



Blueprint for America

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TRADE AND IMMIGRATION

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Six months of xenophobic political bloviation do not overturn centuries of experience. Trade and immigration are good for the US economy.

As Adam Smith and David Ricardo explained two centuries ago, it is better for England to make wool and Portugal to make wine, and to trade, than for each country to do both. English wine-makers likely disagreed.

The founders understood the benefits of immigration, complaining in the Declaration of Independence that King George “. . . has endeavored to prevent the population of these States; for that purpose obstructing the Laws for Naturalization of Foreigners; refusing to pass others to encourage their migrations hither.”

Their Constitution brilliantly forbids internal protectionism against the movement of goods and people, setting up the world’s largest free trade and free migration zone and, not coincidentally, what became the wealthiest nation on Earth.

Two centuries of economic scholarship have only deepened and reinforced these lessons. We now recognize that much trade occurs among similar countries: the United States and Canada, not England and Portugal. This fact tells us that specialization of production and knowledge, the dizzying variety of goods a modern economy produces, and increasing returns are deeper sources of trade patterns than simple facts like British vs. Portuguese weather. But the fact that your car—even an “American” one—is

produced from parts made in a hundred different countries remains vital to the low cost and high quality of the car you buy today.

Much trade also now travels on wires, not on boats, in the form of specialized services. Yet trading the best and most efficiently provided services from around the world—Hollywood movies and Silicon Valley software for Indian call centers and radiology readings, for example—is just as important to our economy as trading wine for wool.

Trade is already pretty free. The challenge is mostly to preserve and extend what we have and to avoid one of those periodic global disasters such as the 1930s, when the world slid into trade barriers, or occasional national disasters of isolationism, protectionism, and *Juche* (North Korean for self-reliance).

Immigration is largely not free, so many of its potential benefits remain unrealized. Michael Clemens, reviewing current scholarship in the *Journal of Economic Perspectives*, summarizes current knowledge with the ballpark estimate that reducing barriers to immigration could *double* world income per capita.

In the last few decades, economists have also come to a much better understanding of the sources of long-run growth. This understanding only reinforces the importance of trade and openness. Economic growth itself depends on globalization, expanding the number of people with whom we trade ideas, skills, and goods. If you live in a village of one hundred, or even a small country of ten million, inventing an iPhone makes no sense. You'll never sell enough to recoup the costs. It only makes sense to innovate if you can sell it in a global market of billions of people. Growth comes from ideas, ideas are hard to come by, and expertise is specialized. The more people you are connected with, the more you grow. "The division of labor is limited by the extent of the market," noted Adam Smith, and 250 years of work have fleshed out just how deep that observation is.

Against this backdrop, the economic and political discussion

surrounding trade and migration remains stubbornly protectionist, mercantilist, and xenophobic.

In response to such forces, invoking study after study will do as much good as invoking a thousand scientific articles supporting Darwin at a revival meeting. The most good one can do is to point out the many simple logical fallacies adduced in the cause of restricting people's rights to buy and sell what they want, to hire whom they want, and to move, produce, and live where they want. You're being sold a bill of goods by people who want to use the power of the government to pick your pocket. At least recognize the snake oil.

It is perhaps understandable that the average person falls for economic fallacies. Individual experience as a worker or businessperson is a poor guide to the workings of an economy. We call this the *fallacy of composition* in economics. Each of us individually can get ahead if the government will force our neighbors to buy from us. But the country as a whole cannot get ahead by this means—though, heaven knows, our government tries.

But these traps are not an excuse for political leaders to ignore hundreds of years of solid knowledge and experience. The laws of physics are counterintuitive, too. Everyday experience suggests that the earth is flat. Advocating flat-earth public policy in search of votes is not excusable.

JOBS, JOBS, JOBS

The major objections to free trade and more open immigration are that they will cost American jobs. To a lesser extent, trade is also about defending the profits of American exporting companies, which happily fund lobbying for protectionism. But they defend their actions in the name of jobs.

The logic that isolation will create more American jobs is false. But it is so pervasive, we must dissect its fallacies.

Follow the money. When a Chinese company sells a product in America, we send money to China. The Chinese do not sit on the

money. They use a lot of the money to quickly turn around and buy American goods. To the extent that they do not, they use the money to buy things from other countries—iron ore from Australia, oil from the Middle East, food, and an increasing amount of low-wage manufactured items and parts for its own manufacturing. The recipients of these dollars then turn around and spend them on goods from the United States.

To the extent that all the dollars don't end up buying American goods, foreigners end up buying assets in America, investing in our businesses. To the extent they do not buy private assets, they invest in our government bonds, financing deficits and US government spending that would otherwise vanish.

Every dollar comes back. This isn't theory. It isn't an "on the other hand" proposition. It's simple arithmetic. And it doesn't just come out even. Since, pretty much by definition, the foreign goods we buy are better or cheaper, and our goods better or cheaper there, each country is better off.

As often in economics, the problem is that of the seen and unseen. We see and hear from the worker who loses his job due to competition from abroad or to a new immigrant. We do not hear from and see the new job or business created by the foreign worker's expenditure or the low-cost product enhancing the lives of widely dispersed American consumers. The politician can campaign on the doorstep of the "saved" factory. But it's hard for him or her to take credit for nebulous increases in demand and employment spread throughout the economy or the appearance of an even cheaper jar of pickles at Wal-Mart.

When you follow the money, it becomes clear that even foreign tax benefits and subsidies for their industries cannot make America worse off, as a whole. Sure, the industry in the United States that must compete with a subsidized foreigner does worse. But the subsidized foreigner sells to us in exchange for money, and the money must come back. The foreign subsidy ends up distorting American output, but does not lower output or jobs overall.

If the foreign country subsidizes all of its industries, the exchange rate must rise, undoing the subsidy.

Arguments against trade and immigration apply domestically too. If it is wise for the United States to protect a job or business in New York from a cheaper competitor in Beijing, an immigrant from Poland, or a machine made in the United Kingdom, why is it not wise for the state of New York to protect that same job or business from a cheaper competitor in South Carolina, an immigrant from Louisiana, or a machine made in Santa Clara, California? The person losing the job or the lost business doesn't care where the competitors come from.

Most Americans understand that free movement of people and goods between states benefits all of the states' economies and sniff the fallacy of local protectionism. Economics does not know national boundaries, so there is no argument for international protection that would not apply to national protection also.

The process of economic growth *is* painful. New, more efficient businesses come in and displace old, less efficient ones. In a competitive economy, anyone earning rents—extra compensation and an easy life—is a target for growth-producing disruption. Southwest and JetBlue disrupted United, TWA, and Pan Am (remember them?) and their employee unions. A&P put mom and pop out of business, Wal-Mart destroyed A&P, and Amazon.com may displace Wal-Mart. Uber is upending the taxi businesses. And we're all getting cheaper and better goods and services as a result. Lots of people are doing well working for the new businesses. You might argue against "better" in the case of air travel. But that's your choice: 1970 air travel at 1970 prices is still available. It's called "business class." The free market gives you better choices.

People who lose jobs or businesses to foreign competition *are* hurt—just as people who lose jobs and businesses to domestic competition and innovation are hurt. But as I hope these examples emphasize, the churn due to foreign competition is a lot

lower than the churn due to domestic competition. It just comes from foreigners, who are easier to demonize.

The lump-of-labor fallacy. Adam Davidson, writing in the *New York Times*, explains a central misconception: “The chief logical mistake we make is something called the Lump of Labor Fallacy: the erroneous notion that there is only so much work to be done and that no one can get a job without taking one from someone else. . . . This argument is wrong.”

The lump-of-labor fallacy pervades thinking about trade and immigration, as well as many other misguided laws and policies. In the popular imagination, there are only so many jobs to be had. There are more people who want to work than there are jobs. Unemployment consists of people waiting around for a job to be “created,” especially by a politician hungry for a moment on camera.

This vision has nothing to do with reality. In the end, the number of jobs in the United States is the number of people scaled by the fraction who want to work. China has 764 million jobs, while America has 159 million. China didn’t take 700 million jobs from the United States—we don’t have that many people. China simply has a much larger population.

Jobs is a nonsense argument. Economists who defend or attack trade on the basis of “jobs” are pandering to fallacious political rhetoric.

It is more reasonable to worry that trade and immigration affect wages, not numbers employed. But follow the money again. If by protecting an industry, the government can raise wages or profits in that industry, the money must come from somewhere. Where? Higher prices paid by consumers. When the government deliberately hobbles the productivity of the American economy, by skewing employment to less productive industries, we can only lower wages overall.

We can see direct evidence against the lump-of-labor fallacy in our own history. One of the greatest job invasions in all US

history was the increase in women working. Women's labor force participation rose from 32 percent to 60 percent from 1950 to 2000. But 27 percent of men are not permanently out of work now as a result. In the "great migration," about six million African Americans moved from the rural South to Northern cities. Despite widespread fears, riots, and shameful efforts to exclude these newcomers, six million whites did not suffer permanent unemployment as a result.

There has also been huge resistance to national free trade—mills moving from New England to the South, car companies relocating from Detroit to Indiana and Tennessee. Our state and local governments compete to waste taxpayer money on special deals for large employers. That political resistance doesn't make the economics any more logical.

The great churn. The great churn of the US labor force most clearly belies the lump-of-labor fallacy, together with trade protectionism, anti-immigrant protectionism, and all sorts of political efforts to subsidize specific industries in the name of "jobs."

In the single month of January 2016, 4.9 million people in the United States lost their jobs, out of a labor force of 159 million. At that rate, 60 million people, 40 percent of the labor force, will be out of a job by the end of the year. Why is this not a catastrophe? Because in the same month, five million people in the United States got new jobs. The 100,000 new jobs "created" in that month, and bandied in the press, are not a 100,000 expansion in the lump of labor; they are the net difference of a great churn.

For this reason, net employment in the United States is essentially unaffected by protection. If a political intervention could create 100,000 new jobs (if!), that is a drop in the bucket of an economy that creates five million new jobs a month.

The utter incoherence of trade and immigration policy is a good sign of its dysfunction. Trade and immigration policy is mostly about labor protection. Republicans are against immigration,

and are turning against trade, all under the banner of protecting American jobs. But why are they then against unions, minimum wages, the Equal Employment Opportunity Commission and the National Labor Relations Board, occupational licensing, and all the rest of the government's misguided job- and business-protection efforts? Democrats are for all those labor protections, but then soft on immigration. The inevitable conclusion: most policy discussion favoring trade and immigration restrictions has other objectives.

IMMIGRATION

The charge that immigrants compete for jobs and drive down American wages needs special attention. Again, this competition is not demonstrably much of a problem. Study after study has found very small impacts of immigrants on American wages.

There are good reasons for this finding. Immigrants come to take jobs Americans don't want. Immigrant labor often complements American labor, allowing the American workers higher pay. If labor does not or cannot move in, capital moves out.

Most of all, *immigrants are demanders, too*. (Another case of "follow the money.") Immigrants work and occupy jobs, yes. But they spend money, too! Every immigrant wants a car, a house, a haircut, food, clothes, and so on. The number of jobs in the United States expands to fill these demands.

If immigrants steal jobs, ask yourself how 159 million Americans have jobs now. We are immigrants or descendants of immigrants. The answer is, we created new businesses and new demand just as much as we created new workers. So will the new immigrants.

Immigration policy is particularly nonsensical. We do not need to go to the extreme of open borders to make enormous strides (although it's worth asking just why not). America would benefit a great deal from small and sensible immigration reform.

Restrictions on high-skilled immigrants, especially kicking out

people who complete advanced degrees here, are completely self-destructive. These people want to start businesses, program our computers, innovate, and hire Americans. They share American values better than most native-born Americans. And we kick them out. They would pay taxes, bail out Social Security and Medicare, pay off our government debt, and bail out bankrupt states and localities. And we kick them out.

One might complain about low-skill migrants driving down low-skill American wages, or soaking up more transfers than they receive. I think that this is an unfounded fear. But that complaint makes no sense of our policy of keeping out high-skill, high-wealth, or high-earnings migrants. These will expand the US economy; they will lower inequality by reducing the pressure on high-skilled wages; and they will increase the demand for low-skill workers.

For once, I get to practice what I preach. Higher education has secured itself an exemption from H-1B visa limits. Economics departments and business schools are now largely staffed by foreign-born professors. The result is, by attracting the best minds from around the world, our research universities are centers of excellence and economic innovation. And professorial wages have never been higher.

We could have a very simple policy: if you have \$10,000 of assets, a job that pays more than \$50,000 (say), and you pay taxes, have health insurance, use no transfers or social services, and have no criminal record, you can work and stay in the United States. We know anyone in this category is contributing to America.

More generally, it is economically nonsensical that our immigration policy is focused on family reunification and (stingily) refugee or political asylum, and denigrates mere economic migrants, while simultaneously complaining of the cost of migrants and their difficulty of assimilating into American life and economy. We should praise and desire economic migrants.

Immigration restrictions based on quantities—a hard cap on

H-1B visas, given out by a lottery that fills in about five minutes—rather than rules and prices is just as nonsensical. A bankrupt government should, at a minimum, charge a price rather than give away valuable goods. More generally, we should set the rules on who we think is a valuable migrant, and let anyone in who follows those rules.

Do we have room for immigrants? America is, in fact, relatively underpopulated. The United States has three and a half million (3,539,225) square miles and eighty-four people per square mile. The United Kingdom has 650 people per square mile. We can let in two billion people and have only the same population density as the United Kingdom. The Netherlands is pretty nice, too, with 1,250 people per square mile, so maybe we have room for four billion.

OK, these are fanciful numbers. But in fact, we are still a lot closer to Jefferson's time than we think, and the United States is in many ways still an underdeveloped country.

Social services and transfers. There is a valid argument that we can't welcome millions of low-income or no-income immigrants overnight and keep up our very progressive tax system, together with the many social programs and benefits we offer low-income people.

That argument, however, makes no sense at all for forbidding high-income immigration. And it makes even less sense for allowing people to come to the United States and then *forbidding* them to work.

Security. Especially in light of recent terrorist attacks, many voices want to restrict immigration to the United States in the name of security. This too is nonsense.

Again, the issue of immigration policy is not who can *enter* the United States. That's the great student and tourist visa debate. (Joke: there is no such debate, of course.) The issue of immigration policy is who is allowed to *work* here.

No terrorist ever swam the Rio Grande and stopped to pick

vegetables for a few years before deciding to blow something up. All our terrorists—and all of Europe’s terrorists—are already citizens, home-grown, or here on tourist or student visas . . . and decidedly *not* working.

Europe’s problem is assimilation, not immigration, and not hard-working immigrants. Europe’s problem is its already too-great protection of its labor markets. When young men cannot break in to protected occupations, when they are forced to lie around in awful neighborhoods, they form an ideal stew for radicalization. Europe’s shocking youth unemployment rates are its central problem; promoting assimilation and freeing up its labor markets is the answer.

Europe’s policies, allowing many new migrants to enter but then forbidding them to work for years on end, is practically guaranteed to foster a stew of resentments and an expensive and disruptive underclass. It would be better to *require* them to work.

That terrorists might sneak in along with migrants walking from Greece to Germany begs the question: why in 2016 are people *walking* that far anyway? The answer is, that our governments are pretty good at screening people getting on civilized modes of travel such as airplanes. And if they let regular migrants get on airplanes and come to work, a terrorist would have a much harder time sneaking in unnoticed, or he would stand out while walking his way up the Adriatic.

If you still think that immigration restrictions are important for security, ponder this: the border patrol budget is \$13 billion. The budget for the *whole* FBI is \$6 billion. If you care about security, you want to reverse those numbers.

Social and political values. Some immigration opponents worry that America’s social and political values are endangered by immigration, just as their ancestors worried about Irish, German, Italian, Japanese, and Chinese immigrants, to our eternal shame.

Assimilation is an issue. Immigration policy must encourage

it. One can easily demand that immigrants speak English and have a vague understanding of American institutions, history, and law.

If you worry about social values, though, I have bad news for you: you lost that one in the public schools. We barely teach civics any more. Immigrants have to pass a test that most high school students would flunk. And if we welcomed skilled, entrepreneurial immigrants and allowed them to work, we would get the kind who are eternally grateful to be in a country that allows them that freedom.

The consumer and inequality. Arguments about trade and immigration are so often couched in terms of exports, jobs, and wages that we forget the most important objective: the consumer.

The point of trade is for consumers to get better stuff cheaper. A restriction on trade is a restriction on your right, as a consumer and a citizen, to buy the item you want from the best supplier. You are told, instead, that you must buy an inferior item at a higher price from a supplier who has the ear of the federal government, so that your money will subsidize someone else. Restrictions on immigration are restrictions on your right as a consumer or employer to hire the best person for the job; instead, you must hire a worse employee at a higher wage because of the accident of that person's birth.

To the extent that immigrants do reduce American wages, restricting immigration is a horribly inefficient way to subsidize low-skill American labor. Restricting high-skilled immigration or the ability of people to work who are already here and will end up on the public dole otherwise is even more inefficient. If that made sense, it would make sense to forbid half the citizen population from working, to prop up the wages of the other half. The higher wages come from higher prices to the consumer.

Trade and immigration have enormous benefits, especially to lower-income Americans. They can buy cheaper houses, cheaper food, and cheaper cars, and they can shop at Wal-Mart. Manhat-

tan condos and luxury watches are not produced by immigrant labor or abroad.

Allowing more high-skill and high-income immigrants would especially help lower-income Americans. They would spend more and create more jobs. High-skill American wages might decline—but most of the policy world wants that, to reduce inequality due to a lack of high-skilled workers.

POLICY AND RHETORIC

International economists and policy types have hurt their cause by adopting mercantilist rhetoric, and in many cases believing it.

If China sells more to America than America sells to China, that is called a trade “imbalance.” Nobody calls the fact that the grocery store sells more food to you than you sell to it an imbalance. Trade always balances: the current and capital accounts always add up to zero.

Efforts to increase productivity are urged as measures to increase “competitiveness.” But international trade is not a competition for exports. *International trade is not a competition*. Just as your trade with the grocery store is not a competition. Trade is a cooperation. It’s not a zero-sum game.

Trade is not about exports, it’s about imports. What do you want a pile of Chinese currency for? Exports are the price you have to pay to get imports. If China really were sending us great stuff below cost, the proper answer would be a polite thank you note, and maybe some flowers.

Furthermore, the overall trade balance has nothing to do with the productivity or “competitiveness” of individual firms. Trade and capital accounts must balance, so unless the country wants to save more abroad, more exports at one firm must be met by more imports or less exports at another, or a change in the exchange rate.

If the United States imports more than it exports, that means foreigners are buying US assets, investing here. There are good reasons they might want to do so—they might be aging faster than

us, investment opportunities might be better here than abroad. Yet we call these “imbalances” too, and now “savings gluts.”

Policy language is even more Orwellian. Countries are urged by the International Monetary Fund to “restrict capital flows.” It sounds like technocratic management of a dam on a river. It is not. It is the act of your government forbidding you from using your hard-earned dollars to buy a foreign car or take a nice vacation.

Trade agreements are really managed mercantilism, not about free trade at all. We will let your politically connected exporters enjoy some rents of our protected markets, and in return you will let some of our politically connected exporters enjoy some rents in your protected markets. Support for free trade need not mean unqualified support for this process.

I looked up the Trans-Pacific Partnership. Media reports count 5,544 pages—three times longer than the King James Bible. Free trade needs one sentence: “American buyers may buy anything they want from anywhere in the world without tariff or quota restriction.”

The Overall US Benefits Fact Sheet for the Trans-Pacific Partnership headline reads, “The Trans-Pacific Partnership (TPP) . . . levels the playing field for American workers and American businesses, supporting more Made-in-America exports and higher-paying American jobs. . . . TPP makes sure our farmers, ranchers, manufacturers, and small businesses can compete—and win—in some of the fastest-growing markets in the world. . . . TPP will significantly expand the export of Made-in-America goods and services and support American jobs.”

It goes on to describe how TPP will enforce US labor laws and environmental laws on foreign countries; it describes commitments to promote sustainable development and inclusive economic growth, reduce poverty, promote food security, and combat child and forced labor.

“Exports,” “jobs,” “compete.” There is not one word about the

consumer's ability to *import* better or cheaper goods or the producer's ability to import better and cheaper parts.

This focus is not necessarily undesirable. If a government's central problem is its temptation to cave in to political pressure from labor and business groups that want government-imposed rents, then a multilateral agreement that limits government's abilities to give rents to its constituencies, in return for other governments' agreements to do the same, represents progress toward freer trade. But if the voter succumbs to a mercantilist mentality—thinking jobs are lumps of labor, trade is a competition for exports, and other countries are hurting us when they send us great stuff cheap—it's hard to blame him or her for that misapprehension. When he or she takes those fallacies to the voting booth, well, which of the 5,544 pages of the TPP, and thousands more of its marketing and press coverage, educated him or her otherwise?

FOREIGN POLICY

Even if the xenophobic bluster on the campaign trail is right, even if trade and immigration do sap American jobs, isolation and protection would only make us wealthier by making other countries poorer. Trade may not be a zero-sum game, but trade restrictions definitely are, or are actually strongly negative-sum. Is that really America's place in the world?

Would we advocate sending the Marines to Mexico to take a poor farmer's cow and goat, to send that wealth to American workers? Would we advocate developing software that could out-hack the Chinese, to find workers there living on \$5 a day assembling iPhones, and steal half their salaries, to send it to unionized workers in the United States? I think we would find this prospect revolting. But this is exactly the premise of our zero-sum mercantilists on the left and of our zero-sum isolationists on the right.

If one takes a narrow objective that our government's job is to increase the wealth of American citizens, by any means, even

using force to grab it from abroad, then some protection might follow.

But in every other part of our national policy, we broadly value the welfare of people around the globe, and we do not send our armies to impoverish them. We send our armies, at great expense, to defend them. We send our aid to improve their lives (with questionable results, but we try). Restricting trade and immigration puts the harm out of sight, but the harm is there nonetheless.

Many of our charities send cows, goats, and adventuresome high school students anxious to improve their college admissions chances to Do Good in foreign villages. If you really want to improve their standard of living, buying what they have to sell and letting them work in the United States is far more effective.

The vision seems to be that we will impoverish foreign workers by forbidding Americans from buying what they have to sell, thereby forbidding them from acquiring currency to buy from Americans, forbidding them to use their talents when they are much more productive here. But then we will send lots of money to their governments and in government-directed aid projects. That is not a coherent strategy.

Trade and migration dramatically raise global incomes and lower global inequality. The explosion of incomes in China and India—from destitute to mediocre—represents the greatest reduction in global inequality and rise in human welfare since we were all equally poor and miserable before the Industrial Revolution. The economic rise of Japan, South Korea, and other “Asian miracles” came equally on the backs of trade and globalization.

And all of this is good for the United States. Even on narrow self-interest, America is better off in a prosperous growing world than it would be if we were slightly richer in an impoverished world . . . which we would not be, anyway.

Since the beginning of the postwar era, the United States has led the world, quietly and patiently, toward the same kind of trade

freedom that we enjoy internally. The benefits have been enormous. We have traditionally been the beacon for migrants and the proof that people can move to a better place and quickly contribute to that country, regardless of their initial language, culture, or politics. To turn our back on those principles now would undo a half-century's worth of patient leadership in a world that seems increasingly on the edge of chaos.