

# The Case for Economic Openness in the Time of Coronavirus

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After decades of [increased income inequality](#) and [slow or stagnant wage growth](#), many Americans have concluded that the economy no longer works for them.<sup>1</sup> Sadly, these views are well-supported by economic statistics that show a [divergence](#) between growth in national income – which remains quite strong – and growth in the income of a typical household – which is far flatter.<sup>2</sup> These trends have only exasperated other types of inequality among groups, including the racial disparities that drive recent protests.

The coronavirus crisis has placed inequality in a particularly harsh light, as the poor and vulnerable [have been far more likely to suffer](#) illness and death, and far [more likely to face job loss and economic adversity](#).<sup>3</sup> And, while the early economic policy responses of both the [Federal Reserve](#) and [Congress](#) have been laudable, policymakers will need to be equally bold in the months ahead to avoid a long period of slow economic growth or stagnation.<sup>4</sup>

Unfortunately, the present crisis has also made isolationist economic policies [look more attractive](#) than they truly are.<sup>5</sup> Barriers to trade and immigration will only make a bad situation worse; there are far more effective ways to generate broad prosperity and inclusive economic growth.

Consider first trade barriers. It is undeniably true that the swift expansion of trade with poorer countries in recent decades generated important [sources of disruption](#) for many U.S. workers.<sup>6</sup> Still, many other factors also contributed to such disruption: [rapid technological progress](#) that shifted labor demand away from those whose labor was most easily replaced by computerization or automation, a [rise in the market power](#) of large companies in many sectors of our economy, a [decline in private-sector unionization](#), changes in [norms](#), and [changes in economic policy that failed to counter](#), and at times exasperated, other sources of economic inequality.<sup>7</sup>

Since trade is part of the source of worker disruption, that makes trade barriers a tempting solution. Yet most of the time, trade barriers hurt the very people they purport to help. First, tariffs – or taxes on imports – are best understood as a [regressive consumption tax](#).<sup>8</sup> Since the poor consume a higher fraction of their

income and buy more imported products as a share of their total consumption, they also pay a higher share of their income in tariff costs. The research shows tariffs harming consumers [time and again](#).<sup>9</sup> Second, as the [last three years have made perfectly clear](#), our trading partners do not sit on their hands when we raise trade barriers on their exports.<sup>10</sup> They [respond with tariffs of their own](#), and that [hurts the many American workers](#) whose jobs depend on exports, or access to imports.<sup>11</sup>

Third, tariffs harm our ability to work harmoniously with other countries to solve truly global problems. The coronavirus crisis has made the benefits of international cooperation particularly salient. Still, there are also other pressing international problems – including climate change, tax competition, and nuclear proliferation – that require serious and sustained cooperation among nations. Trade wars make such cooperation far more difficult.

The novel coronavirus has focused attention on the need to ensure that we have adequate domestic stockpiles of essential drugs and medical equipment, but [the crisis does not eliminate the substantial benefits from trade](#).<sup>12</sup> On the contrary, the crisis has shown the indispensable nature of international exchange, as scientists work in globally connected groups to share insights on fighting the virus and developing a vaccine. The world is a healthier place when talented scientists throughout the world share their knowledge through collaboration and trade. In contrast, trade barriers [make a bad situation worse](#).<sup>13</sup>

Immigration barriers are an even more foolish response to our economic challenges. Throughout American history, our large immigrant populations have been [a source of economic strength and dynamism](#).<sup>14</sup> Immigrants bring much-needed labor market skills to our workforce, and they also create jobs, since immigrants are more entrepreneurial than their native-born counterparts. Immigrants and their children are responsible for founding [over 40 percent](#) of Fortune 500 companies, and immigrants were involved in the [founding of half](#) of our billion-dollar start-ups.<sup>15</sup> Because immigrants create both supply and demand for labor, there is [little evidence that they have harmful effects on native-workers' employment prospects](#).<sup>16</sup>

Immigrants also [fuel innovation and knowledge creation](#), both essential as we seek treatments and vaccines from the novel coronavirus.<sup>17</sup> Americans have won the majority of Nobel prizes in scientific fields in recent decades, and [a majority of these U.S. Nobel prizes were won by foreign-born researchers](#).<sup>18</sup> The United States is tremendously lucky to attract the world's talent to our universities and too often become the new home of many international students who decide to stay and become American citizens. We should do everything we can to retain such advantages.

Immigrants also [relieve U.S. demographic pressures](#).<sup>19</sup> The retiring of the baby-boom generation has generated heavy burdens on Social Security and Medicare programs, but the taxpayers' fiscal burdens would weigh far more heavily without the additional population growth that has resulted from recent generations of immigrants.

Unfortunately, in recent years, [the U.S. policy stance](#) has become far less welcoming to immigrants, and our policy changes have ranged from merely wrongheaded to deeply immoral (e.g., the child separation policy).<sup>20</sup> Such policy steps are out of step with the best attributes of our American experience, and they also defy economic logic. These policy choices also speak to the fact that scapegoating is a more attractive policy strategy when economic growth is not widely shared. Still, the American public is less isolationist than our present policy stance might reflect. In recent years, polling data have revealed substantial majorities of people in favor of both [trade](#) and [immigration](#).<sup>21</sup>

If barriers and walls are not the answer, what is? Luckily, there are many better policy solutions that go directly to the problems faced by American workers. If these strategies are pursued aggressively and wholeheartedly, we can effectively respond to those who have been left behind without sacrificing the many benefits of an open economy.

The first task is to ensure economic recovery from the coronavirus. The best public investments are in taming the virus itself, as recovery won't occur if people are fearful of going about their normal economic lives. This means investing in testing, tracing, treatment, and vaccination. But even if the virus disappeared tomorrow (which it won't), we also face the prospect of a deep recession if we don't respond with continued counter-cyclical policies. For instance, [state and local governments have taken a big hit](#) to their tax revenues, and since subnational governments are far more constrained in their borrowing, revenue shortfalls will translate into job and public service cuts, [generating a large contractionary force](#) for the whole economy.<sup>22</sup> In recent months, [unemployment has soared](#) to historic levels, higher than at any time since the Great Depression, and job recovery in some areas, such as travel and restaurants, is likely to be particularly slow. Continued federal spending that includes help for state governments, and continued provision of liquidity by the Federal Reserve, will be essential.

Second, we need [a tax system that is suited for our present economic challenges](#).<sup>23</sup> This means making sure that economic growth translates into prosperity for all, and increasing the reward to work for poorer workers. This can be done by expanding the

earned income tax credit, both in general and especially for childless workers; this expansion can be coupled with a higher (and indexed for inflation) minimum wage, to make sure that workers reap the benefits. The earned income tax credit is a powerful tool for making sure that our dynamic economy rewards work and creates a rising tide that lifts all boats.

Once the current crisis is over, we also need to collect more tax revenue in order to make wise investments in education, health care, and infrastructure, and to fund our commitments to the elderly. This can be done, at reasonable tax rates, by a combination of modest increases in rates and an expansion of the tax base to better tax capital income, monopoly rents, inheritances, and untaxed income. Also, for companies, we can [better level the playing field](#) between foreign and domestic corporate income, while [raising the corporate tax rate](#).<sup>24</sup> Further, a carbon tax is long overdue; it will help seriously respond to climate change, allowing the United States the authority to work with other countries to address this important global problem.

Finally, we also need [to help workers and communities](#) that are left behind, whether due to technological progress, domestic competition, or competition from abroad.<sup>25</sup> Wage insurance can help workers directly, but communities also benefit from investments in infrastructure and education.

[An open economy is in the interest of U.S. workers](#), who benefit from the free flow of ideas, goods, services, students, entrepreneurs, and even policy solutions.<sup>26</sup> To retain the gains from international trade, immigration, and global capital flows, we need to modernize economic policy to suit the current era. This means serious steps to counter economic inequality, to help those left behind, and to respond aggressively to the current crisis.

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The Center for Growth and Opportunity at Utah State University is a university-based academic research center that explores the scientific foundations of the interaction between individuals, business, and government.

The Immigration and Economic Recovery Symposium explores what role immigrants play in the economic recovery of the United States post-COVID crisis.

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