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Ladder of Opportunity**

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How to Save Globalization

Rebuilding America's Ladder of Opportunity

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We live in a time of protectionist backlash. U.S. President Donald Trump has started a trade war with China, upended the North American Free Trade Agreement, imposed tariffs on the United States' closest allies, withdrawn from the Trans-Pacific Partnership, and talked endlessly about building a wall on the U.S.-Mexican border. But the backlash against globalization goes far beyond Trump himself. In fact, his presidency is more a symptom of it than its cause. Even as they may decry Trump's particular methods, many voters and politicians in both parties approve of his objectives.

By now, it is well known that this backlash followed a dramatic rise in inequality in the United States. Whether one looks at the percentage of income going to the highest earners (the top ten percent earn 47 percent of national income now, versus 34 percent in 1980), differences in income across educational groups (the premium that college-educated workers earn over high-school-educated workers nearly doubled over the same period), or stagnating real wage performance for many workers (the median real weekly wages for men working full time have not grown at all since 1980), the United States has become markedly more unequal over the past four decades. That period was also characterized by rapid globalization and technological change, which, as a large body of research demonstrates, helped increase inequality.

Still, the strength of the backlash continues to take many observers by surprise. That's because focusing only on the increase in income inequality misses the full extent of the dissatisfaction driving the reaction. For many Americans, a deteriorating labor market brings not just lower

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wages and less job security; it also cuts to the heart of their sense of dignity and purpose and their trust and belief in their country. That is especially true for those workers who can no longer provide for their family's basic needs or have dropped out of the labor market altogether. In a series of recent studies we conducted in communities across the United States, we heard the same sentiments from a range of respondents in a variety of circumstances: anxiety and anger about globalization and change that was not related to income alone but more broadly concerned whether Americans can still secure meaningful roles in their families and communities.

There is good reason to find a way to counter the backlash: it threatens to reverse a trend toward global openness and integration that, even with its drawbacks, has delivered real gains in the United States and around the world while bringing global inequality—as opposed to inequality within countries—to its lowest level in centuries. But because the problem goes beyond income inequality, the usual policy solutions are inadequate. It is not enough simply to redistribute income to financially compensate the losers from globalization. Addressing the backlash requires giving all Americans the tools they need to carve out the sense of security and purpose they have lost amid change.

That can happen only if the United States completely transforms the way it invests in and builds human capital. No longer can those efforts be limited mostly to the early years of a person's life, with minimal public expenditures. The country needs to rethink the role of government in developing human capital and invest substantially in doing so. The goal must be to erect a lifelong ladder of opportunity that goes from early childhood education to employment-based training throughout an individual's working life—saving globalization in a way that appeals to people from across the political spectrum.

NO NEW DEAL

Just over a decade ago, we argued in this magazine that stagnant income growth among American workers was leading to a protectionist drift in public policy. As we saw it, “a New Deal for globalization,” with a significant income redistribution that would allow globalization's gains to be shared more widely, was required to prevent a harmful backlash.

There was, of course, no such deal. Instead, what followed was the financial crisis and a set of inadequate policy responses to globalization and technological change. The stew of vast success for a few, uneasy

stagnation for the great majority, and an actual decline for many others came to a boil in the 2016 election. Leading presidential candidates for both parties called for less globalization, not more.

Our diagnosis a decade ago emphasized that income growth in the United States had become extremely skewed. That trend has continued. From 2000 through 2016, the inflation-adjusted total money income (the broadest official measure of worker compensation) of most Americans fell. The only two educational categories to enjoy an increase were workers with advanced professional degrees and those with doctorates. For the vast majority of American workers, earnings fell: by 0.7 percent for high school graduates and high school dropouts, by 7.2 percent for those with some college, by 4.3 percent for college graduates, and by 5.5 percent for those with a nonprofessional master's degree. In 2016, the median household's real income stood at \$59,039—only \$374 higher than it had been a generation earlier, in 1999.

Both globalization and technological change have contributed to this trend. (The financial crisis exacerbated the effects: because of the plunge in home prices, the net worth of the median U.S. household in 2016 was 30 percent less than it was in 2007.) As research by David Autor, David Dorn, and Gordon Hanson found, about 40 percent of the decline in U.S. manufacturing employment between 2000 and 2007 was due to surging U.S. imports from China—with persistent income losses in the communities most exposed to this trade competition. Of course, technology has also played a role. But so far, the backlash has focused on globalization, at least in part because citizens see technological change as both inevitable and fair—and globalization as neither.

IDENTITY AND FAIRNESS

Even as income inequality has grown over the past decade, it explains only part of the anxiety and dissatisfaction. Changes in labor markets have undermined people's ability to fulfill their expected roles in their families and their communities. And so people have grown angry at globalization for eroding both their identity and their basic sense of fairness.

People care not just about their absolute levels of income but also about their incomes over time—relative to their expectations and relative to what their parents made and other reference points. In the United States today, fewer children are growing up to earn more

than their parents. For the cohort of Americans born in 1940, more than 90 percent earned more at age 30 than their parents did at the same age. For the cohort of Americans born in 1984, this share had fallen to barely 50 percent. Moreover, a growing number of Americans have stopped seeking work altogether. Labor-market participation, especially among the groups with stagnant incomes, has fallen dramatically in recent years. From 1970 to 2015, among American men with only a high school degree, the labor-force participation rate fell from 98 percent to 85 percent. For American male high school drop-outs, that rate fell from 94 percent to 79 percent.

The human consequences of these changes have been devastating. The economists Anne Case and Angus Deaton have shown that many of the groups with the poorest labor-market outcomes (and non-Hispanic whites without a college degree, in particular) have seen their health deteriorate markedly, with surging “deaths of despair”—suicide, drug overdoses, alcohol poisoning—raising overall mortality rates. Other researchers have connected trade-induced income changes to poor health; Justin Pierce and Peter Schott, for example, have shown that counties whose economic structures gave them greater exposure to Chinese competition had higher rates of suicide.

There has also been growing inequality across physical space. For most of American history, different regions have grown more equal in relation to one another over time, as firms and workers have taken advantage of variations in cost. But more recently, this convergence has slowed or reversed. As the value of new ideas has dramatically increased, the value of living or locating a business in a large, high-talent city has grown; an accumulating body of research shows that workers are more productive when they are surrounded by other highly skilled workers. The metropolitan areas already doing well have thus started to do even better, while areas that are suffering have had a harder time catching up.

As of 2016, there were 53 metropolitan areas in the United States with a population of at least one million. From 2010 through 2016, their output grew by an average of more than 14 percent, compared with under seven percent for cities with populations under 250,000. Total employment in the largest cities grew by 15 percent, compared with just four percent in small cities and two percent in rural areas. Those 53 cities have accounted for 93 percent of the United States’ population growth over the past decade, even though they account for

only 56 percent of the overall population. From 2010 through 2016, they also accounted for about two-thirds of total GDP growth and nearly three-quarters of total job growth. And even among the largest cities, there has been growing divergence. Over the last three and a half decades, the difference in GDP per capita between the ten wealthiest and the ten poorest large cities more than doubled in real dollars.

Amid such divergences, Americans have lost faith in the future. For decades, *The Wall Street Journal* and NBC have periodically asked, “Do you feel confident or not confident that life for our children’s generation will be better than it has been for us?” Even during the two recessions that preceded the financial crisis (in 1990 and 2001), more Americans said they felt confident than said they felt not confident in their children’s future. But more recently, that confidence has evaporated. Even in August 2017—the start of the ninth year of the current economic recovery—nearly twice as many Americans were not confident about the future as were confident.

THE CASE FOR GLOBALIZATION

If the backlash against globalization is driven by such developments, that does not mean that simply letting the backlash proceed—shutting down trade, cutting off imports, putting up walls—will solve the underlying problems. Despite its very real role in increasing inequality, globalization does, as its champions argue, still do more good than harm. The United States’ connections to the global economy through trade, investment, and immigration have spurred gains for millions of American workers, families, and communities that, in total, exceed the losses. One study by the Peterson Institute for International Economics estimated that U.S. national output and income today would be about ten percent lower had the United States not liberalized international trade and investment as it did over the past two generations.

A United States that is cut off from the world would be a less prosperous place. An economy behind walls must generate its own ideas, technologies, and techniques rather than relying on innovations from around the world. It must provide its own savings for investment in new ideas and opportunities rather than tapping into savings abroad. And it must produce all its own goods and services rather than specializing in its particular strengths.

Indeed, the research shows that global engagement is correlated with innovation—which, by driving productivity, is the key factor in

raising incomes. Companies that export and import or are part of a multinational enterprise tend to outperform their purely domestic counterparts, and global companies pay higher wages. Consider the performance of U.S.-based multinational companies. In 2015 (the last

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year for which data are available), they spent \$700 billion on new capital investment, 43 percent of all private-sector nonresidential investment in the United States; exported \$794 billion worth of goods, 53 percent of all U.S. goods exported; and spent \$284 billion on research and development, a remarkable 79 percent of total U.S. private-sector R & D. That translates directly into

good jobs. In 2015, U.S. multinationals employed 28 million Americans (making up 23 percent of all private-sector jobs), paying them a third more than the average private-sector job. And contrary to conventional wisdom, academic research has repeatedly found that expansion abroad in these companies' foreign affiliates tends to create jobs in their U.S. parents, not destroy them.

Perhaps the most immediate and long-lasting damage from walling off the United States would come from new restrictions on the immigration of high-skilled workers. Immigrants have long made substantial contributions to American innovation. Immigrants, only 13 percent of all U.S. residents today, made up 39 percent of the U.S.-resident Nobel Prize winners in chemistry, medicine, and physics over the past 20 years; 31 percent of the U.S.-resident Nobel winners in all categories during that time; and 37 percent of all the U.S.-based MacArthur Foundation "genius award" winners since 2000. One recent study by the Kauffman Foundation concluded that immigrants accounted for 25 percent of all new high-tech companies founded from 2006 through 2012. As of 2017, immigrants or their children had founded 43 percent of Fortune 500 companies.

On top of the economic case for saving globalization, there is a national security case. Open markets contribute to peaceful relations between countries by raising the costs of military disputes. As trade fosters economic development, it also contributes to greater state capacity and political stability, preventing civil conflict and state failure, which can create the conditions for terrorism and other threats. And

the United States' outsized role in launching and governing institutions such as the International Monetary Fund and the World Trade Organization has projected U.S. power and values in peaceful ways unprecedented in world history.

A LIFELONG LADDER OF OPPORTUNITY

If globalization has substantial benefits but is contributing to the problem of growing inequality, what can be done? The political establishment is offering Americans three alternatives: the status quo, walls that limit engagement with the world, and income redistribution. The status quo sparked the backlash and thus will only further inflame it. Walls will leave the country poorer and less secure.

Redistribution should be part of the solution. It is a policy we recommended a decade ago, when we proposed making the U.S. tax system more progressive by eliminating payroll taxes for all workers earning below the median income while requiring high earners to pay the tax on a greater percentage of their income. But redistribution is not sufficient, because the problem extends beyond money.

Saving globalization requires restoring to tens of millions of Americans the dignity and the trust and faith in the United States that they have lost. This, in turn, requires building a lifelong ladder of opportunity that will give all citizens the human capital needed to adapt to the forces of globalization. Such a ladder would not guarantee success for everyone. But it is human capital, more than any other asset, that determines an individual's chances of thriving in a dynamic economy. The United States should expand its investments in human capital at every stage of every American's life.

The first rung of this ladder should be a collection of early childhood education programs for every American child from birth to kindergarten, funded by the federal government and based on evidence of what works. Recent research confirms the enormous private and social gains from investing in children's human capital—and, conversely, the costs of neglecting to do so. A series of studies by the Nobel laureate James Heckman and other researchers, for example, looked at two early childhood interventions in North Carolina and concluded that the benefits were seven times as large as the costs.

Today, there are about 25 million children in the United States between the ages of zero and five. Every one of these children should each year receive an average of \$4,000 worth of early childhood

programming, for a total annual fiscal cost of about \$100 billion. This programming should focus on activities that have well-documented cognitive benefits, including classroom instruction for parents on language development and high-quality prekindergarten childcare.

The second rung of the ladder of opportunity should be federal funding for two years of community-college tuition for every high school graduate who is not pursuing a bachelor's degree, which would ensure that each could earn an associate's degree. The economic case for this is compelling. In the United States today, the median lifetime earnings of a high school graduate is about \$1.3 million in constant dollars. The figure for someone with an associate's degree is \$1.7 million, nearly a third higher. That additional \$400,000 in income comes from spending only about \$30,000 on the typical two-year associate's degree—a substantial return on investment, which is even larger for many in-demand programs, such as radiation therapy.

Last year, about 1.6 million of the United States' 2.9 million high school graduates did not go on to a four-year college or university. Every one of them should receive full tuition, limited income support, and assistance for other related costs to attend a two-year community college, for a total annual cost to the federal government of about \$50 billion. Providing income support and covering other costs beyond just tuition are important to substantially boost graduation rates, which are widely acknowledged to be far too low. (This investment would more directly address the needs of those most harmed by globalization than would current proposals to make four-year public colleges tuition free.)

The third rung should be a lifetime training scholarship for every working American who does not have a four-year college degree. Each person would get \$10,000 a decade through his or her 20s, 30s, 40s, and 50s for use as a tax credit by his or her employer to invest in that person's skills. Eligible investments would include online courses, in-person programs at local colleges, and in-house training crafted by the employer.

Rather than rely on the ability of the government or higher education institutions to identify the skills needed by workers across the U.S. labor force, this program would harness the insights that businesses uniquely have about which skills they need the most. (Since the program would be available to every worker without a college degree, the stigma that has been attached to many similar training programs would be removed; those programs often fail to boost earnings because companies infer that individuals chosen for them suffer from some

shortcoming.) Companies should prove willing to make these once-a-decade, \$10,000 investments in their employees because of the tax credit and because of the competitive pressures. Today, there are about 100 million U.S. workers who never graduated from college. With a tax credit of up to \$10,000 per decade for every one of these workers, about ten million of whom can be expected to take up the scholarship a year, the annual price tag would be about \$100 billion.

The three rungs together would cost the U.S. government about \$250 billion each year, which would represent the largest federal investment in human capital in American history. (For comparison's sake, the 2018 budget of the U.S. Department of Education is \$68 billion.) But there is a way to fund this new federal spending. First, Congress could reverse the 2017 tax cuts for individuals, which are estimated to have cost the government an annual average of over \$125 billion in revenue. Second, it could partially cut the exemption that allows employers to deduct the money they spend on health insurance premiums from their taxable income—an exemption that costs the federal government \$250 billion a year in lost revenue. That exemption is both regressive, in that it benefits high-income taxpayers more than low-income ones, and economically inefficient, in that it fuels higher health-care costs. There are, of course, other ways to come up with \$250 billion. The important point is that this investment in the human capital of Americans would be not just feasible but also economically productive.

BEYOND BACKLASH

There is good reason to think that Americans will see a lifelong ladder of opportunity as a response both suited to the problem and in line with their particular goals and values—giving it a chance to help reestablish a political consensus in favor of globalization. We recently conducted a representative online survey of over 5,000 U.S. adults across the country and asked them to think about how the U.S. economy could better deliver good jobs and incomes in today's world. We presented three broad policy options.

The first was walls: “Implement policies that reduce international trade, prevent firms from going overseas, and decrease immigration.” The second, safety nets: “Adopt new policies that substantially tax those firms and individuals that benefit from globalization and then spend the new revenue on government income programs for everyone

else.” And the third, ladders: “Adopt new policies that substantially tax those firms and individuals that benefit from globalization and then spend the new revenue on programs—for example, training and education—that provide more people with greater opportunity to benefit from globalization.” The third option, ladders, was overwhelmingly the preferred strategy: 45 percent of respondents selected it, versus just 29 percent opting for walls and 26 percent choosing safety nets.

We also held focus groups in several cities and asked about the preference for ladders. Several points stood out in the discussions. First, participants emphasized that globalization does make significant contributions to overall growth. “I think the whole economy has become a world economy, so I don’t think you can start cutting off international trade,” said one respondent. “It’s going to hurt everybody.” Many also expressed ambivalence about programs that redistribute income, articulating a desire to help those in need but also concerns about the fairness and incentive effects of such programs; some of these respondents also stressed that such programs can sometimes generate as much resentment as globalization itself.

Most important, a majority of the members of these focus groups recognized the ladders strategy as a way to help people share in the benefits of a dynamic economy rather than just mitigate its harms. As one respondent put it, “You’re not just spreading revenue across to everybody; you’re using it to provide greater opportunity and training and education—which then, in theory, should bring everybody up, also, to where they benefit from trade.” Many also stressed that the strategy would not just address income disparity but also help workers fulfill their perceived duties to their families and communities. “I want to take care of my family,” one told us. “I can start my own business if I want to. I think there are too many people who don’t feel that way, who can’t.”

The large number of Americans who believe that the United States’ economic and political institutions are no longer delivering enough opportunity are right. It should be no surprise that they are anxious, angry, and open to proposals to build walls to keep out the rest of the world. But the right response to these trends is not complacently accepting the status quo or simply letting the backlash against globalization proceed. By investing seriously in ladders of opportunity, the United States can give all its citizens the human capital that will let them take part in a changing economy—not just saving globalization but also ensuring that Americans benefit from it. 🌐