November 25, 2008

MEMORANDUM TO: THE PRESIDENT-ELECT
THE 111th CONGRESS

FROM: The Trade Policy Study Group

SUBJECT: A New Trade Policy for the United States

The Policy Setting

Trade will need to be addressed at a very early stage in the new Administration and Congress for at least four reasons.

First, trade is an essential component of the policy response to the global financial and economic crisis. It was the Smoot-Hawley tariff in the United States, and similar steps abroad, that converted the depression of the early 1930s into the Great Depression. Markets would be further shaken by any indications of such protectionism in the current economic climate yet pressures in that direction are already being observed in various countries, including our own.

By contrast, the world responded to the tragedy of 9/11 by launching the Doha Round of multilateral trade negotiations to reduce barriers to international trade across the globe. The G-20 summit in Washington on November 15 and the APEC summit in Lima on November 22 adopted standstill pledges to avoid new restrictions for the next twelve months. The world will be looking for early indications of US policy in this area.

Second, one of your highest priorities is quite rightly a reversal of the serious erosion of US foreign policy and global standing over the past eight years. Trade is so central to most other countries, especially poor countries that depend on it for development, that trade policy is tantamount to foreign policy for many of them. A cooperative US stance on trade will thus be essential to achieve your broader international goals. Resuming the traditional US leadership on trade will probably be necessary if we are to restore our global standing.

Third, your planned initiative on global warming – through both domestic legislation and international negotiations – is particularly relevant in this context. Both will necessarily include a major trade component because our efforts to control emissions of greenhouse gases must not unduly disadvantage US firms and workers in global markets. But your climate change policies will have such profound and lasting effects on our overall foreign policy, as well as on our economy, that you will need to deal with their trade dimensions without triggering external repercussions that would jeopardize both the global warming strategy itself and your effort to restore America's world role.

Fourth, you will need to address trade and our nation's role in the world economy more broadly as part of your fundamental effort to restore the confidence and optimism of the American people. Our country is $1 trillion per year richer as a result of its integration with the global trading system over the past half century, and the improvement in our trade balance has provided all US economic growth over the past year. Yet globalization is widely viewed as one of the primary sources of job insecurity, stagnant real wages and growing income disparities in the United States. These conflicting pressures must be confronted, honestly and effectively, both to deal with their profound consequences for our society and to restore a stable foundation for US engagement with the rest of the world.

A Proposed Strategy

Sustaining a constructive trade policy at a time of such economic and social stress, against the backdrop of so many doubts about globalization, will require a new approach. The lack of a national strategy that responds effectively to economic dislocation, in particular, is contributing to the political backlash against further trade liberalization. The purpose of this report is to suggest a strategy that integrates trade itself with such broader considerations.

We believe that such a strategy must include four components. A new narrative is essential to explain the role of trade to the American public, and it will be essential for the new President and the Congressional leadership to develop and deliver it personally. A comprehensive competitiveness agenda, some of whose components should be included in the upcoming fiscal stimulus legislation, will be needed to enable the United States to reap the full advantages of its international economic engagement. A new adjustment policy to cushion the inevitable downsides of this particular economic dynamic, also with "down payments" in the stimulus bill, is mandatory. New approaches to trade policy itself will be necessary to round out the program.

Our hope is that the strategies proposed and developed in this report could adapt US trade policy to the challenges of the 21st century and thus provide a basis for successfully and sustainably pursuing the major policy objectives cited above. We of course stand ready to provide any elaboration of these ideas that you might request and to discuss any or all of them as you might wish.

Our Trade Policy Study Group consists of twenty-two former officials and close observers of US trade policy who share a deep interest in forging effective US strategies on these issues for the future, as listed in the attachment to this report. Our members come from across the political spectrum and have participated extensively in both the executive and legislative branches of government. Not every member of the group agrees with every element in the report. But our group came together to provide you with analyses and ideas that attempt to be both visionary and pragmatic, and are oriented to both our country's economic and foreign policy imperatives. We hope they will be helpful and would be honored if you could consider them as you face the daunting challenges and awesome responsibilities that lie ahead.

A New Narrative: Americans and the Global Economy

Americans feel more competitive pressure than at any time in decades, and vulnerable both on a personal and national scale. Government, together with business and civil society institutions, needs to respond with a mix of policies that offer a credible upward mobility path for ordinary Americans in the global economy.

The public's sense of pressure is partly uninformed but not completely unfounded. Since the turn of the century, China has emerged as a low-cost manufacturing giant, and the Internet and global telecommunications network have simultaneously globalized much of the American services sector. Some countries pursue trade-distorting practices including subsidies, promotion of "national champions" through industrial policies and restrictions of foreign access to their markets. People who are working hard and have tried to educate themselves and their children often feel that they have not shared in this decade's growth, that they are more vulnerable to major financial and career threats than they were at the turn of the century, and that the United States as a nation may not be able to match the rise of new competitors.

Few, however, would argue that retreating is a viable or wise option. No one will agree to turn off the Internet – in fact its globalizing effects will grow more powerful as high-speed service spreads – and China will not revert to isolationism or subsistence agriculture.

Nor, if it were possible, would such a retreat be a good idea for the United States. Setting aside the long-term systemic considerations that must motivate the world's largest economy, the United States now needs the global economy more than at any time in our modern history. As noted, we are $1 trillion per year richer as a result of our trade ties with the rest of the world. With the domestic financial services, real estate and consumer sectors all contracting, all private-sector growth over the past year has been coming from export expansion – to Europe, China, Canada, Mexico, Brazil and other countries.

To prosper in such a world, America needs a growth strategy that allows all Americans to benefit from that growth. Such a strategy would include tackling our burgeoning budget deficit to get our fiscal house in order, modernizing our financial regulatory regime to assure the security of international markets, investing in people and technology to drive innovation and equip workers to take advantage of it, and expanding trade to allow Americans to prosper as the rest of the world grows.

We must restore public faith that our national institutions including government, the private sector, the labor movement and the education system (a) understand the challenges, (b) are capable of equipping the country to compete successfully in the face of those challenges and (c) are able to provide adequate support for workers anticipating career changes or job dislocation as our role in the global economy changes.

A successful response must be coherent, comprehensive and focus on policies to enhance the ability of ordinary Americans to succeed and the capacity of the United States to retain its national edge in innovation. A convincing trade strategy focused on the main markets and fast-growing industries, and a credible set of social insurance policies that ease middle-class anxieties, would reinforce both policy goals.

More specifically, we need policies to:

1. Strengthen our ability to compete and innovate. This would include a national commitment to improve our telecommunications network and our rail, road and air transport systems, to reduce wasteful use of energy without damaging the economy, and to invest in the basic scientific research that spurs commercial innovation and creation of new industries.

2. Upgrade the educational level and quality of our work force so that more Americans can take advantage of our prosperity. This would include domestic education reform, incentives for American teenagers to enter careers in science and engineering, raising high-skill immigration, and increased technical training to address the shortages of skilled workers needed by manufacturing and other sectors.

3. Use ambitious new domestic policies to address the main causes of anxiety including portability of health care, pension security and social insurance so career change does not routinely threaten college and mortgage payments. Government would be the main provider of these guarantees but need not be the only one – a modernized labor movement in particular might be a good partner.

4. Refocus trade policy to target the largest markets, and the emerging industrial and services sectors likely to be central to our economy in the 2010s. This would allow the US government to showcase trade expansion as a credible contributor to future growth.

<u>Enhancing US Competitiveness</u>

The substantial benefits from international trade are being overshadowed by inadequate private and public investment in activities that promote productivity gains and the creation of high skill, high wage jobs. The United States needs to increase the quantity, and improve the quality, of private and public investments in order to raise living standards:

- Private investment in plant and equipment is 2 percent of GDP lower than it was at the beginning of the decade, accounting for a cumulative loss of $1.7 trillion in potential investment over that period.

- Government investment in physical infrastructure, R&D and education and training – precisely those investments that enhance US competitiveness – has not kept pace with GDP growth over the last 25 years. As a result, public investment in these three categories is now $50 billion lower each year than it would have been had it retained its earlier share of the economy, producing a 40 percent decline in spending levels.

The United States enters the 21st century with a 20th century infrastructure. Our roads, bridges, dams and locks are literally crumbling and our transportation system, built when gasoline prices were very low, is not only obsolete but also contributes to global warming. The nation's physical infrastructure seriously impedes our industry's competitiveness. We lack a seamless network of transportation hubs and ports, which handicaps our ability to get goods produced in the United States to market in an efficient and timely fashion. Initial remedies to at least some of these deficiencies should be included in the upcoming stimulus package.

We must also invest more in the new technologies that make up the 21st century's infrastructure. For example, the private and public sectors need to work together to develop universal high-speed wireless connection accessible to everyone throughout the country. Investments in energy and environmental technologies are essential if we are to successfully meet our energy security and climate change objectives.

Private and public investment in R&D is not keeping pace with that being performed by our major competitors:

- Government spending on nondefense R&D as a percent of GDP is half what it was in the 1960s.

- Private R&D by US multinational corporations as a percent of GDP has been flat over the last decade.

- Total R&D spending as a percent of GDP in the United States lags behind that of Japan and Korea, and other countries are catching up.

We need to explore ways to encourage more private and public investment in R&D. Two immediate proposals would be to expand the R&D tax credit to include process technology and to make the credit permanent. Depreciation allowances should be revised to better reflect the "technology life" of investment.

Human capital is even more important than physical capital. Much has been written in recent years lamenting the poor academic performance of American students relative to students in other countries and education is probably the most important factor in determining the creation of high skill, high wage jobs. Educational achievement is not just a function of spending. Indeed, the United States spends more per student than any other country but is the lowest of all OECD nations in student achievement. Although additional funds may be necessary, it is critical to allocate existing resources more effectively. Skills development and enhancement becomes more important as international competition intensifies.

The nation should set a goal that all Americans achieve a high school degree or equivalent by the end of the next decade. Programs designed to facilitate a smooth transition from school to work should also be explored. Many employers report difficulties in finding qualified technical workers and vocational training is of great importance as well.

Despite its contribution to improving productivity, incumbent worker training is uneven at best. Some firms provide extensive training opportunities while others do not provide any at all. Workers require training in order to keep up with technological changes. Hence programs should be explored to encourage more training of incumbent workers, including tax credits and individual training accounts. In addition to expensing training costs for tax purposes, the government might consider providing tax credits to reimburse employers for workers' wages during periods of training.

The enormous and rapidly growing federal budget deficit undermines US competitiveness. The increase in public sector debt diverts funds from being invested in productivity-enhancing activities. This "squeezing out" is currently even more acute in light of decades of private and public underinvestment in infrastructure, R&D, education and training, as outlined above. At the same time, our major competitors are increasing their investments in these areas and financing them through domestic saving. It is incumbent on the private and public sectors, especially now, to work together to raise the quantity and improve the quality of productivity-enhancing investment.

Another way in which the budget deficit hurts US competitiveness is via the exchange rate of the dollar. Rising deficits tend to raise interest rates and thus attract capital inflows that push the dollar to levels that are overvalued in terms of our trade relationships, as especially in the first half of the 1980s and again in the earlier years of this decade. Whatever its causes, and notwithstanding its benefits for consumers and some other Americans, a substantially overvalued dollar is a major negative for US competitiveness and makes it far more difficult to manage an open and constructive trade policy.

<u>Designing a National Strategy for Promoting Economic Adjustment</u>

The US labor market is incredibly dynamic, with millions of jobs being created and terminated each <u>month</u>. According to the Census Bureau, an average of 18.5 million jobs were created and 16 million jobs were terminated each <u>year</u> over the last decade. Approximately 1 in 10 people voluntarily or involuntarily change jobs every year.

Many factors contribute to job loss including technological improvements, corporate restructuring, and intensified domestic and international competition. Trade is a modest part of the picture.

But the US economy faces intense competition at home and from abroad and labor market flexibility is a two-edge sword. Increased competition benefits the economy through productivity improvements and access to more, less expensive, and better products and services. But it can also place significant costs on American workers and their families, firms, and communities. These costs are exacerbated by the lack of a comprehensive national strategy to prevent and reduce economic disruptions. We currently have a collection of ad hoc, out-of-date, and inadequate programs that provide too little assistance too late to those in need. As a result, efforts to expand economic liberalization face significant political backlash.

The nation's safety net – including health care, unemployment assistance and Social Security – was created in response to economic conditions that no longer exist. As a result, our existing safety net is obsolete and inadequate in meeting the needs of our workforce.

The nation's health care system is in desperate need of reform:

- Currently 46 million Americans, 15 percent of the population, do not have health insurance.
- Health care costs were estimated to be $2.3 trillion last year, 16 percent of GDP. This amounts to approximately $7,600 for every man, woman and child in the United States.
- Almost 90 percent of people covered by private health insurance receive that insurance through their employers. Thus losing one's job often means losing one's health insurance, increasing the cost of unemployment to workers and their families, and raising the number of uninsured Americans.

While medical research conducted in the United States finds cures for illnesses that save lives around the world, millions of Americans receive inadequate health care. A large percentage of health care spending is devoted to extending life but not necessarily to improving the *quality* of life.

Health care needs to be accessible and affordable to all. At the same time, the growth in health care costs needs to be addressed. Comprehensive health care reform is desperately needed to shore up the nation's safety net.

In addition, our existing Unemployment Insurance (UI) program, created in 1935, is seriously out-of-date. The shortcomings of the existing program are captured in three statistics:

- Only one third of unemployed workers actually receive UI;
- Average payments replace only one-third of a worker's previous earnings; and

- One third of recipients exhaust their payments before finding a new job.

Existing training programs for dislocated workers are underfunded, denying some workers the training they need to qualify for new jobs. Although designed to assist all dislocated workers, regardless of cause of job loss, the number of participants in government-provided training programs accounts for a small minority of dislocated workers. There is no guarantee that workers in need will receive training assistance since training funds are distributed on a "first come, first served" basis with little regard for a worker's needs. They could be increased substantially in the forthcoming fiscal stimulus legislation as their immediate payout, and translation into higher consumer spending, would be virtually automatic.

Shortcomings in the UI program, as well as other political factors, have resulted in the creation of targeted worker assistance programs. Trade Adjustment Assistance (TAA) is the largest and most significant of these special programs.

Assistance provided under TAA is more generous than under UI. TAA provides extended UI to workers enrolled in training. Two particular program reforms introduced in 2002 shifted the emphasis of assistance toward re-employment. Wage insurance, currently limited to older workers, helps cushion earnings losses for workers who take a new job that pays less than their previous one. Under TAA, workers are also eligible for the Health Coverage Tax Credit (HCTC), designed to help maintain their health insurance during periods of unemployment.

But TAA takeup rates are low, primarily due to overly bureaucratic eligibility criteria and poor outreach. By one estimate, less than a third of workers whose job loss is associated with an increase in imports are determined to be eligible for assistance under the program. Of those, only one third actually receive assistance.

Although TAA has been the subject of some criticism over the years, it continues to provide critical assistance to millions of workers and their families as they face probably the most severe financial burden of their lifetime. TAA works; the problem is that it helps only a minority of potentially affected workers.

Another TAA program helps firms respond to the pressures resulting from increased import competition in order to *avoid* possible cutbacks and layoffs. Technical assistance is currently provided to firms by 11 Trade Adjustment Assistance Centers located around the country. Each year, the program assists an average of 150 firms that employ some 16,000 workers.

Mass layoffs and plant closings, and the associated drop in household disposable income, can also hurt a community's tax base with implications for the provision of government services including schools, transportation and health care. What starts as a "limited" layoff or plant closing affecting a select group of workers can result in successive ripple effects with consequences for an entire community. The existing network of assistance programs ignores the impact of economic dislocation on communities.

The government, together with the private sector, should develop a community adjustment program based on the Department of Defense military base-closing program. This might include technical assistance and modest grants to help communities address economic dislocations.

Ironically, federal government funding for most of these worker and community assistance programs has declined, despite increased pressures on the US economy that result in greater demand for the programs' services. Federal spending on employment and training programs as a percent of GDP is at its lowest rate in almost 45 years. Federal spending on community development programs as a percent of GDP is down considerably from its 1980 peak.

The following steps should be the basis for a comprehensive national strategy to respond to economic dislocation:

- Update UI to meet the needs of the current workforce.
- Improve rapid response reemployment services for workers and communities facing economic dislocation, as early intervention is the most important factor helping workers transition from one job to another.
- Make service workers eligible for TAA, expand wage insurance, and raise the Health Coverage Tax Credit.
- Explore providing wage insurance and the HCTC to all dislocated workers.
- Provide assistance to communities facing severe job loss, learning from the experience of the Department of Defense’s base-closing program.
- Encourage employers to provide their own assistance to laid-off workers and local communities.
- Bring all these efforts under a comprehensive national worker and community adjustment strategy.

Movement out of low skill, low wage jobs into high skill, high wage jobs improves overall productivity and benefits all Americans. At the same time, economic adjustment can place a significant burden on workers, firms and communities. Easing this adjustment burden through public and private efforts should help reduce opposition to further trade liberalization. The United States needs a new social contract in which our continued openness on international trade is supported by a much stronger and effective national program of safety nets and empowerment initiatives.

Trade Policy

The trade policy agenda is large and contentious. Most current US trade initiatives provoke sharp debate and elicit tepid support from the public while generating widespread opposition from workers and unions. Support from industry and farmers has been mixed, with little enthusiasm exhibited for the Doha Round of multilateral trade negotiations in the World Trade Organization (WTO). Trade promotion (fast track) negotiating authority has lapsed, complicating the design and implementation of new trade agreements.

You will need to reassess our approach to trade negotiations. The Doha Round is at an impasse and the results to date do not sufficiently address our commercial priorities or generate much change in the status quo. Bilateral pacts are criticized for covering too little or giving away too much. We need to build on the North American Free Trade Agreement (NAFTA) by addressing infrastructure, energy and environmental issues to improve the competiveness of our economies vis-a-vis Asia.

Going forward, you will have to assess whether recent and ongoing negotiations cover the right issues with the right countries or whether new approaches are needed to confront the problems of international commerce in the 21st century. In particular, the new Administration and Congress will have to:

- develop a strategy for dealing with unfinished business--particularly the Doha Round, bilateral investment treaty negotiations especially with China and Vietnam, and Congressional action on free trade agreements (FTAs) already signed with Colombia, Korea, and Panama;

- decide whether to pursue new trade and investment initiatives and/or seek to amend existing trade agreements; and

- decide whether to seek renewal of trade promotion (fast-track) authority, or develop some alternative to resolve the critical issue of relations between the Administration and the Congress on trade policy.

We believe the United States must be engaged in, and indeed lead, international trade negotiations for three key reasons.

First, international trade supports US economic growth. Over the past year, increases in net exports have accounted for all US growth. Without trade, the economy would have been in recession since late 2007. The decline in the value of the dollar since 2002, despite its recent partial rebound, has made US goods very competitive on world markets. The trade deficit is still too large, and we need to make sure that the dollar remains at competitive levels, but US exports are up almost 20 percent from 2007 and help us pay for higher priced oil and other imports. Moreover, trade creates good jobs; employment in the export sector pays 13-18 per cent more than the average job in the United States.

Second, good trade deals – supported by private sector investment, technical assistance, and development aid – strongly reinforce the broader objectives of US foreign policy. Commercial agreements create alliances that encourage our partners to work more closely with us on political as well as economic issues. We benefit when our partners prosper. Expanding trade must in fact be at the center of any strategy aimed at helping developing countries reduce poverty and raise their standards of living.

Third, continuing US engagement in trade negotiations ensures that US interests will not be disadvantaged as other major trading powers pursue preferential trade pacts with each other. Asian countries and the European Union, in particular, are actively negotiating new deals that will discriminate against US exports, hurting US firms and workers. A pan-Asian trade bloc may well emerge if the United States has a lengthy timeout from trade negotiations and the Doha Round remains stalled. Under such circumstance, numerous countries may impose new tariff and regulatory barriers against us in response to such concerns as climate change and border security.

US trade policy thus needs to recalibrate with regard to both multilateral and FTA negotiations.

The multilateral challenge is first to finish the Doha Round and then to develop a strategy for future WTO initiatives. Completing the Doha Round with major substantive benefits for the United States and the world trading system is needed for three key reasons. The substantive reasons are to implement the tariff and subsidy reforms that are emerging from seven years of negotiations, and to ensure the viability of the rules-based multilateral trading system. If multilateral solutions are put on hold, governments – pressed by their domestic constituencies – will look elsewhere to resolve trade and investment problems, either through unilateral measures or through bilateral and regional trade pacts. Failure in the Doha Round could cause irreparable harm to the WTO's credibility, which would undermine its valuable dispute settlement mechanism and jeopardize our traditional interest in strong global economic institutions.

Equally important from a US standpoint is the salience for our overall foreign policy of maintaining, indeed strengthening, US leadership of this key multilateral process and initiative. Any appearance of US rejection of Doha would undercut your goal of enhancing the global role and image of the United States.

At the same time, a more ambitious outcome would make the whole enterprise much more worthwhile for US firms and workers. This will require real cuts in trade barriers by the major emerging market economies (especially China, India and Brazil), which want continued access to our markets without offering reciprocal access to theirs. It will also require substantial liberalization of services markets throughout the world. You can inject new energy and ambition into the Doha process by taking initiatives in these directions, simultaneously generating domestic support within the United States and providing convincing evidence for a new and creative US commitment to multilateral cooperation.

Going forward, the WTO needs to adapt its agenda to changing conditions in world markets. This will require changes in the way the WTO works and with whom it works. New global rounds *a la* Doha may no longer be viable with over 150 countries in the WTO and consensus required for action. "Plurilateral agreements" with "critical mass" on specific issues, including sectoral pacts like the Information Technology Agreement, may be a feasible option.

WTO members will have to address the linkages between trade and security issues before pre-shipment inspection and visa requirements become major obstacles to international flows of goods, services and people. WTO rules need to be recast on taxes and subsidies, to meet the new challenges of climate change initiatives, and to address concerns about currency manipulation, regulatory abuse or neglect, and labor market practices. To do so, the WTO will have to collaborate more effectively with other international economic organizations, particularly the World Bank, International Monetary Fund, and the International Labor Organization.

Modernizing the WTO will also require a healthy dose of institutional reform. Key areas that should be addressed include the decision-making process and reform of the dispute settlement procedures.

The challenge is to find new, viable and pragmatic ways of achieving trade liberalization in the world, thereby providing expanded opportunities for US exports. This is a longer term rather than a short term issue. It will require both creativity and leadership at the WTO, much of which will as always be a US responsibility. The potential payoff is huge, however, as we have more at stake – in both economic and geopolitical terms – in making the WTO a success than any other nation.

The new Administration and Congress should also refocus FTA policy. The US strategy toward FTAs – that over the past decade has produced trade pacts with more than a dozen countries – is running out of steam. Several bilateral FTAs await congressional ratification; talks with several other countries have been suspended or languish.

More attention could be given to harmonizing existing pacts in the Western Hemisphere and across the Asia-Pacific region. The previous bilateral approach should evolve – as originally intended – into broader regional arrangements. This reorientation could boost stalled initiatives such as the Free Trade Area of the Americas and a Middle East FTA. It could also accelerate progress on a Free Trade Area of the Asia Pacific, which could be pursued initially with a small subset of APEC members (the "P-4" of Brunei, Chile, New Zealand and Singapore that is now expanding to include Australia, Peru and perhaps Vietnam) as announced in September 2008.

US trade negotiations should in any event place higher priority on our major trading partners, particularly if the Doha Round continues to falter. There is considerable interest in potential FTAs with the European Union and/or Japan, not only because of their potentially significant economic benefits but also because labor and environmental issues would be much less controversial than in FTAs with many other countries. Moreover, "North-North" pacts on services with Japan and the European Union (and possibly Switzerland) could establish constructive benchmarks for future WTO deals (and avoid some of the political sensitivities that surround agriculture and manufacturing) as well as generate important economic benefits. Talks with China and Brazil, and perhaps even India, could divert from the standard FTA template and focus on infrastructure services, energy and the environment. Should the Administration seek to build on the current NAFTA it could focus on infrastructure, climate change, other environmental issues, energy and border security as well as incorporate labor and environmental standards as in the recent agreements with Peru and Colombia.

A final key bilateral relationship is China, which has become the second largest exporting nation and is running by far the largest trade surpluses. A key issue is the exchange rate, which China has now permitted to rise by about 20 percent but remains substantially undervalued due importantly to continued Chinese intervention in the currency markets. You will need to devise an effective strategy to speed their adjustment, building on China's own major efforts to substitute expansion of domestic demand for export-led growth, through both bilateral initiatives and more aggressive use of International Monetary Fund and perhaps WTO rules. It will also be important for the United States to continue its efforts, through the WTO and on its own, to persuade China to lower its barriers to trade and foreign investment and, especially, to avoid imposing additional barriers. Here too you will need to devise new initiatives to secure continued access to the China market for our farmers, manufacturers and service providers.

Conclusion

Managing the increasing integration of the United States with the world economy, especially in the face of the current financial and economic crisis, is one of the greatest challenges that our nation must address over the coming years and indeed decades. Doing so raises profound questions that have deep implications for our economy, our foreign policy and our society as a whole. Virtually all dimensions of American life, many of which were insulated from external developments until the very recent past, are now affected by events that occur far from our shores.

As our people adapt to the increasingly complex world of the 21st century, these trade and broader globalization issues will come to be understood and accepted. As the process proceeds, however, they will look to you to help them understand the implications for their own lives, and to implement policies to assure that we as a nation can successfully take advantage of the substantial gains that most of us will experience while coping with the significant costs that some will undergo as well.

As you devise strategies and specific measures to create jobs, raise US living standards and restore lasting confidence in a better future for our families, we commend to your consideration the thoughts in this memorandum regarding one very important dimension of our national agenda and the challenges facing it. We hope they will be helpful and wish you the best of success in addressing them in the months ahead.

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