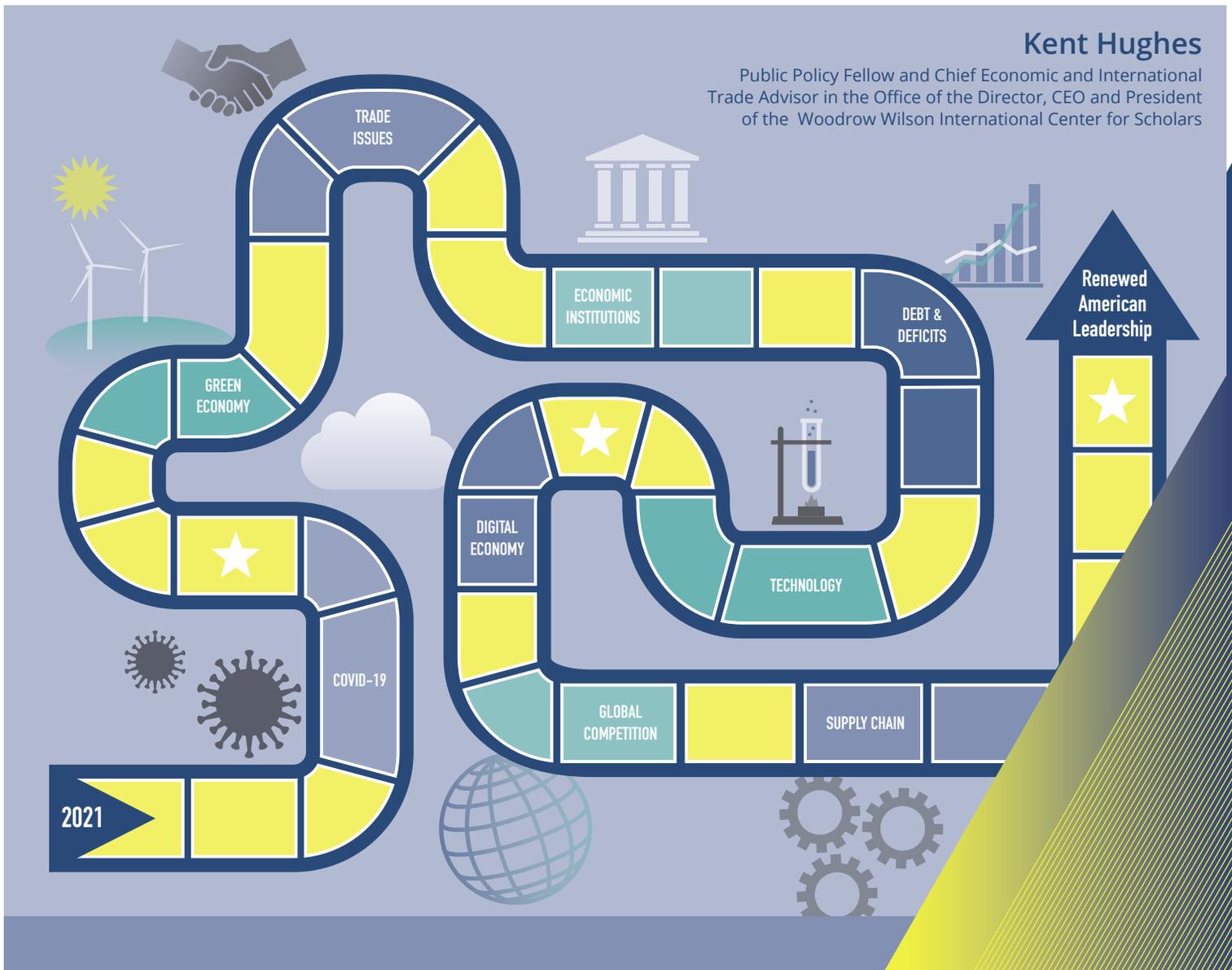


# The New Economy and U.S. Global Competitiveness



**Kent Hughes**

Public Policy Fellow and Chief Economic and International Trade Advisor in the Office of the Director, CEO and President of the Woodrow Wilson International Center for Scholars



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## Executive Summary

# The New Economy and U.S. Global Competitiveness

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The United States and the new Biden administration face a set of complex demands – demands that many see as even greater than those that Franklin Roosevelt faced in his first hundred days. The country is in the midst of a global pandemic, a struggling economy, and movements that demand social justice and genuine economic opportunity for all.

Dealing with the pandemic will be “job one” for the Biden administration. At the same time, the administration will address the needs for an economic recovery and the investments needed for long-term growth.

Economic recovery and growth in the new economy require responding to a series of challenges – the rise of the digital economy, a sense of urgency to develop policies and green technologies to counter climate change, competition in artificial intelligence and other new technologies, and a complicated web of global supply chains. The growing importance of the global corporation, the growing level of debts and deficits, and an interest in repairing international alliances create added hurdles.

The system of international trading rules, a system that America helped create in the years after WWII, no longer seems able to respond to systemic challenges posed by China and some other economies. Many Americans see globalization and trade agreements as problems not opportunities.

In the 1980s and 1990s, the country adopted an economic strategy that depended on broad based competitiveness built on investments, targeted at besting international competition, and ensuring that productivity and prosperity were widely shared. The goal was the classic effort to create a national tide that raised all boats.

In responding to the new economic landscape, the Biden administration appears committed to a renewed competitiveness strategy emphasizing investments in infrastructure to promote universal access to broad band communications among other goals.

Inadequate preparations for the pandemic have put a spotlight on reducing import-dependence on critical supplies where health, national security, and the economy are at risk. The Trump administration prepared a detailed look at the defense industrial base including defense-related elements of the civilian economy. The Biden administration could decide to conduct a broader exercise to identify key suppliers for priority technologies and industries. On February 24th, Biden issued an Executive Order on America's Supply Chains and has taken steps in directing federal agencies to assess supply chain for semiconductors, pharmaceuticals, metals and minerals, and advanced batteries.

Much of the world has focused on setting national industrial and technology priorities. The U.S. may decide that it will need to set its own priorities in technology and industry. Current thinking suggests that investments in R&D need to be linked with a strategy that turns ideas into competitive products.

The country will face other demands on the budget. Advanced technologies are forcing an adjustment in military spending. Rising sea levels may demand added resources to protect cities and towns bordering the seashore. An aging infrastructure is likely to require serious investment.

Spending on economic relief and on investments will take place in the context of record deficits and debts – soon to exceed the debt level reached in World War II. In the postwar period, economic growth continued to reduce the size of the debt relative to the size of the economy. That growth depended on a mix of key investments, innovation, and strong consumer demand. History suggests that deficit reduction will require a similar level of investment.

Restoring America's global leadership is yet another challenge facing the Biden administration. President Biden has called for a summit of democracies to strengthen the role of democracy around the world. While longstanding allies of the United States welcome the return of America to strengthening its alliances, some quietly express reservations about the state of American democracy.

## Key Questions Facing America

The Biden administration and the country are left facing key questions. Several of the most important are:

- > Can the Biden administration and the country be successful in managing the pandemic?
- > Can the Biden administration restore economic growth while dealing with structural changes in the economy?
- > Can the Biden administration focus on inclusive growth and strengthening key industries while working to restore American leadership?
- > Can the Biden administration find effective ways to respond to the economic and innovative rise of China?
- > Will the Biden administration seek to develop its own industrial priorities?
- > Can the Biden administration and the private sector find ways to reduce the vulnerability of global supply chains?
- > Can the Biden administration respond effectively to the digital economy and the rise of new technologies?

America has a history of responding to major challenges and emerging stronger, more just, and more prosperous. Much will depend on how America responds to the triple challenge of the pandemic, unemployment and stagnant wages, and the many challenges of the new economy.

The Pandemic has awoken the country to the critical role of government leadership and government preparation. It may be a turning point that will change academic thinking, popular attitudes, and, as before, create new institutions.

# Introduction

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In the coming post-pandemic world, the United States will have to deal with several accelerating trends that have taken on new prominence: these include globalization, rising international competition posed by China and others, insecure supply chains, climate change, and new fields of competition.

The challenge for the United States is compounded by the urgent need to craft an equitable recovery from the pandemic, restore confidence in public institutions, and to formulate a new national mission.

In responding to global challenges, the President cannot neglect the domestic dimension. Richard Haass, president of the Council on Foreign Relations, penned a book emphasizing that “Foreign Policy Begins at Home” (Haass, 2013).

The same is true in forging a competitiveness policy for the new economy. The once easy separation of domestic and international policies and the separation of the domestic economy from global competitiveness have long passed. In forging the new economic strategy, the U.S. will have to modify old ideas including America’s frequent resistance to setting national economic, technological, and industrial priorities.

# Challenges of the New Economy

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In the pandemic and post-pandemic economy, the U.S. faces rising international competition, dealing with a series of China trade issues, and securing global supply chains.

## The Economy and the Pandemic

The pandemic has disrupted economies around the world. There was a time when it was common for people to say that “When America sneezed, Europe caught a cold.” While America is not as dependent on exports as some other major economies, the Biden administration will need to deal with a troubled global economy. Slowing exports will ripple across parts of the U.S. just as the Biden administration is attempting to stimulate the domestic economy.

Helping manage the pandemic will be a major challenge. Developing a vaccine in less than a year has been a major accomplishment for the biomedical community. Distributing the vaccines will be a challenge. The old military cliché is still apt, that “strategy is for amateurs; logistics is for the professionals.”

The tariff battles with China also have contributed to the global slowdown. The tariff battles of the last three years have disrupted trade, slowed Chinese investment in the United States, and challenged international institutions.

## Rising International Competition

It is hard to look back to 1946 when the U.S. stood virtually alone as an economic power. In 1947, America accounted for one-third of world trade. “By 1948, the United States produced 41 percent of the world’s goods and services” (Pollard, 1984).

Today, the United States faces a very different world. China is frequently the focus, but China is not alone. Europe is a familiar competitor as is Japan. But they have been joined by Taiwan – the major fab (or factory) for turning foreign designs into cutting edge semiconductors (Raevenlord, 2020). South Korea’s Samsung competes in semiconductors, advanced phones, and other fields. Korean cars are now common on American roads. India has emerged as a supplier and competitor in business services. High technology firms in the United States and the rest of the world depend on raw materials that come from developing countries (Silbergliitt, 2013).<sup>1</sup>

**China’s combination of the Japan created East Asian Miracle, state capitalism, and government directed participation in domestic and international markets is a major challenge for the U.S. and for international institutions.**

## U.S. China Trade Issues

The Biden administration is inheriting a phase I agreement with China that focuses on agricultural trade, energy, and the promise of greater access to China’s financial sector. Actual results from the agreement are as yet unclear (USDA/FAS, 2020, Smith, 2021).

President Trump’s own focus alternated from an effort to reduce the U.S. bi-lateral trade deficit with China to an interest in broader changes. U.S. Trade Representative Robert Lighthizer and White House Advisor on Trade and Manufacturing Peter Navarro, sought major structural changes in China’s economy. They sought to eliminate everything

<sup>1</sup> The authors, Silbergliitt, et. al., argue that “While the United States has extensive mineral resources and is a leading global materials producer, a high percentage of many materials critical to U.S. manufacturing are imported, sometimes from a country that has the dominant share of a material’s global production and export. Their report specifically identifies 14 critical materials for which production is concentrated in countries with weak governance, as indicated by the World Governance Indicators published by the World Bank. China is the controlling producer of 11 of these critical raw materials, nine of which have been identified as having high economic importance and high supply risk.”

from subsidies to state owned companies to a requirement that U.S. (and other foreign investors) transfer their intellectual property as the price for entry (Davis, 2020, pp. 189-190).

Had China made the requested changes, the disruption to American farmers and the cost of the tariffs to American consumers would have been well worth the cost. But seeking structural change proved to be a bridge much too far. It was almost as if China had asserted that the U.S. separation of powers and wide-spread federalism made it impossible for China to deal with the United States. In effect the U.S. would simply have to change its constitution. China did not change its basic approach.

China poses a systemic as well as a competitive challenge to the various mix of markets and government that characterizes most of the world. The challenge China poses differs from that of Japan in the 1980s. Among other factors, China does not benefit from a security treaty with the United States nor the protection of the U.S. nuclear umbrella (Davis, 2020, p. 138).

President Trump argued that in trade disputes the U.S. has two advantages. First, the U.S. has the world's largest trade and current account deficits. In dealing with tit-for-tat tariffs with China, President Trump argued that because the U.S. imported so much more from China than China imported from the U.S., it has "more bullets" than the Chinese (Davis, 2020, pp. 135-148).

In the 1980s, Japan also posed a systemic challenge to the point that some Congressional leaders argued for denying Japan the benefits of international trade agreements (i.e., an Article XXIII action) (Farnsworth, 1987).<sup>2</sup> The Japanese government worked closely with industry, set national priorities, protected key industries from international competition, acquired technology by many means, subsidized its exports, and kept the value of its currency low to make its exports more competitive in global markets (Johnson, 1982).

China has adopted most of the East Asian Miracle with one important exception. Unlike Japan, China welcomed foreign direct investment if the investing company was willing to share its technology.

Even today, China has a significant heritage of its past relationship with the former Soviet Union. China still has 150,000 state owned companies (SOEs). Fifty thousand are national companies, at times national champions.

China has combined the East Asian Miracle and the SOEs with a tightly controlled approach to global markets. Global companies in North America, Europe, East Asia, and elsewhere are subject to some government regulations. In China, there are no large private companies of the kind that can be found in most countries. Major Chinese

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<sup>2</sup> Senator Max Baucus had proposed taking GATT Article XXIII action against Japan arguing that Japanese trade practices nullified its obligations under the GATT.

companies now have a communist party presence that may influence investment decisions. China also subsidizes SOEs in the search to acquire high tech companies throughout the world (Hughes, 2019).

This approach has fostered record growth in China. Acquiring, developing, and applying technology is a priority. China spends a growing share of its rising GDP on research and development as well as acquiring technology overseas. In its “Made in China 2025,” China set the ambitious goal of becoming a leader in ten key technologies – technologies that are the focus of companies and governments around the world. Because of the global reaction to the 2025 goals, China has adopted a new five-year plan, which has similar goals, but with somewhat softer language (Hughes, 2019, p. 33).

## International Economic Institutions

The U.S. played a prominent role in creating the global institutions that provided an important, albeit partial, structure for the global economy. Starting in the 1944 meeting of 44 powers in Bretton Woods, New Hampshire, the United States, Great Britain, and several European powers built a global system (Steil, 2013; and Conway, 2014).

The Bretton Woods negotiations gave birth to the International Bank for Reconstruction and Development (now part of the World Bank Group), the International Monetary Fund, and the General Agreement on Tariffs and Trade (GATT). There is broad agreement that this partial structure governing the global economy has helped produce 70 years of relative peace and considerable prosperity.

The last major set of trade negotiations, the Uruguay Round, built on the GATT to form the World Trade Organization (WTO). For the first time, the trade of WTO members would be subject to binding rules with a dispute settlement mechanism that included an appellate body.

In recent years, the U.S. has been critical of some aspects of the global system, particularly the pattern of international trade agreements and the dispute settlement process of the World Trade Organization. Many, but not all, of the Trump tariff battles took place outside the WTO and other international bodies.

The Trump administration felt that the WTO appellate body made decisions that penalized the United States and exceeded its powers. As a result, the Trump

administration hobbled the WTO dispute settlement by refusing to approve new judges for the appellate body (Jan, 2019).

Biden's approach to the WTO is not yet clear. Nor is his overall trade policy clearly developed. On his first day in office, President Biden rejoined the Paris Accord and the World Health Organization, which is still an important organization with a role to play in fighting the Covid-19 pandemic. Under the Paris Accord, the U.S. will set its own goals to reduce CO2 and other pollutants as part of the global effort to control climate change (Leary, 2021).<sup>3</sup>

**Biden's decision to rejoin the Paris Accord and the World Health Organization are important steps toward greater international involvement.**

The Biden coalition includes groups that consider climate change a threat, many would say an existential threat to the United States and the planet, itself. The domestic opposition to the Paris

Accord criticizes ambitious goals that would put the U.S. economy at a disadvantage with other economies; again, China is a particular concern.

## Understanding the Digital Economy

It is hard to read the major newspapers without finding a discussion of the latest developments in the digital economy. There are disputes over the speed of 5G communications, over the potential of the internet of things, and, more recently, over how the vulnerabilities of cyber space will affect the competitiveness of U.S. industries.

U.S. companies lead in some critical components – particularly semi-conductors – but none have moved to have a complete 5G system. Attorney General Barr suggested that the U.S. buy either Erikson or Nokia, European companies that compete in 5G (Nakashima, 2020). The Trump administration did put Huawei on the Commerce Department's Entity List, making it difficult for Huawei to acquire key parts made by American companies or with American technology (Heater, 2019).

The growing desire for national or regional control over the digital economy will add complexity to digital initiatives. China has carefully sealed off access to its cloud

<sup>3</sup> Leary, 2021: Article provides President Biden's list of first day executive actions.

computing industry and restricted data flows. The European Union has its own approach to data privacy and is exploring a new approach to taxing the high-tech American companies with dominance in the digital world (Amaro, 2019).<sup>4</sup>

## The Global Corporation

The multinational company is centuries old. In the last several decades, many of the larger companies – in manufacturing, high-technology, finance, and services – have become ever more global. Companies now think and invest as global corporations (Davis, 2020, pp. 120-121).<sup>4</sup>

The spread of global corporations has coincided with the development of genuinely global supply chains. Whatever their headquarters or national origins, the global company must think about key operations spread around the world. In many cases, the internet has allowed parts of major companies to work around the clock on innovations as the work is passed from one part of the company to another.

The global company can affect domestic and foreign policy. In current tariff battles with China, companies have to worry about the impact on their investments in China, their access to key parts, and the impact of higher priced imports on their domestic production and their exports.

**U.S. multinationals have become global companies with obligations to different states around the world. They respond to incentives offered by many countries and are often attracted to the large and still growing Chinese market.**

In throwing up trade barriers, any administration must consider the impact on American firms, American consumers, and the conduct of foreign policy. In responding to the Trump tariffs, China turned, as it had in the past, to major U.S. companies to represent their interests to key American officials (Davis, 2020, p. 247).<sup>5</sup>

Where countries create incentives and subsidies that the American government and the individual states cannot or will not match, the American company may be driven by global competition to make investments that otherwise might have been made in the United States.

<sup>4</sup> Davis, 2020: For instance, Boeing, General Motors, and General Electric benefited from their sales in China.  
<sup>5</sup> Davis, 2020: The author notes that China could no longer count on U.S. business on trade issues.

In addition to subsidies and other policies, China offers access to a rapidly growing consumer market. The lure of an enormous market dates back at least as far as the 19th century. The British saw that adding one inch to the shirt tail of every Chinese would keep the mills in Manchester (in Northern England) spinning forever. Today, many American companies draw a significant share of their sales and profits from their investments in China.

## Global Supply Chains

The current pandemic has been marked by a rise of nationalism and the recognition of a global competition in high technology. Supply chains have taken on a new importance as a contributor to economic efficiency but at the same time as a source of potential vulnerability. The new phrase coined by one observer: From “Just in Time to Just in Case” captures the shift in thinking (Evans, 2020; Gertz, 2020; and David, A. 2020).

The drive for efficiency has reduced costs and contributed to the speed of innovation in several products. As the logic of efficiency and as a response to global competition, supply chains have now become much more complicated and may span several countries. When one inspects the innards of a computer, she may find the equivalent of an electronic United Nations.

**The pandemic has focused attention on the vulnerability of dependence on global supply chains. The focus has been on the efficiency gains from investing and buying in pursuit of the lowest price. Some observers now call for adding “Just in Case to Just in Time.”**

Part of the challenge is that the more distributed a supply chain is the more challenges it creates for management. But management is only one of the risks. Disruption of transportation links, or a sudden spike in demand, or an industrial accident can create their own risks. In the 1980s, one Japanese company produced most of the packaging used to house semiconductors. An industrial accident shut down production and set the world scrambling for supplies.

Geopolitics creates its own risks. Chinese dependence on U.S. technology related to semiconductors has made China vulnerable to the Trump administrations export restrictions (Davis, 2020, pp. 225-229).<sup>6</sup>

<sup>6</sup> Davis, 2020: After ZTE, a major Chinese company, violated an agreement with the United States, Trump threatened to bar the company from acquiring American parts critical to its survival. President Xi personally intervened and persuaded the President to relent. The result as well as the battle over Huawei added further impetus to China's determination to develop its own, advanced semiconductor industry.

Japanese companies have become dependent on China for many of the rare earths exported by China. A territorial dispute led China to cut off rare earth exports to Japan, threatening key Japanese industries. Japan sued in the WTO and won. While the exports of rare earths were resumed, China had made its foreign policy point.

Fortunately, rare earths are not all that rare. The problem is that they are expensive to mine and can carry a serious environmental cost. At one point, the U.S. was a major producer of many of the rare earths needed by the electronics industry. Two forces shut down almost all U.S. production. Environmental concerns were one force. Chinese competition was the other. In a strategy reminiscent of John D. Rockefeller's tactics in consolidating the oil industry, China effectively used lower prices to undercut U.S. companies.

In response to U.S. export controls on semiconductors, some Chinese officials considered responding by restricting rare earth exports to the United States. As yet, China has not done so. But the potential threat is there.

## New Fields of Global Competition

Over the last decade, space and the earth's polar regions have become areas of competition for several countries, including Russia and China (Brady, 2017).

Most Americans of a certain age remember how in 1957 the beep, beep, beep of Sputnik signaled that the Soviets had become the first explorer of space. More Americans remember the celebration of how it was an American who took "one step for man, and a giant leap for mankind." To Americans it seemed right that America should be the first.

Americans continued to be active in space by developing new rockets and the reusable shuttle. Then interest and commitment slowed. When one of the last shuttles flew over the nation's capital, thousands of Americans cheered the display of American prowess. Only a few had tears in their eyes as that last flight signaled a decline in the space program and a turn to dependence on Russia for access to the space station.

By the second decade of the 21st century, the U.S. faced a new, multi-country competition in space. China had made a major commitment to becoming a space power. On January 3, 2019, China landed on the far side of the moon. On December 17, 2020, China became the third power to bring back rocks from the moon. China has more ambitious plans: building a permanent station on the moon and the exploration of Mars (Goswami, 2019).

There is also new competition for influence in the polar regions. The U.S., Canada, Russia, and Scandinavia, all border the North Pole. China has already asserted its interest in the region.

**The U.S. now faces competition in space and in the arctic world.**

Climate change has opened the famed North West Passage – promising a speedier route of transportation between the oceans. When ice breakers are needed, Russia holds a significant advantage (Lustgarten, 2020; and Chapple, 2020).<sup>7</sup>

Similar international interests are evident in the South Pole. The Antarctic Treaty System provides some international governance of the South Pole. There is hope that international agreements might regulate competition in both poles and in space. The need for such agreements poses another challenge and opportunity for the world and the Biden administration (NSF; and Cooper, 2020).

## A World of Debt and Deficits

In the wake of the Covid-19 pandemic, North America, Europe, and parts of Asia turned to fiscal spending to ease the human and economic impact of the virus. The result has been an enormous increase in deficits and national debts.<sup>8</sup>

The Federal Reserve, the European Central Bank, the Bank of England, and the Bank of Japan are all adding to the world's money supply. China, which played an important role in terms of fiscal stimulus during the 2008-2009 financial crisis, has actually been a bit tougher now on even state-owned companies looking for financial support. The continued supply of money has not yet driven up the prices of goods and services around the world.

In the U.S., the national debt has risen to a level not seen since World War II. With the loss of the presidency, many Republican Senators and Republican Members of Congress will return to their concern about debts and deficits. Under President George W. Bush, Vice President Cheney remarked that Ronald Reagan showed that deficits do not matter. President Trump had a similar view. While Congress has been generally

<sup>7</sup> Lustgarten, 2020: The introduction of the article notes that Russia has 34 icebreakers, China 4, and the U.S. 2.

<sup>8</sup> Comment: The Fiscal Year deficit for 2020, according to the Congressional Budget Office was \$3.1 trillion. The national debt held by the public (rather than a government agency) was \$21.636 trillion according to the U.S. Treasury.

supportive of the military, there may well be an attempt to cut spending in most other areas. When Paul Ryan was speaker of the House, he focused on cutting entitlements (spending on health, retirement, and a few other programs) as well as annual spending on many areas that require annual appropriations, including areas that would count as part of the country's capital budget, if it had one.

If the U.S. wants to grow out of the debt, it will require a thoughtful increase in broad-based investment that will meet three tests: growth, equity, and the environment.

There is every indication that Biden takes climate change seriously. In addition to infrastructure that serves growth and reduces greenhouse gasses, climate change may create added pressures on the budget. As coastal waters rise, there will be pressure to spend more helping coastal cities adjust to rising tides (Morrison, 2019).<sup>9</sup>

In many countries, an aging population will put added pressure on retirement incomes and healthcare. That means more pressure on the budget (Guarino, 2017).

## Technology – Military Threats and Employment

In the military, there is always a debate over how much to spend but there is an added question of whether there needs to be a shift in the direction of new technologies. In some quarters, the development of long-range precision missiles, that can put U.S. aircraft carriers at risk, calls for a rethinking of defense priorities. Shifting to new technologies will put pressure on the budget, as well as the possible realignment of U.S. forces from the Middle East to the Indo-Pacific area.

Unexpected overseas developments may call for added spending. For instance, Turkey and Ukraine have recently formed an alliance involving their respective defense industrial bases. The technological rise of two middle powers could complicate the U.S. posture in Europe and the Middle East (Bekdil, 2015).

<sup>9</sup> Morrison, 2019: To protect cities with more than 25,000 in population will require \$42 billion by 2040. If all cities are included, the estimated cost jumps to \$400 billion.

## Rebuilding Alliances

Critics of President Trump described his version of America First as actually being America Alone. President Trump was convinced that America's allies had taken advantage of America in terms of trade and their reluctance to contribute a fair share to the cost of the common defense.

Over the last four years, U.S. criticism of European and East Asian allies has frayed relationships built over the past 70 years. President Trump's imposition of tariffs on steel and aluminum, citing national security grounds, angered friends in many parts of the world (Swanson, 2015). His demands that Europe and South Korea contribute more to support the presence of U.S. troops stationed overseas were not new. After all, a rich Europe could and should pay more for its defense. But the "bill" was presented in harsh terms and in the context of President Trump's budding relationships with authoritarian leaders.

President Trump saw America's market and America's large trade deficit as giving him added strength in his preferred bi-lateral negotiations strategy. In retrospect, his withdrawal from the Trans-Pacific partnerships is increasingly seen as a flawed geopolitical move. Even some early critics of the agreement, now see it as an effective response to China's growing influence in Asia.

The economic case for the TPP was more complicated. The U.S. International Trade Commission, which is required to assess the impact of U.S. trade agreements, found that it was a slight negative for manufacturing and a slight positive for services. With access to the Japanese market, it was a clear plus for American agriculture. The TPP did include elements on the digital economy and provided data exclusivity for biologics. It also included several provisions on protecting the environment. However, there was not the same focus on protection for workers or any proposals to help deal with any economic dislocations resulting from the agreement (McBride, 2020).

During the Trump administration, America had reduced its commitment to spreading democracy and human rights. Yet there was support for the traditional approach in important quarters. Commenting on the December 2017 National Security Statement, General Mattis, then the U.S. Secretary of Defense, speaking in January of 2018, said twice that the U.S. was defending the values of the Enlightenment (Mattis, 2018).

# Policy Responses to the New Economy and Its Challenges

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America responds to challenges. In 1957, the Soviet launch of the first satellite to orbit the earth triggered an American response that included the economy, research, and education as well as national security. By the late 1970s and through the 1980s, the country, the Congress, and private institutions became focused on the growing economic competition stemming from Europe and particularly Japan.

During the recession that continued into the early 1980s, President Reagan established the President's Commission on Industrial Competitiveness. John Young, then CEO of Hewlett-Packard, chaired the Commission known as the Young Commission which included representatives of major technology and manufacturing companies, labor leaders, university presidents, and academics. By the time the Commission issued its report in 1984, the economy had recovered, and President Reagan was able to race to victory on the theme that it was 'morning in America' (Hughes, 2005, pp. 152-166).

When the Commission report was presented to the President and its cabinet it stirred little interest. Young was not discouraged. He founded the Council on Competitiveness, which continues as a strong and effective advocate for a competitiveness strategy (Hughes, 2005, pp. 166-168).

Starting in the late 1970s, there was a parallel focus on competitiveness in the Congress. Toward the late 1980s, Congress was ready to act. What started as a trade bill evolved into the Omnibus Trade and Competitiveness Act of 1988. It was a competitiveness strategy in legislative form.

## The Focus of the Biden Administration

In the new economy, the U.S. will be developing an updated competitiveness strategy with investments in everything from infrastructure to innovation, to education and training. At the same time, the U.S. will be struggling to make sure that the fruits of growth and opportunity will be widely shared.

## Manage the Pandemic

The first test for the Biden administration will be managing the Covid-19 pandemic. The distribution of the already approved and future vaccines will give the Biden administration a clearer view of the supply chain challenges and the need to have an effective inventory of masks, protective gear, tests, and therapeutics. The Trump administration proved reluctant to use the Defense Production Act to prioritize needed supplies. Biden can be less reluctant when the need exists.

Restarting the economy is a parallel need. The spread of vaccines will help. By the end of 2021, it is possible that much of the hard-hit retail, restaurant, travel, and tourism industries will recover. Still, there will be many closed businesses, others downsizing, and still others struggling to leave bankruptcy. The introduction of new technologies and other efficiencies will reduce initial labor demand even as the economy recovers.

## Debts and Deficits

Part of the new economy reality is the burden of government debts and deficits that characterize key countries around the world. Much of the debt has been focused on making sure that people have the income to meet basic needs of food, shelter, and transportation. Little has gone to growth supporting investment (CBO, 2020).

What to do about the debt? In this historically low interest rate environment coupled with the economic disruption of the pandemic has made the Biden team reluctant to turn to austerity. Already, President Biden has proposed \$1.9 trillion of new spending to respond to broad-based needs and make investments. With Republicans losing the Presidency and control of both houses of Congress, several observers think that the GOP may return to their opposition to deficit spending. What to cut always poses a challenge. The Congressional Budget Office in December 2020 published a list of tax increases and spending cuts that would reduce deficits and hence the growth in public debt. None of the CBOs possible actions look easy to approve and some would affect investments needed for growth (CBO, 2020).

## Infrastructure

Some infrastructure spending may be included in the \$1.9 trillion proposal made by President Biden. The President has announced his intent to follow with a major infrastructure bill. The Biden team could start with a major national effort to link the entire population – rural and urban – to high-speed broadband. The investment in physical infrastructure could be combined with access to a computer and for training to make sure that all can take advantage of the digital world. A broadband focus will open education to millions, training in skills to millions more, and for many the ability to work at home. The broadband initiative will serve growth, greater equality through education, and, potentially, a greener future as broadband substitutes for commuting.

**Preparing for future growth, the U.S. is likely to increase its spending on transportation, access to universal broadband, and technologies that support job growth and the green economy.**

During his campaign, President Biden also called for installing 500,000 charging stations for electric cars. The prospect of wide-spread charging stations will support a shift to electric cars and trucks and create new jobs, while reducing transportation related emissions. The Biden team could propose three added steps. First, the development of non-polluting sources of electricity. In addition to wind, solar, and nuclear, there is growing interest in hydrogen. Second, they could help the auto industry adjust as electric cars require fewer parts and will force change on parts suppliers. Third, they could partner with industry to speed the development of improved batteries while also developing effective means to recycle them.

## Investing in Innovation

Investing in R&D is not new, and it will be an important element in new economy competitiveness. But supporting federal and university laboratories is not enough. The United States needs to look at the path from the laboratory to production for domestic and global markets.

In addition to funding research at universities, national laboratories, and research centers, the United States must also support the education of scientists, engineers, and skilled workers.

During the early 1980s, the U.S. often led the world in scientific breakthroughs, but often lagged in terms of turning ideas into competitive products. Students of innovation point to two hurdles that face every innovator. The challenge of moving from idea to product is often referred to as the Valley of Death. Taking the next step and taking production to a competitive scale is referred to as surmounting the Darwinian Sea. A combination of federal, state, and private support will help labs and single inventors to overcome both hurdles.

The U.S. has taken some creative steps to foster innovation. Started by the Obama administration, the Manufacturing USA program now has some 16 public private partnerships focused on aspects of advanced manufacturing that range from

**There is broad support for investing in basic research. At the same time, there is more emphasis on translating new ideas into growth and job promoting products. The Obama administration created Manufacturing USA. It looks to public-private partnerships to help translate research into practice.**

3-D printing to regenerative medicine. The Departments of Defense and Energy provide much of the public funding and choose topics that fit their mission. The Department of Commerce also supports manufacturing institutes but chooses candidates from an open competition. In a recent competition focused on pharmaceuticals, the Department of Commerce identified five qualified candidates but could only fund one (ISA, 2020).

By way of contrast, when China saw the U.S. developing the manufacturing institutes, it quickly created its own version. China now has 40 or more similar institutes.

The Chinese example suggests the U.S. should pay close attention to the innovation initiatives around the world. In the Department of Commerce, the Foreign Commercial Services promotes exports and economic opportunity for American companies and workers overseas. U.S. could match that effort with a Foreign Technology Service that identifies innovations in products, processes, and institutions around the world.

After rejoining the Paris Accord, President Biden is expected to set goals for reducing harmful emissions. Meeting any ambitious goals will require research and development coupled with the ability to put green innovations to work.

Facing an ever more competitive world, many students of innovation suggest that the U.S. must pick priority areas for research. Basic research can lead to unexpected but promising directions. At the same time, targeted research focusing on what next steps are needed in artificial intelligence or new materials for electronics will yield near-term dividends that help the U.S. maintain a competitive edge.

In an era of global companies and competing nations, the United States is likely to create incentives to translate innovations into domestic production and jobs. Like foreign policy, competitiveness policy starts at home. The Biden team can be expected to build on the reality and the sense that gains in productivity are widely shared.

## Supply Chains

For decades, the world has become interwoven. As noted above, the efficiencies of just-in-time inventories have the effect that final production can be disrupted by an industrial accident, transportation failures, or the foreign policy of a rival country.

In 2017, President Trump ordered an extensive look at the supply chains important for the defense industrial base. The work has been completed but much of the material remains classified. The country could adopt a similar focus on the supply chains for industries that are critical for domestic innovation and long-term prosperity (DOD, 2018).

Taiwan has emerged as a world-class foundry for manufacturing the chips designed by other countries. Faced with a dependence on Taiwan Semiconductor Manufacturing, the United States has persuaded TSMC to build a \$12 billion factory in Arizona (Pham, 2020). With the U.S. as a major protector of Taiwan's independence, the U.S. had an unusual degree of influence. But a broader interest in foreign firms with a technology edge will be necessary for industries or technologies viewed as critical for America's future.

There are several approaches to increasing supply chain security. When certain supplies were viewed as critical to national defense, the United States created stockpiles. Effective management of the stockpiles requires keeping the existing stockpiles up to date, winding down stockpiles that are no longer needed, and creating new stockpiles for new threats.

The Covid-19 pandemic caught the U.S. with inadequate supplies needed to deal with the pandemic. Not only were inventories inadequate, but in some cases they had deteriorated.

The old adage of not putting all your eggs in one basket applies to critical supplies as well. Diversifying sources of supply can provide a degree of security. Where some production needs to be kept in the United States, the government will have to create the incentives to invest locally. You cannot stockpile innovation.

## Education and Training

In international comparisons, the United States has slipped badly. Every three years, the Organization of Economic Cooperation and Development conducts the Programme for International Student Assessment (PISA). The exam assesses students in OECD and other countries on their proficiency in math, science, and reading.

The United States ranks in the middle of its peers in the OECD. In the latest (2018) PISA results, the U.S. showed little improvement. The U.S. did move from 37th to 30th in math, but the numerical score was unchanged – some countries slipped behind the U.S. Even more troubling was the percentage of students who fell to the lower ranks of the test. Andreas Schleicher, who oversees the test, said that “students that...don’t reach level 2 on the PISA test, that’s the kind of reading skills you’d expect from a ten-year-old” (Camera, 2019).

**The U.S. has fallen behind its industrial peers in terms of education. A Sputnik-era like emphasis on science and technical education would help provide the economy with the human resources needed for the 21st century.**

Most of the countries that excel in the PISA exam require more hours in the classroom. With longer school days and a longer school year, the Japanese student graduating from high school has spent the equivalent of four more years in school than the American student. By grade five in urban centers, Japanese students often attend after school classes as well (White, 1987).

The American school year is still based on an agrarian economy that required help at harvesting time. Many parents do have their children on what looks like Japanese schedules – special classes after school and summer camps that mix education with sports or other activities. But that is far from true for all students. The U.S. may need to rethink the length of the school day and school year.

The American tradition of state/local control and reliance on local property taxes has left serious inequalities in terms of education and opportunity. Walk through many suburban schools in the United States, and there are special labs for computing or the use of software tools for design. Part of infrastructure spending could focus on preparing all American schools for the 21st century.

Unfortunately, there has been considerable resistance to federal spending on local schools. States fear that Washington might dictate a curriculum that would offend the local community. Even when the business community and governors reached an agreement on a basic curriculum or a common core for mathematics, in some quarters it was attacked as “Obama core” paralleling the attack on the Affordable Care Act as “Obama Care” (Whitman, 2013; and Pass, 2013).

However, national standards do exist that are not a product of the federal government. The SAT and ACT are widely used for college admissions but are privately developed. The same is true of the Advance Placement exams that assess proficiency in specific subjects that ranges from physics to history. They are used across the country but are the product of the College Board, which also manages the SAT.

In this new economy, the U.S. government could encourage the development of materials that introduce children to the STEM (Science, Technology, Engineering, and Math) subjects. Learning the basics of these subjects at an early age helps prepare them for the future and makes it more likely that students will continue in the STEM disciplines.

Many Democrats are calling for tuition free access to universities and community colleges. There may also be an added focus on the early stages of education.

In graduate level education in engineering, math, and science, universities have enrolled many international students – especially students from India and China. International students have strengthened the universities. Many graduates have chosen to stay to teach, conduct research, and work in high-tech companies. Some high-tech executives argue that any student with a PhD in a technical discipline from an American university should have a green card (allowing permanent resident in the United States) stapled to their diploma (Corbin, 2017; and 2016).

When they return to their home countries, they bring a knowledge of America with them. At the same time, they take knowledge with them that can benefit international competitors. China is particularly active in seeking to have their graduate students return.

Unless the U.S. recommits to universal education tailored to the 21st century, its global competitiveness will suffer in the new economy.

## The Rising Tech Competition

China is a major competitor. But China is not alone. If you took the ten technologies that form part of Made in China 2025, you can see that other countries are pursuing similar technologies.

Mexico and Brazil are both putting new emphasis on developing an infrastructure for innovation. The countries that are part of the Gulf Cooperating Council are also looking

to shift away from oil and gas and toward a more entrepreneurial economy. Dubai, part of the United Arab Emirates, now has a Minister of State for Artificial Intelligence.

President Biden has made every indication that he will work to rebuild America's alliances with the transatlantic community and what is now called the Indo-Pacific. In rebuilding old and forging new alliances, the President faces a new geopolitical and geo-economic context. President Biden has years of dealing with the politics of the U.S. Senate where each Senator has local, state, or regional concerns. He will need to apply that same ability to explain, listen and negotiate here and abroad in the era of the new economy.

## U.S. Industrial Priorities

The difficult choice will be picking industrial policies to match our successes in innovation. During World War I and World War II, government played a major role in creating industrial priorities and creating new industries. Since the end of World War II, however, there have been mixed, and often negative feelings about industrial policy. Just mentioning the word has often led to charges that the proponents want to establish Gosplan, the body charged with the Soviet Union's approach to central planning.

The anomaly is that while industrial policy was virtually taboo in terms of domestic industry, the Department of Defense has usually had a deputy assistant secretary for industrial policy. And in agriculture, there are policies tailored to different crops. To support agriculture, the federal government does research, distributes the research through the Agriculture Extension Service, to farmers and ranchers that are often educated at land grant colleges. One could say that agriculture is an American industrial policy success (Weiss, 2014).<sup>10</sup>

How could a country pick targets? It would be easy (and not wrong) to point to Made in China 2025. China has picked out ten key technologies that they hope to dominate.

<sup>10</sup> Below are some of the duties of the office of the Deputy Assistant Secretary for Industrial Policy who is the principal advisor to the Under Secretary of Defense for Acquisition and Sustainment:

- Developing DOD policies for the maintenance of the U.S. defense industrial base
- Executing small business programs and policy
- Conducting geo-economic analysis and assessments
- Providing recommendations on budget matters related to the defense industrial base
- Anticipating and closing gaps in manufacturing capabilities for defense systems

Broad view of DOD's role in supporting innovation:

- Assessing impacts related to mergers, acquisitions, and divestitures
- Monitoring and assessing impact of foreign investments in the United States
- Executing authorities under Sections 2501 and 2505 U.S.C. Title 10

China's list of ten key technologies ranges from micro-electronics to robotics, advanced materials, aerospace, and several more.

The United States is not China. Instead of a ruling party, the United States has a constitution that created a separation of powers and enshrines a series of individual rights. We have a federal system that grants powers to individual states and local governments that are important in pursuing national goals and responding to national emergencies.

The United States economic base is comprised of small businesses, critical manufacturing firms, an entrepreneurial culture, and large, global companies. University and government laboratories also play important roles. Setting priorities for government support will require a mix of national leadership that reflects the American constitution, the complementary roles of federal and state governments, and the existing structure of the American economy.

**The U.S. economic base is made up of small businesses, critical manufacturing firms, an entrepreneurial culture, large, global companies, world class universities, and federal laboratories. Developing a U.S. industrial policy will require a mix of national leadership, state and local initiatives, and the use of investments, subsidies, and incentives.**

Edward Alden in his *Failure to Adjust* suggests federal support for the industrial policies in the different states. Many states have a more easily identifiable comparative advantage and a specific industrial base. Alden's book spells out the many economic challenges facing the country and points to a useful path that would avoid a national debate over a federal industrial policy (Alden, 2017).

Just supporting the states, however, may not be enough. The federal government could invite companies working in key technology areas to see what pre-competitive technologies they need, what they see as paths for the future, and what they need in terms of anything from parts that are only available overseas to a newly skilled workforce.

In picking priorities, the federal government will not only look to national security but also to domestic prosperity and the country's innovative future. By providing subsidies, incentives, and clear goals, the federal government can be an effective partner in pursuing new technologies and new industries.

## Global Tech Alliances

In addition to geopolitical alliances, the United States needs to be open to economic alliances in meeting aspects of global competition.

The Covid-19 pandemic is a harsh reminder that there are economic and technological challenges that are global in nature. America's National Academy of Engineering has developed a list of global challenges that will require innovation and engineering. The NAE meets every other year with the Royal Academy and the Chinese Academy of Engineering to discuss responses to the current list (NAE, 2019).

Bringing the best minds and best laboratories together should speed effective responses to global challenges. The shared effort will require creative diplomacy and agreements on how to share the fruits of new technologies.

Biden's commitment to emphasize long-standing U.S. alliances will help build a base for cooperative research in key industries and technologies. There may not, however, be an easy path to return to the pre-Trump normal. At home, President Trump created a large following that is skeptical of America's foreign policy leadership and concerned that the rest of the world is taking advantage of the United States.

Abroad, America's allies will note that President Trump received more votes than anyone else who has sought the presidency except President Biden. They might also note that Republicans did very well in the races for other offices. The Democrats lost seats in the House of Representatives and just barely took control of the Senate. Republicans did well in state and local races as well. Major newspapers carry articles about whether Trumpism will survive the defeat of President Trump. Allies may ask the same question. Is the Biden victory a sign of a lasting new direction by a familiar United States, or was it simply a move away from President Trump?

## Managing the Digital Economy

The United States has been a leader in the digital economy. Apple, Facebook, Google, and other American companies dominate much of the digital world. Europe, East Asia, and China have rivals, but they have not yet developed the same degree of international presence.

The leading American companies are now under pressure at home and abroad. In the United States, there is anti-trust pressure on key digital platforms for allegedly limiting innovation and thus harming consumers. European regulators are pressing the leading digital companies on privacy, tax, and anti-trust grounds. Under current rules, the digital platforms have been protected from lawsuits over the content they carry. This is much like a trucking company that would not be sued for innocently carrying contraband packages on the nation's highways (Bose, 2020).

After the January 6, 2021 attack on the U.S. Capitol, both Twitter and Facebook blocked the account of President Trump, arguing that he was spreading unrest and advocating violence. Partisans of the President were outraged and contended that private companies were silencing the speech of conservatives. At the same time, there is pressure in the United States, the UK, and the EU for the platforms to police the contents of messages – eliminating dangerous falsehoods and types of hate speech.

The EU is also intent on developing a new tax regime for the digital giants. Future negotiations and trade agreements will have to wrestle with these problems. The U.S. has resisted the European moves and President Trump had threatened tariffs. The Biden administration will face a call for diplomatic negotiations. It may be there will be calls for new global rules for the digital economy (Blenkinsop, 2018).

The response to the Covid-19 pandemic has also made many organizations more aware of how they can function with distant working and learning. Working from suburbia, small towns, or more rural areas in America, will affect business real estate in many cities. Businesses located in central cities are already closing. It will also open new avenues for international competition. Where countries have the talent and the internet connections, what was domestic employment can be replaced by overseas competition. The pressure of the pandemic has also accelerated the turn to robots and other forms of automation.

The Biden administration may well be faced with structural changes in the labor market that create pressures to generate added domestic employment opportunities for Americans.

## Preparing for Changes from Trade, Technology, and the Unexpected

Where disruption follows a trade agreement, or a new wave of technology, or sudden structural change, the country may emphasize a training regime that leads to actual jobs. There are already voices in the Congress that call for a national emphasis on the dignity of work; work provides purpose, pride, and a structure that supports more than consumption.

Where a community is likely to be affected, there will need to be an assessment of local strengths and incentives and ideas about how to build on them. For many workers, key parts of their safety net consist of family, neighbors, and the local economy.

The environment is another ever more important element of international agreements. In a competitive world with different levels of development, leading economies may be pressured to make agreements that disrupt the domestic economy or accelerate the adoption of labor-saving technologies.

In an era of technological competition, national efforts to attract and protect investments will become more common. In 2018 the Congress passed legislation expanding the authority of CFIUS (Committee on Foreign Investment in the U.S.) to review foreign direct investments (Jackson, 2020).<sup>11</sup> The congressional debate also looked at but did not act on overseas joint ventures that risk key technologies. In the future, the government will have to be vigilant on acquisitions of start-ups and key parts of supply chains as well as the purchase of major industries.

The Congressional delegation of authority to conduct trade negotiations (fast track or trade promotion authority) will expire on July 1, 2021. Should the Biden administration seek new trade negotiating authority, they could choose to create a model agreement. Such an agreement would probably put emphasis on worker interests and the environment as well as export opportunities.

If the Biden administration turns to new trade agreements, they may look at the Trans-Pacific Partnership abandoned by President Trump. After the U.S. pulled out of the negotiations, the remaining eleven created the CPTPP or Comprehensive and Progressive Agreement for Trans-Pacific Partnership. In leading the effort to forge an agreement, former Japanese Prime Minister Shinzo Abe specifically kept out some twenty or more items that had been U.S. priorities. Abe was anxious for the United States to join CPTPP.

<sup>11</sup> The Foreign Investment Risk Review Modernization Act (PL 115-232) was signed on August 13, 2018. The amended law expanded CFIUS to assess non-controlling investments that involved critical technologies and made other changes.

There is renewed interest in the EU for talking with America about the transatlantic relationship. The earlier negotiations over the Transatlantic Trade and Investment Partnerships foundered and were largely abandoned. The original interest in TTIP focused on establishing global standards for a variety of industries as well a further reduction in tariffs.

In general terms, domestic demands for greater income equality and the growth of concerns over climate change, will demand a skillful Biden approach to any trade agreement. As noted above, developing a model trade agreement that is worker centered and environmentally focused may be the first step in the Biden term before returning to the trade negotiating table.

## Government Institutions and National Priorities

Since World War II, the U.S. has updated its government in response to crises, the Department of Energy in the wake of 1970s energy crisis, and Homeland Security in response to the attacks of 9/11. The new economy and the challenges of the new economy could result in a call for institutional change.

With much of the U.S. response to the new economy focused on industry and innovation, today's Commerce Department is a logical place to start. In addition to possibly becoming a Department of Industry, Innovation, and Commerce, the Commerce Department already oversees the Patent and Trademark office, the National Institute for Standards and Technology (NIST), and, in the past, had a technology division that followed developments overseas. The department's foreign commercial service has a global reach in looking for export and investment opportunities for American companies. Expanding their activities to report on innovative developments in other countries could be a natural extension of their activities. Ideally, one (or more) of the national laboratories could be added to the new department so that it can actively participate in creating needed innovations.

The new department could also develop a program on national economic resilience. The shift from a sole emphasis on efficiency to an added focus on resilience, will need department-level leadership. The department could create incentives for local economies to focus on their own strengths. They should bring the same philosophy to work with the new department of education (discussed below) so that all Americans acquire a familiarity with basic STEM skills.

A new Department of Education Training, and Development could build upon the strengths of the existing departments without the artificial division between the many paths to education, the world of work, and the response to national priorities. There was an earlier effort to combine the departments of education and labor, but it was in the context of an attempt to eliminate government bodies. With the need to prepare everyone for the new economy and the recognition of the utility of apprenticeships, putting the departments together makes good sense (DOL, 2021).<sup>12</sup>

## Coordination among Agencies

National and administration priorities often cut across several cabinet departments and agencies. President Nixon established a Council on International Economic Policy to facilitate coordination. President Reagan started his administration by creating structures that combined different cabinet level departments. President Clinton created the National Economic Council to pull together the elements of a national economic strategy. President Clinton also established the National Science and Technology Council to help coordinate the science and technology activities of the federal government. President Obama initially answered the coordination challenge by creating a series of posts (referred to as Czars) that would look across the government to help manage cross cutting issues.

President Biden appears to be taking a page from the Obama book. He has appointed Gina McCarthy as a senior advisor on climate change to help coordinate domestic climate-related initiatives. Former Secretary of State John Kerry will play a similar role regarding United States' global role on climate change.

<sup>12</sup> Comment: There has been growing interest in apprenticeships and hands-on learning in the United States, inspired, in part, by the German example.

# Conclusion: Restoring American Leadership

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Where once the United States was the dominant economic power, now that global stage is shared by Europe, East and South Asia, and China. There are important economies on every continent. Where once America seemed home to innovations, now one also needs to look around the world for new ideas, new cures, and new products.

With the collapse of the Soviet Union and the economic challenges of German reunification and the Japanese financial crisis, suddenly the United States stood alone as an unrivaled superpower. In 1992, Francis Fukuyama published his *End of History and the Last Man*. By the end of history, Fukuyama is widely interpreted as saying that democratic capitalism remained as the only path to economic growth and political organization (Fukuyama, 1992).

Since that period of contented U.S. hubris, the world has taken yet another turn. China has emerged as a major economic force and presents itself as the model for growth and governance.

After the turn of the century, the United States made several serious mistakes. It failed to anticipate the terrorist attacks in September 2001. The subsequent invasion of Iraq proved to be a geopolitical blunder. The global financial crisis revealed that, contrary to global expectations, the U.S. did not effectively control its complicated financial system. Finally, the United States' muddled mismanagement of the Covid-19 pandemic has raised questions about America's ability to govern effectively.

China had, of course, made the initial mistakes of failing to identify the virus or acting to contain it. But when it moved into action, it proved decisive and effective. China has been quick to emphasize the contrast to the United States.

Yet despite China's rise and American mistakes, much of the world still looks for American leadership in world affairs. Much of Asia welcomes America as a military and even economic counterweight to China. Long-standing allies in Europe and Asia would welcome renewed American commitment to continued economic, political, and military ties.

## What should America do to Restore Its Leadership?

First, it should remember how America and its allies prevailed in World War II. Second, it should recognize that while it is still a major power, the world is now made up of

**In American leadership nothing is more important than effectively managing the pandemic, restoring economic growth, and responding to national demands for shared prosperity and broad-based economic opportunity.**

other established and rising powers. Third, it must listen more and talk less. Fourth, it needs to adjust its policies to the new economy and new circumstances. Finally, it needs to restore confidence in public institutions and develop a new national purpose.

### U.S. Leadership – Traditional Strengths

The United States played a leading role in containing the Soviet Union but drew on the active support of allies around the world. In terms of direct competition, the United States out produced and out innovated the Soviet Union. The United

States was active in exercising what Joseph Nye has named soft power. For many people, freedom and democracy were more attractive than authoritarian communism.

Looking forward, the United States again needs to restore alliances where there are shared interests and shared values at stake. Existing allies in Europe and Asia, have similar complaints about China's economic strategy and to authoritarian practices in China and elsewhere around the world. In responding to global crises – anticipating future pandemics to dealing with climate change to securing global supply chains – an allied effort can provide effective leadership in what must be a global response.

### U.S. Leadership – A Multipolar World with an Economy of Many Powers

America must recognize that while it may still be the first among peers, the world is made up of many established and other rising powers. It is not 1946, or 1960, or even 2000.

America's domestic and foreign policies will have to adjust to the challenge of many competitors, some of which are geopolitical allies. The competitive landscape is made more complex by the rise of global corporations and international trading rules. Where China may rely on authoritarian rule to guide its international economic activities, the United States will need to use incentives, subsidies, joint ventures, and international agreements to fully draw on its national strengths.

### U.S. Leadership – Learning from the World

America still has strengths and institutions that contain useful lessons for the world. America's higher education system sets a global standard. The silicon valleys that have emerged around the country offer lessons in innovation. Americans' tolerance for risk helps drive resilience and innovation.

The world also has many lessons to teach America. For instance, every industrial power in the world has universal health care. The systems vary but all cover everyone. There are several variants of capitalism found across the industrial world. The United States and Great Britain leave more to private markets. German industry has labor representatives on one of its corporate boards. Germany also has a system that links companies with technology problems to a set of applied research institutes that can turn to advanced institutes when basic research is required. Japan has a history of working closely with industry, setting national priorities, and adopting policies that drive competitiveness (Hughes, 2005, pp. 94-108).

When it comes to K-12 education, America should look at the structure of education in countries that perform the best – Finland and several East Asian countries which lead the field in the international exams of science, mathematics and reading.

Adapting foreign solutions to American strengths, values, and traditions will be an effective way to move through the 21st century.

### **U.S. Leadership – New Thinking for the New Economy**

The U.S. can no longer cling with almost religious devotion to the idea that private markets can solve every problem. Nor can the country count on an education system tied to an agricultural calendar or one dependent on local property taxes.

The U.S. needs to adjust its thinking and its actions to the many realities of the new economy. Rising economic powers, new technologies, an economy demanding new skills, the development of cyber weapons, precision guided missiles, and other changes all demand new, creative policies.

The pandemic has put a spotlight on existing inequalities in terms of income, wealth, education, and access to health care. The national response to the death of Floyd George has awakened the nation to a renewed effort to create an economy that offers opportunity and a decent income to all Americans.

The Biden administration is faced with growing demands to tackle major inequalities, to work toward greater inclusion, and to make progress against climate change. The Biden team seeks to make a range of domestic investments, generate jobs, adjust the military to new threats and new technologies, and forge a successful foreign policy.

President Trump's emphasis on America First contained two basic truths. Competitiveness policy and foreign policy both begin at home. Not a turning inward, but a recognition that in a democracy based on the idea of equality, persistent inequities will undermine the strength of the country.

### **U.S. Leadership – Renewing Confidence in Public Institutions and Establishing a National Purpose**

Critics charge that Americans no longer share a national purpose. To the extent that this is true, most Americans will want to move beyond the current situation and move forward.

As America emerged as the leading economic power after World War II, American leaders have encouraged leadership through active engagement in world affairs and by setting an example at home to inspire the rest of the world. American leaders often take inspiration from the speech given by John Winthrop in 1630 as he and his fellows were about to sail on the *Arabella* for the shores that one day would become the United States. Winthrop said, “that we shall be as a city upon a hill – the eyes of all people are upon us.” The same phrase was used by Presidents Kennedy and Reagan (Kennedy 1961; and Van Engen, 2020).

Just as America has too often fallen short of its founding commitment to “all men are created equal” America often failed to live up to the standard set by being a “city upon a hill.” The current focus on the many inequalities in America would suggest that too many Americans are living in a not so pleasant valley rather than a model city. But both phrases at times can set standards that move America to fulfill its promise.

More recently, President Obama rose to national prominence with his speech at the Democratic convention in 2004. Obama said, “there is not a Black America and a White America and Latino America and Asian America, there is the United States of America.”

President Biden during his campaign and in his post-election speeches has focused on the need for the country to come together to meet today’s challenges and forge a common purpose. His campaign theme was “Build, Back, Better” with the intent to be the president of all Americans. Fulfilling that goal, will strengthen America at home and bring America back to helping lead the world to a greater future.

The effort of restoring American leadership will depend on the successful managing of the pandemic, restoring economic growth, working for shared prosperity, and building on America’s many strengths. The U.S. will develop new thinking to deal with the challenges of the new economy, adjust to a multipolar world, and establish a renewed national purpose.

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## Author

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**Kent H. Hughes** is the chief economic and international trade advisor in the Office of the Director, CEO and President of the Woodrow Wilson International Center for Scholars. Earlier he was a Public Policy Fellow and Director of the Center's Program on America and the Global Economy. Prior to joining the Wilson Center, he served as Associate Deputy Secretary of Commerce and president of the private sector Council on Competitiveness. For many years he also served in senior positions in the U.S. Congress including as a senior economist on the Joint Economic Committee and as the chief economic advisor for Senate Majority Leader Robert C. Byrd. He is the author of three books: *International Economic Decision Making in Congress*, *Building the Next American Century: The Past and Future of American Economic Competitiveness*, and *The Middle Kingdom at Center Stage: China's Past and Future Growth Strategy*. He holds a Ph.D. in economics from Washington University in St. Louis, a LLB from Harvard Law School, and a BA from Yale University.



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