest in mobile and web technologies that enables better record-keeping and tracking of remittance flows; and support banks in receiving countries to build more robust end-use monitoring systems, as part of ongoing American efforts to bolster international anti-money laundering and counterterrorism financing regimes.