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HEARTLAND SECURITY

Global Engagement Once Fueled the American Middle Class – and Can Again

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Executive Summary

The American Century earned its name from two phenomena: the paramount global leadership of the United States and the meteoric rise of the average American's standard of living. While each of the two phenomena left distinct impressions on international politics and economics, they in reality reflected a single self-reinforcing and virtuous cycle that defined the latter half of the 20th century. American power brought stability to a planet devastated by World War II, which fostered an economic boom that restored international growth and prosperity – prosperity that raised Americans' domestic fortunes, which again strengthened the United States' power and credibility abroad. The international institutions, alliances, and integration fostered by this cycle have dramatically reduced poverty, suffering, and war the world over. They also empowered everyday Americans to tangibly benefit from this global recovery, fueling a widely shared surge in incomes against which future eras would be judged.

While such an outcome might suggest providence, its true foundations lie in prudence. The virtuous cycle of global leadership and domestic prosperity worked because policymakers and business leaders *made it work*. An aggressive prewar commitment to secondary education, the GI Bill's expansion of access to college, and a broad commitment to scientific research created an educated and innovative workforce ready to capitalize on the globe's post-World War II economic recovery. Lowering barriers to international economic integration allowed the flow of trade and investment to further accelerate both U.S. growth and the growth of countries devastated by war, while strong unions and policies promoting labor mobility and dynamism ensured American workers could ably weather the accompanying disruptions. These gains were by no means universally shared, their breadth circumscribed by deep and institutionalized prejudice against nonwhite Americans and women, but they came to define a mainstream and accessible path to the American Dream.

That American Century is over. Since approximately the 1980s, the postwar virtuous cycle of foreign and domestic policy has steadily broken down. National security elites have nimbly adapted their tool kit of strategies, institutions, and agreements to effectively extend the preeminence of American global leadership even as it experiences a relative decline in power. The same cannot be said of domestic policy, where by many metrics Americans have experienced stagnation or even absolute decline. While U.S. diplomats can still close complex trade deals and defense planners can still deter their most capable adversaries, everyday Americans seem to sense less and less benefit from those trade deals or that competition than they once did. International security, trade, and investment continue to make the country unquestionably wealthier, but the gains are increasingly accruing to only the wealthiest Americans, leaving incomes to stagnate and social mobility to atrophy among the middle class. The domestic policy tools that enabled 20th century foreign policy and ensured its monetary gains were broadly shared have been allowed to rust into obsolescence, failing to keep up with a rapidly changing global economy. The two halves of America's postwar virtuous policy cycle have diverged.

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This divergence was dramatically laid bare during the 2016 election campaign. The decades-old bipartisan consensus on U.S. foreign policy showed real cracks as many Americans asked what good supposed global leadership was when wage growth and job creation no longer reliably accompanied it. National security practitioners reacted defensively, with Democratic foreign policy hands rallying around a crumbling establishment, and their Republican counterparts defecting from the Donald Trump campaign's isolationist rhetoric in large numbers. But without reversing the field's neglect of domestic policy and the importance of domestic prosperity to global leadership, simply repeating a defense of the old ways will persuade few.

To restore voters' confidence in an active American role on the world stage, U.S. leaders must restore the virtuous cycle of mutually reinforcing domestic and foreign policy that first powered it. National security elites can no longer afford to retreat into specialized circles, quoting Clausewitz to one another and pretending that domestic policy is a fundamentally separate pursuit, but instead must recognize it as a field inexorably linked to their own. American power requires an educated, inclusive, and thriving domestic populace. To achieve this, foreign policymakers must back the means to upskill American workers, renew scientific innovation, and enable labor mobility across both industry and geography.

The United States cannot afford to spend a generation re-litigating its role on the international stage. American leadership has rarely been more important, with nuclear proliferation, competition from China and Russia, the threat of climate change, and a host of other challenges calling out for strong and nuanced leadership in defense of a rules-based global order. At the same time, trotting out the latest fighter jets, the newest trade deal, and the most stirring invocation of Cold War triumph will not create the affirmative agenda necessary to restore Americans' confidence in the importance of U.S. global engagement. Advocates of an internationalist foreign policy must paint a clear vision for Americans' future global competitiveness while, if necessary, taking a page out of the book of their opponents and adding some populist fire to their internationalist bellies.

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Roots of the American Century

In February 1941, the publishing magnate Henry Luce penned an editorial in *Life* magazine called "The American Century."[1] In contrast to its triumphant title, Luce wrote of a pervasive unhappiness afflicting the American public. The people of the United States were distraught at a world riven by conflict, Luce argued, yet held tight to apathy in the face of such suffering. Americans were troubled by the half measures Washington had so far offered their friends across the Atlantic, but still could only see further war and despair resulting from involvement in the matters of other nations. Luce implored his fellow Americans to give up their apathy, predicting that upon doing so the 20th century would be the first American Century. He called for Americans to throw off their traditional isolationism and enter World War II in defense of progress. A people made so rich by the nature of their ideas, Luce wrote, had a responsibility to protect and cultivate those ideas and make the nations of the world richer with them.

Luce's vision triumphed – and so did the American people. The United States' entry into World War II helped speed its conclusion on terms more favorable to the interests and values of the Allies. The postwar order that followed, largely designed by the United States and its like-minded partners, made conflict more difficult and commerce more durable. In the decades after 1945, deaths from conflict plummeted, global incomes rose, and the American people enjoyed a domestic renaissance. Broad industrialization and an educated workforce allowed Americans to capitalize on the uptick in global fortunes. The United States became the engine of the world – and the stability and wealth the U.S.-led order produced allowed the world to buy what Americans were selling. For much of the 20th century's latter half, most Americans enjoyed what economists called "upward mobility on a rocket ship," beginning with millions transitioning from farms without electricity to cities and towns with cars and televisions within a single generation.[2] While segregation, sexism, and other institutional prejudices prevented this experience from being a universal one, it nonetheless made mainstream a model of the American Dream.

Yet the paradox Luce wrote of in his vision – a burgeoning renewal mired in a national malaise – seems to be afflicting the United States again. Much like the 20th century, the beginning of the 21st has for many Americans become synonymous with conflict and strife. While the United States and most countries around the world are unquestionably better off than in the 1940s, many Americans feel progress, like then, has stalled. Conflict abroad and a sense of stagnation at home are colluding to make Americans more like the unhappy and isolationist public to whom Luce wrote his call to action.

This time, however, we already have the blueprints for American dynamism in an uncertain and fast-changing world. Strong security structures to deter war, aggressive investments in both human capital and technology, and preparations for the workforce to adapt and benefit from shifts in the global market are how the United States achieved its first Pax Americana. Tools like these are required again today – they have just been left to rust as policymakers and corporate leaders rested on their 20th century laurels. Rather than give into the temptation to withdraw and lick its wounds, the United States must recommit to the path that brought Americans the highest standard of living in the world. To restore the virtuous cycle of global engagement and domestic prosperity, Washington needs to shore up the foundations of the global order it helped build and update its well-worn tools for promoting shared prosperity.

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Building a Postwar Order for Prosperity at Home and Abroad

After the widespread devastation of World War II, it was far from certain that the old European rhythm of postwar recrimination and renewed division would not simply begin again. Europe had just suffered its second internecine conflict in as many generations, a fearsome new age of nuclear weapons seemed to have begun with their horrific deployment in Asia, and the world's regional economic engines, which should otherwise protect the global public from sinking further into despair, were literally and metaphorically reduced to debris. Moreover, the battle lines that threatened to define the next conflict were already taking shape between the United States, the Soviet Union, and their various partners. Yet what followed was a proliferation of institutions and bonds that made violence less appealing and commerce less difficult. U.S.-led security structures deterred conflict, while deliberate and wide-ranging economic integration promoted international exchange. The two dynamics created a virtuous cycle that, while imperfectly and inconsistently, made the postwar world a decisively better place – and set the stage for the American economic expansion against which all future eras would be judged.

But that virtuous cycle would need to start with restoring a semblance of security, and just after the most damaging conflict the world had ever known. This U.S.-led effort took many forms, from security-oriented institutions to information-sharing and dispute-settlement mechanisms to global economic governance. Mutual defense pacts, like the North Atlantic Treaty Organization and the United States' bilateral defense treaty with Japan, explicitly deterred violence by credibly raising the cost of aggression.[3] The United Nations, the European Economic Community, the Organization of American states, and other overlapping arbitration and information sharing organizations also have significantly reduced the likelihood of conflict (especially when populated by the world's growing number of democracies).[4] U.S.-led international financial institutions, such as the IMF and World Bank, have made financial crises less dangerous and made strides in reducing poverty around the world.

In tandem with these multilateral approaches, the United States also made significant unilateral investments, investing hundreds of billions of dollars into the recovery of countries devastated by World War II – including countries with whom it had only recently ended hostilities. American policymakers bet

U.S.-led security and information-sharing institutions brought stability to a global community devastated by World War II, setting the stage for shared economic growth at home and abroad. Here, President Harry Truman looks on during the signing of the North Atlantic Treaty Organization in 1949. (Getty)

that aggressively backing reconstruction to the tune of (in 2016 dollars) $120 billion in Europe and $22 billion in Japan would promote a swifter recovery, encourage political stability, and – as was increasingly a concern of the time – prevent the despair that would drive publics toward Communism.[5]

That bet paid off. War has not disappeared, but it has receded dramatically. From the end of World War II to 2014, the global rate of death from conflict has fallen from 22 per 100,000 to 1.4 – and, if not for the Syrian civil war, would have declined to 0.3 per 100,000.[6] This 15-fold reduction created a world where people felt safe enough from harm to plan for the future and interact with foreign peoples and firms, as well as rebuild – and eventually expand – a global economic engine that would drastically improve billions of people's lives. The rules-based security and economic order the United States backed enabled free flows of trade and investment that coincided with a striking decrease in poverty, with the number of people living in extreme poverty falling by half in 30 years.[7]

Indeed, the war-devastated European and Japanese economies have recovered, thrived, and become vital markets for U.S. goods and services – helping further drive the American postwar economic expansion while simultaneously boosting mutual cultural and political affinities. Today, Europe buys $273 billion worth of American goods each year and $219 billion in services, supporting 3.1 million U.S. jobs, while Japan consumes $63 billion and $45 billion, respectively, and supports 2.8 million jobs.[8] Over time and around the world, trade and investment ties would combine with security ties to form mutually reinforcing incentives toward cooperation and goodwill. Allies and security partners became more likely to do business with one another because they feared governmental opportunism less – seizing a partner's assets is hardly a way to build trust, after all. Similarly, as countries' economic interests became more closely intertwined, it became easier to bind together their security interests as well.[9] While there are exceptions (such as China), the United States' top trade and investment partners are still dominated by its allies and like-minded partners.

Domestic Policy Primed Postwar America for Global Leadership

The burgeoning isolationist movement of today, with its loud focus on American greatness, has largely ignored the postwar decisions that catapulted America to its modern prosperity and power. Washington made huge investments in international organizations, deepened overseas security commitments, liberalized trade, and thrust society into a globalized economy that rapidly and dramatically transformed the everyday lives of American workers. But these shifts in foreign policy were accompanied by a set of *domestic* policies and social structures that allowed working Americans not only to weather these changes, but to capitalize on them and prosper at an unprecedented pace.

The most important asset in the United States' economic arsenal was its human capital. By the standards of both white- and blue-collar industries, the American workforce after World War II was decisively the best educated in the world. While the deservedly praised GI Bill played a role in this achievement, it was in truth a shining capstone built atop a multi-decade effort to upskill the American public. In the first decades of the 20th century, a broad coalition of civic organizations, businesses, and local governments led a push toward mass secondary education – known as "the high school movement" – and enjoyed revolutionary success. Between 1910 and 1940, the proportion of American teenagers enrolled in high school grew from 18 percent to 71 percent.[10] This seismic shift in American educational attainment far outpaced other wealthy nations. Even as late as the 1950s, the number of European teenagers enrolled in general high school education languished between 10 and 20 percent, with that number only improving to 40 or 50 percent when counting more forms of part- and full-time European-style vocational education.[11]

As a result, the GI Bill's scope and ambition was possible because by the time the United States entered World War II, the median draft-age American was already a high school graduate and able to attend college. Total enrollment in college or university education consequently was able to suddenly jump by 50 percent in 1946 compared to its prewar rate in 1939, and continued growing through 1949.[12] The bill's benefits were

Blue-collar workers, like those pictured here assembling cars at a Ford Motor Company plant in Michigan in 1963, harnessed global markets and rapidly improved their standards of living thanks to investments in an educated workforce, robust research and development, and a labor-friendly policy environment. (Underwood Archives/Getty Images) unprecedentedly generous, covering not only the cost of tuition but also a stipend that was equivalent to 70 percent of the median American wage for college-aged men; the opportunity cost of attending college was essentially eliminated. The bill also had significant and long-lasting second-order effects for higher education writ large. The number of American research universities grew significantly, and, in conjunction with the Lanham Act of 1946, the finances of historically black colleges and universities were stabilized and strengthened.[13] Segregation and other forms of discrimination prevented black veterans from benefitting as widely, but at least outside of the South, the GI Bill substantially boosted African-American educational attainment in a way few policies had even attempted to do before.[14]

Between widespread high school education and growing college education, the United States' human capital advantage enabled a massive shift in labor economics in the years that followed. American heavy industry may have been helped by the scale of wartime production to reap the benefits of a global economic recovery, but its success also bred business growth and retail demand – dynamics that produced more numbers and categories of white-collar jobs. The era saw accountants, managers, clerks, secretaries, salespeople, and other similar jobs become mainstream forms of employment for the first time.[15]

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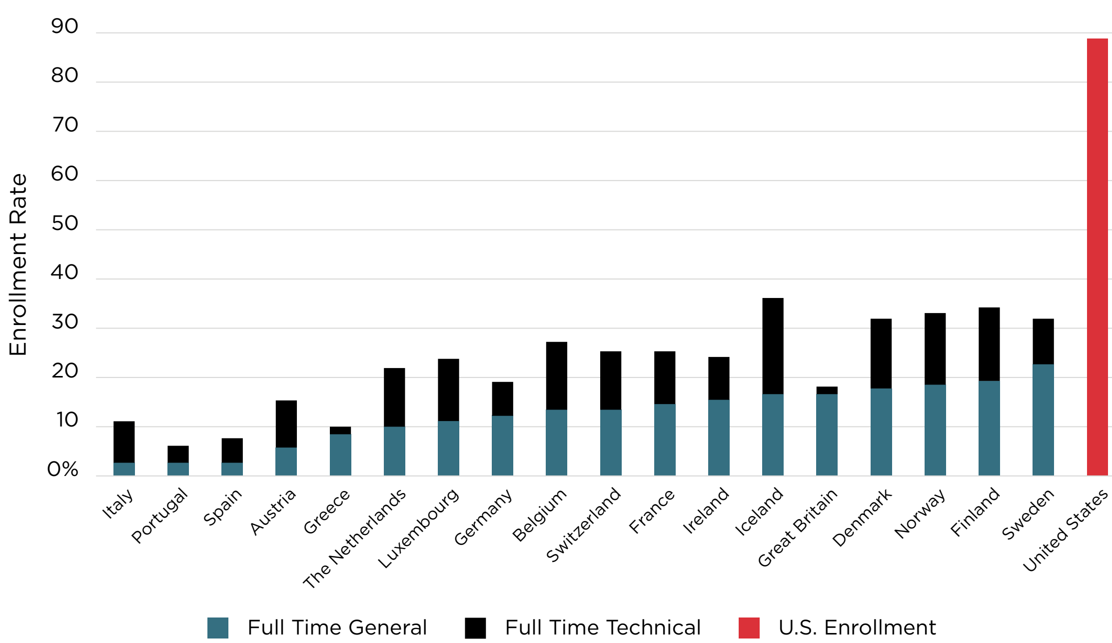
Full-Time Secondary School Enrollment Rate, Europe and the United States (c. 1955)



In the United States, the success of "the high school movement" resulted in a post-World War II workforce decisively more educated than any other in the world, including its closest competitors in Europe. Widespread secondary education prepared Americans to capitalize on global economic engagement and set the stage for the success of the G.I. Bill's college provisions.

Source: Claudia Goldin, "The Human-Capital Century and American Leadership: Virtues of the Past," The Journal of Economic History, *Vol. 61 No. 2 (2001).*

Imperfect but Rapid Progress in the Postwar Decades

This combination of prudent domestic policy, fortunate timing, and engaged global leadership set the stage for a period of growth and prosperity that defined the contours of modern America. While these gains were by no means universally shared, over just a few decades they created a plausible path for a larger proportion of Americans to realize a middle-class life than ever before. Positive spillover effects from World War II's economic mobilization were subsequently complemented by postwar infrastructure, labor, and scientific advances that made this expansion in living standards possible; enduring international security structures helped make sure these gains were safe and durable.

While wartime production and capital expansion is generally overemphasized as a driver of midcentury American economic growth, it had second-order effects that certainly helped speed growth along in the years that followed.[16] The breadth of World War II's economic mobilization accelerated the adoption of organizational and planning techniques that made postwar manufacturing more efficient writ large, but specific industries did benefit from the scale afforded by wartime investment. The techniques and capital required to build vast numbers of military aircraft allowed civilian air travel to be deployed more cheaply and more broadly, for example, and munitions production advanced chemical science and ammonia quantities such that agriculture was meaningfully improved.[17]

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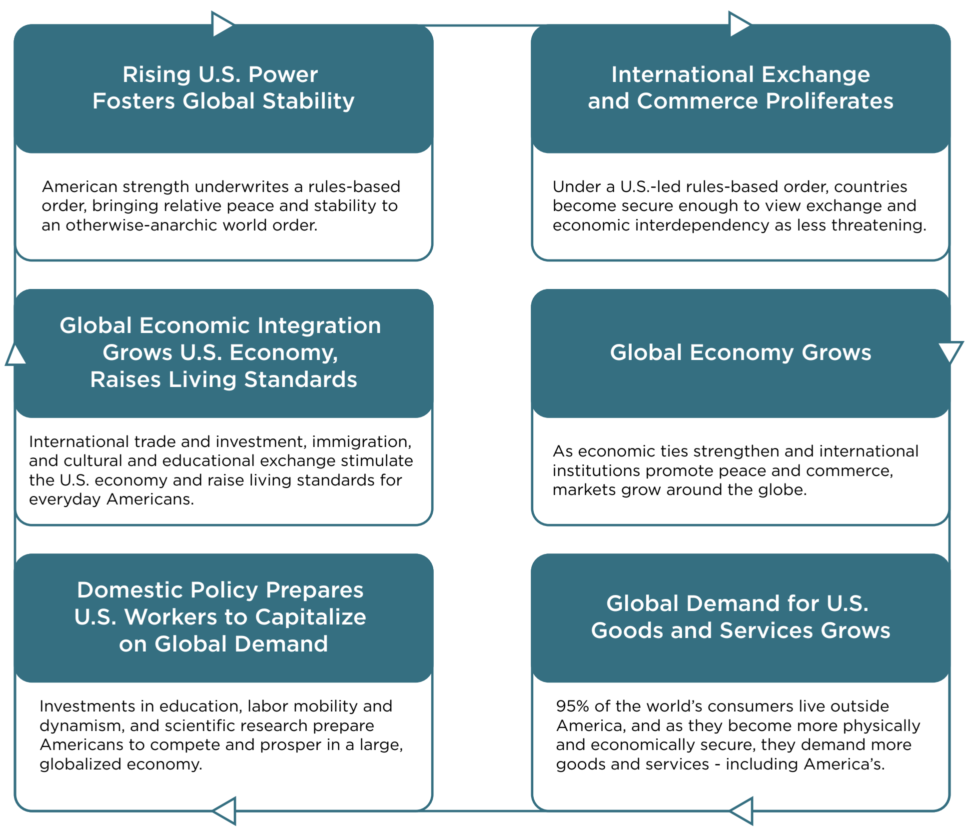
But, just as before the war, a critical advantage enjoyed by the American economy was its significant and enduring investments in *intellectual* and *human* capital. Federally funded basic research surged through the late 1980s (in part thanks to strategic competition with the Soviet Union), and private-sector research and development continued apace, driving the application

The Virtuous Cycle of Global Engagement and Domestic Prosperity: 1940s – 1980s



and deployment of scientific discoveries.[18] U.S. scientists achieved not only industrial and consumer breakthroughs associated with midcentury American life, but also humanitarian ones. The Green Revolution – an agricultural transformation driven by plant scientists like Norman Borlaug, new high-yielding crops, innovative farming techniques, and development policy – was credited with saving a billion lives.[19]

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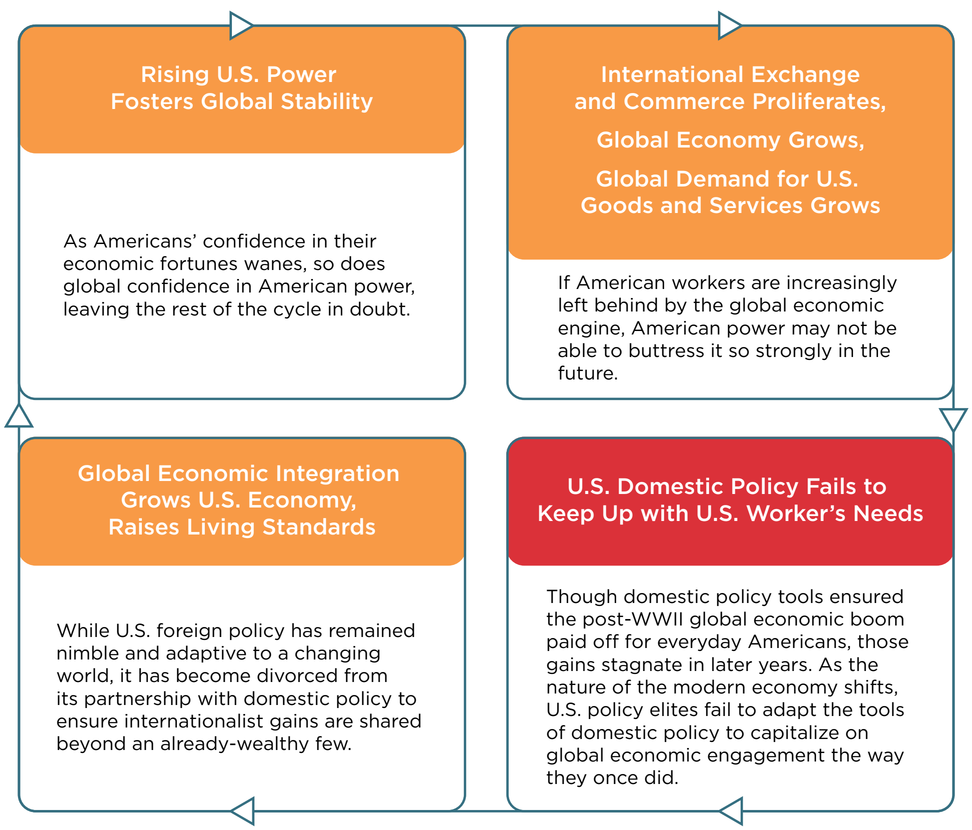
And as American science prospered, so did the workers that fueled it. Labor mobility and earnings were buttressed by both favorable policy environments and physical infrastructure. Prewar achievements in secondary education empowered the GI Bill and enabled greater accessibility to higher education generally. Contemporary corporate governance and strong labor unions resulted in wage growth closely tracking productivity growth through at least the 1970s.[20] Thanks to rapid increases in infrastructure and housing, it was more financially and logistically feasible for Americans to pursue a wider range of jobs across a greater geographic area than ever – a dynamic thought to markedly accelerate overall improvements in standards of living.[21] But relocating was not the only path to American entrepreneurialism during this period; *half* of all veterans returning from World War II would eventually start their own businesses, capitalizing on an upwardly mobile public looking to enjoy a new world of goods and services.[22] American workers enjoyed a shared stake in the economy that would set expectations for decades to come – and become a source of friction when prosperity fell short of those expectations.

Finally, American economic prowess strengthened its power on the world stage – and vice versa. U.S. economic might made its military strength more credible, the buying power of its citizens more durable, and American outbound investment more plentiful, further fueling the virtuous cycle of stability and prosperity abroad, and with it, further demand for America's economic engagement with the world. Much as Henry Luce may have predicted, the strength of this reinforcing cycle made American markets, culture, and ideas more compelling,

The Virtuous Cycle Breaks Down: 1980s – Present



producing a world friendlier to American interests much more cheaply and inclusively than pure military deterrence ever could. The postwar decades were of course not without war or instability, as evidenced by the political tumult of the 1960s or the tragedy of the Vietnam War, but under a U.S.-led global order backstopped by a compelling model of growth and prosperity, death and poverty continued its striking decline worldwide. U.S. hard power, international institutions, and the soft power of the country's example on the world stage combined to shape the globe in ways that would promote broad stability and economic integration – and, in so doing, protect and extend a historic period of American middle-class prosperity.[23]

The World Shifts Toward the Modern Era, but the United States Stands Still

This synergy of foreign and domestic policy provided a conceptual model for how to make global leadership and internationalism pay off for all Americans – but its specific implementation has fallen behind the times. While U.S. elites have energetically adapted foreign policy and national security strategies to try to retain maximum preeminence in a rapidly changing world, they have decidedly neglected the domestic side of that equation. The world today is hugely different from where it was in World War II. Countries around the globe are rapidly developing and technological advantages previously exclusive to the United States are proliferating. But even though *relative* U.S. power is in decline, the United States has, through defense investment, diplomatic engagement, and the deft deployment of soft power, managed to retain its position as the most important economic, military, and cultural power in the world.

The same preeminence cannot be claimed for the American public. The goal that animated public policy before and in the years following World War II – a dynamic, skilled workforce equipped to take on the industries of the future – seems to have been mistaken for a one-time achievement rather than an enduring strategy for global competitiveness.

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Since roughly the 1980s, the modern and globalized economy has presented the U.S. workforce with increasingly vexing trade-offs. Postwar international investment and trade has made the United States unquestionably wealthier, boosting American GDP by more than $2 trillion (adjusted for inflation) – or $20,000 per family – but has also resulted in more labor-intensive industries moving abroad in search of cheaper markets.[24] Different eras of global development have presented qualitatively different competitive pressures, with the rapid growth of the "Asian Tigers," the completion of the North American Free Trade Agreement, and the rise of China all posing unique challenges to U.S. labor, challenges that have not been met with the same agility often marshaled against evolving national security threats.[25]

Public opinion on foreign policy has consequently shifted markedly, and with it the politics of internationalism. Even before the Donald Trump campaign challenged decades-old tenants of foreign policy, elite and public attitudes on global engagement had already diverged widely. As of 2016, upward of 9 in 10 foreign policy scholars viewed global economic engagement as a force for domestic prosperity, but only 44 percent of the American public at large felt the same.[26] This divergence grew even wider according to educational attainment; majorities of Americans who had not completed or attended college viewed global engagement as a drag on domestic wages and job creation. While traditional Republican and Democratic constituencies, like the business and academic communities, respectively, continue to support deeper global economic integration

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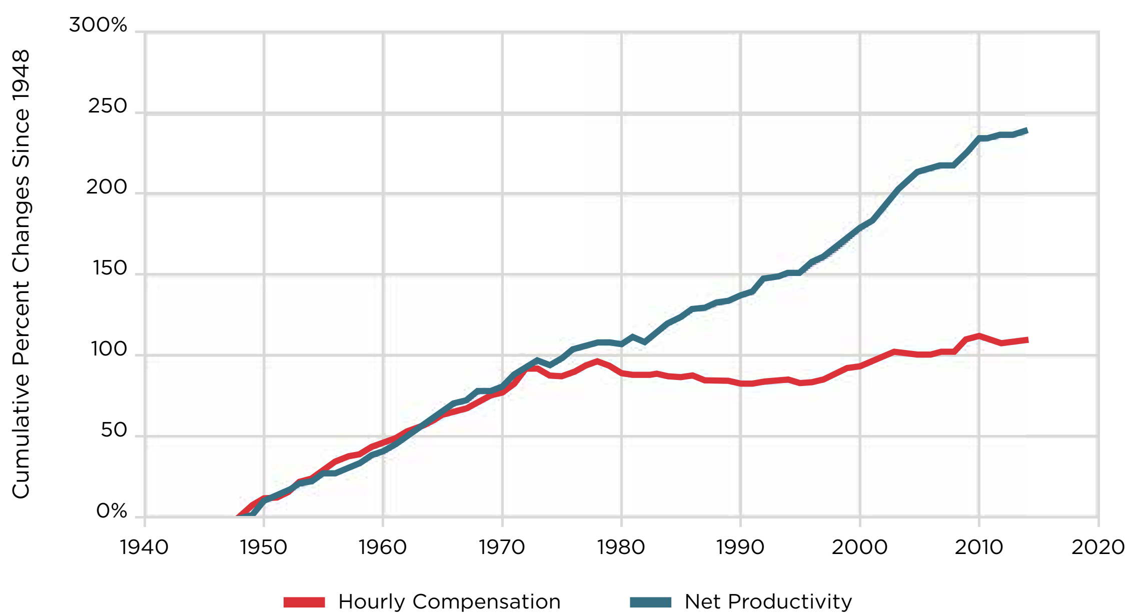
and trade, the parties' activist and blue-collar bases have become more committed in their opposition. Indeed, there is significant evidence that some industry-specific labor markets are taking longer to recover from more recent trade disruptions than earlier examples would suggest, such as those disruptions that followed the United States' broader economic engagement with China since the 1990s. The slower pace of re-employment and ensuing consumer benefits means that these more recent

Divergence Between Productivity and a Worker's Compensation



While Americans have become consistently more productive since 1950, the gains from that productivity are no longer being realized as wage increases for most workers.

Source: Josh Bivens and Lawrence Mishel, "Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay," Economic Policy Institute, September 2, 2015, http://www.epi.org/publication/understanding-the-historic-divergence-between-productivity-and-a-typical-workers-pay-why-it-matters-and-why-its-real/.

shifts in trade may not be fully compensating for the jobs lost in the process.[27] Even if the elites' mathematic judgments of the value of global engagement and trade are technically correct, they are only partially so, with many American workers feeling left behind by the United States' policies on the world stage.

As workers' confidence in globalization has declined, the domestic distribution of wealth has also shifted against them. American labor is continuing a decades-long streak of world-leading productivity growth, yet wage growth has diverged from its traditionally close relationship with those productivity improvements. Globalized supply chains and technological innovation have helped make the American economy and its employees more productive than ever, but the gains from these improvements increasingly have only been realized by a tiny few. Economy-wide productivity has grown 62 percent since the 1980s, but most Americans' incomes have barely budged – except for the top 1 percent of earners, whose earnings have more than doubled.[28] With automation and lower-cost labor markets chipping away at traditional U.S. industries, domestic policy cannot afford to stand still. While in the middle of the 20th century the American workforce was the world's wealthiest and best educated, it now barely ranks among the globe's top 20 for either distinction.[29] To pretend the decline of American labor competitiveness is a concern exclusive to domestic policy practitioners and not also of paramount importance for national security is short-sighted in the extreme.

Indeed, rather than adapt to harness the forces of globalization and technology for widespread growth, public and corporate governance has instead trended toward cost-cutting in both human and intellectual capital that is penny wise but pound foolish. Scientific research and development, for example, has long been a cornerstone not only of American competitiveness, but also its national security. The U.S. military has historically leaned on a technological advantage to offset those of its competitors, such as larger armies or greater tolerance of casualties. The federal government, the most important funder of basic research (or early research thought critical but not yet possessing clear profit potential), has unfortunately allowed its support for the breakthroughs of the future to stagnate and decline.[30] While business-funded R&D continues to grow, it is making up an increasingly lopsided portion of all research – the largest such share in six decades. Private research is frequently necessary to turn the advances of basic research into real-world applications, but this imbalance will continue to draw attention away from breakthrough innovations in favor of minor iterations. The United States may have the most robust smartphone app development environment of any country in the world, but China's commitment to basic research is allowing them to leap past us in CRISPR gene editing technologies, quantum computing, and the mass deployment of renewable energy.[31] American workers will not benefit from the industries of the future, nor will the United States be equipped to deter the conflicts of the future, if the technologies that define them are created and dominated by other countries.

The Massachusetts Institute of Technology highlighted this danger in its 2015 report, "The Future Postponed," on how declining U.S. commitment to basic research was imperiling its longtime technological edge.[32] It observed that of the previous year's biggest breakthroughs – including discovering the Higgs boson, landing a spacecraft on a comet, and the construction of the world's fastest supercomputer – none had been American. Worse yet, many of this era's most earth-shaking innovations, from hydraulic fracturing to cutting-edge cancer drugs, were still dependent on 1970s-era basic research decisions. Abandoning basic research was not only dangerous, the report argued, but would have irreversible consequences for decades to come.

For too many companies and policymakers, preparing human and intellectual capital for the modern economy has become a cost to be avoided rather than a high-priority investment.

To make matters worse, in many areas local governments faced with wrenching change or difficult budget tradeoffs, and companies under growing competitive pressure, have made policy decisions that amount to consuming their own seed corn. In seeking to close fiscal shortfalls, states have reduced funding for public universities, shifting more of the cost of higher education onto students. In so doing, they are not only making it costlier to pursue higher education, but also deterring graduates' willingness to start new businesses or take entrepreneurial risks. Growing student debt also could further incentivize America's greatest young minds to turn away from the difficult questions of scientific innovation in favor of better compensated but less socially valuable pursuits – or, worse, create the impression that higher education is not worth the cost at all.[33]

Local communities, especially wealthy ones, have sought to freeze their neighborhoods in place with restrictive zoning, effectively increasing the cost of housing – and leading to rising regional inequality as jobseekers can no longer afford to move to the areas with the most jobs.[34] In the private sector, companies have transitioned toward treating their workforce as a cost to be minimized as opposed to an asset to be cultivated, especially in the manufacturing industry. U.S. manufacturers, increasingly dominated by advanced, highly technical manufacturing, have complained of being unable to fill the job openings they *do* have, citing a skills "gap" or "mismatch" among available labor. Yet data suggests that this mismatch is as much an employer shortcoming as it is the supposed labor force, with many companies no longer willing to fund internal training – or the higher salaries that would be necessary to induce applicants to pursue the necessary skills themselves – preferring instead to tread water until the exact right candidate can come along or the job can be automated away.[35] For too many companies and policymakers, preparing human and intellectual capital for the modern economy has become a cost to be avoided rather than a high-priority investment.

Reconnecting the American Middle Class to the Global Economic Engine

The U.S.-led, rules-based order has made the world a safer, more prosperous place – especially for the American middle class. This was not a natural or inevitable result, but the consequence of a deliberate and forward-looking synergy between foreign and domestic policy. The success of this synergy resulted in a broad bipartisan consensus in favor of the United States' postwar role of international leadership, and lent legitimacy to the country's active political and economic engagement around the world. The reverse, however, is also true. As domestic policy has fallen behind on its task of adequately sharing the gains from internationalist politics and globalized economics, the legitimacy of American foreign policy has suffered. This was no more apparent than during the 2016 presidential campaign, when foreign policy hands across the political spectrum were shocked by the apparent breakdown of the aforementioned bipartisan consensus and the loud questioning of assumptions governing international affairs since the start of the Cold War.

> **The U.S.-led, rules-based order has made the world a safer, more prosperous place – especially for the American middle class. This was not a natural or inevitable result, but the consequence of a deliberate and forward-looking synergy between foreign and domestic policy.**

If the United States is to preserve its preeminence in the world and the rules-based system it helped build, American leaders can no longer afford to continue treating foreign and domestic policy as though they are separate. Voters arguably wrote national security policymakers a blank check under the specter of the Soviet Union and financed it through the postwar expansion, but that era has ended, and no diplomatic solution or strategic initiative can now succeed if the implications for everyday Americans are not at the core of their design. To address rising skepticism among American voters – and restore the certainty of U.S. leadership in the world – the fortunes of the middle class must be successfully reconnected to the promise of a global engine of economic growth. This will mean updating the tremendously successful midcentury model outlined in this report for a new era. Foreign policy analysts will need to give greater consideration to the criticality of domestic prosperity for extending the period of global American leadership.

Importantly, foreign affairs and national security practitioners must not dismiss the breakdown in bipartisan consensus around America's role in the world as simply being an issue of "communication." To claim that, "if only politicians could explain international relations theory to voters better they would come along," would ignore the broad and justified sense that internationalism is not paying off for everyday Americans like it once did. If public confidence in American global leadership continues to decline, American strength and credibility will decline with it, and the international institutions that for generations prevented conflict and promoted prosperity at home and abroad will rapidly deteriorate. The cynical claim that globalization can somehow be reversed to the benefit of American workers, or that we can ignore the 95 percent of the world's customers that live outside of the United States, must be met with an affirmative vision of domestic prosperity and its ties to internationalism. If foreign policy leaders truly believe that the U.S.-led order is necessary for peace and growth around the world, they should join their domestically oriented compatriots and advocate for policies like those below that will ensure Americans once again share in the gains of international leadership.

> **If public confidence in American global leadership continues to decline, American strength and credibility will decline with it, and the international institutions that for generations prevented conflict and promoted prosperity at home and abroad will rapidly deteriorate.**

Upskilling American Workers

If the United States is to retain its position of global preeminence – and the economic and security benefits that come with it – its workforce will need to be restored as among the most educated and innovative in the world. Though the years after World War II saw striking global economic change, the American workforce had the right skills in greater numbers than any other population. Today, pairing the right people with the right investment in human capital is more complicated, but no less critical.

- **Reduce the cost of both four-year and two-year college degrees.**
  Much as how secondary education became critical to postwar American fortunes, at least some higher education appears to serve the same role in the modern economy.[36] Whether by conditional grants to states directly or through financing tools at the federal level, policymakers should reverse the growing cost of higher education. This should include a focus on two-year degrees and community colleges, which, in partnership with apprenticeships (see below) can link students to advanced or niche manufacturing skills.
- **Promote experiments in apprenticeship programs – while standardizing efforts within and across states.**
  A slew of research indicates that paid apprenticeships can provide an entry to skilled vocational work for high school graduates in advanced economies from Germany to the United Kingdom, but a hodgepodge of disconnected and poorly coordinated efforts have kept the model from catching on in the United States. Nationwide standards for interoperability, tax incentives to stand them up (or even partially funded public-private partnerships), and the freedom to adapt to local markets will be crucial. Above all else, however, experiments in apprenticeship models need more sustained attention than the fitful and disjointed efforts they have received so far.[37]

Incentivize Long-Term Investments – in Both the Public and Private Sectors

Technological superiority and excellent human capital has long been the United States' advantage in both conflict and competition – but maintaining that edge requires sustained investment and patience for an extended time horizon.

- **Maintain – or expand – current federal funding levels for basic research.**
  In a world where national competitiveness is increasingly tied to technology, the United States cannot afford to forfeit the future. What cuts to the National Institutes of Health, various national laboratories, and other similar agencies would yield in comparatively little savings for a single fiscal year is vastly outweighed by the years of foregone knowledge and potential discoveries.
- **Incentivize private reinvestment in companies' workforces and longer-term research.**
  Instead of across-the-board reductions in corporate tax rates, policymakers should consider offering companies targeted tax credits conditional on significant investment in skill development for their existing labor force. Like tax incentives for private research and development, these credits would encourage private companies to develop and strengthen their human capital in addition to their physical capital.[38]

Promote Workforce Dynamism

As important as hard skills were for Americans' ability to capitalize on the midcentury economic expansion, so was a policy environment that encouraged dynamism and entrepreneurial risks. Roads were metaphorically and literally paved to ease workers' paths to prosperity; policymakers should replicate this ethos.

- **Make trade adjustment assistance more sustainable and effective.**
  While trade adjustment assistance (TAA) in the United States has traditionally been a small retraining, wage insurance, and adjustment program with a mixed record of long-term effectiveness, other advanced countries dependent on trade (like Australia or in Western Europe) have had considerably more success – and, as a result, face greater public support of globalized economics.[39] The United States should study TAA's successes overseas more closely and commit to reforming its program; claiming it cannot be done is a poor excuse when it has been successful in so many other advanced countries.
- **Take a broader view of trade adjustment assistance eligibility.**
  TAA is designed with an overly narrow scope and overly onerous application process. Rather than require a smoking gun proving a worker's displacement was caused by trade, TAA applications should begin automatically following a mass layoff, whatever the reason – especially as automation seems likely to join trade as a cause of disruption in the future.[40]
- **Enable workers to identify new fields of work.**
  Evidence suggests that displaced workers – especially those who have held the same job for an extended period of time – frequently need active counseling to identify what kinds of jobs are in demand and what skills they need to acquire. These "career navigator" programs have experienced significant success in states like Nevada, and should be deployed more widely.[41]
- **Enable workers to identify new communities in which to work.**
  A significant portion of the postwar jump in American living conditions is attributable to workers moving to new areas with more lucrative job opportunities. While relocation is thought likely to help many Americans today, worker mobility is in stark decline – in part due to the growing housing costs raised earlier in this report. TAA and other employment-boosting programs should take this into account, either by adding funding for relocation assistance or posing a generous trade-off, such as swapping some duration of wage insurance payments for a larger one-time payment to cover the cost of relocation.
- **Give tools of self-improvement to workers themselves.**
  Edward Alden and Robert Litan at the Council on Foreign Relations have proposed Americans be issued a lifetime line of credit (a "Career Loan Account") to spend on professional development, be it college tuition, training programs, or relocation costs.[42] These loans, made against one's own personal "account" up to a certain amount, would be paid back over 20 years based on income (with higher-earning beneficiaries offsetting the costs of lower-earning ones, making the entire program cost relatively small). Combined with other traditional TAA programs, career loan accounts could provide many workers – especially displaced ones – with a sense of agency while they seek to manage economic forces otherwise beyond their control.

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