

THE CITIZEN AGENDA

By Peter J. Hansen

In recent years, especially since the financial crisis of 2008, the Democratic Party has become the party of Europe, the party which embraces the European social-democratic welfare state model. Republicans have vigorously resisted this agenda, but it sometimes seems clearer what they are against than what they support. Their resistance would be strengthened if it were more clearly coupled with a positive vision, one which is rooted in traditional American principles and articulated in terms appropriate to our time.

Much of the difference between today's Democratic and Republican parties is that the GOP approaches people more as citizens than as passive recipients of government assistance. Every politician claims to want to benefit the voters, but there is a difference between approaching voters as people with needs which the government strives to satisfy—needs which are thereby sure to expand indefinitely, to the detriment of the character and self-respect of the people as well as the finances of the state—and approaching voters as citizens who can take care of themselves but who expect the government to help ensure that it is possible for them to do so. The proper role of government is not to take care of us, but to establish a framework within which we can take care of ourselves.

In light of their concern to foster responsible citizenship, Republicans should confront more directly the difficulties faced by working Americans with relatively low-wage jobs. We don't want the government to take care of these people, but we do want them to be able to take care of themselves and their families. The growth in income inequality over the past

generation should be a concern to us, as it is to Democrats, though for us the chief worry is not so much that some people are making a lot of money as that working people without college degrees aren't making much more than they did a generation ago, and are having trouble keeping up with rising healthcare and higher education costs in particular.

Can we improve the situation of such people without more welfare and government bureaucracy? Yes we can! It will help if we prevent tax increases, and if we reform healthcare along the lines discussed below. But it is also time to reconsider two issues on which the GOP is out of sync with many Americans: immigration and protectionism.

The presence of massive numbers of legal and illegal immigrants from much poorer countries exerts downward pressure on wages for Americans who are not highly skilled or educated. This is simply a matter of supply and demand. George Borjas of Harvard University has estimated that immigration between 1980 and 2000 reduced the wages of low-skilled native workers by about 8 percent, and reduced the average wages of all American workers by 3.3 percent. These are estimates of the short-term effect; Borjas believes the long-term effect is smaller, but says he does not know how long it takes the "long term" to appear. There is debate among economists about these figures, but Borjas seems to be the one who most knows what he's talking about. As he notes, his estimates, derived from empirically based economic models, are in accord with what would be predicted separately by labor market theory.

Many immigrants from poorer countries work for wages that most Americans would not accept. Some immigration supporters claim these immigrants do jobs that Americans "just won't do." It is true that some of the jobs they do are grueling (though many are not),

and that many immigrants are hard workers. Nonetheless, if the pool of unskilled foreign workers shrinks dramatically, wages for such jobs will rise, and one might be surprised at what native-born workers can do. At any rate, it seems neither decent nor prudent to fire a large portion of our country's workers, put them on welfare or in low-wage service jobs, and import cheap labor from abroad to replace them. When the children of current immigrants grow up and display less eagerness to work hard for little pay than their parents did, will we then fire them? How many generations will it take for the descendants of the fired to outnumber the descendants of the firers? And what effect will this have on our free market and our political liberty?

Massive immigration, particularly from Latin American countries, has put us in danger of creating a two-tiered society, more like what we find in much of Latin America than the traditional American social structure (at least outside the old South). California has already taken a large step in this direction, and it does not seem to be working out well. Many children and grandchildren of low-wage immigrants (legal and illegal) are not assimilating as well as we might like, but are to some extent becoming a separate class, not quite an underclass but not quite part of the middle class either. To cite just one telling statistic, according to the Center for Immigration Studies, the rate of birth out of wedlock among native-born Americans of Hispanic descent in 2003 was 49.6 percent, which was actually higher than the 41.9 percent rate for Hispanic immigrants themselves.

Some Republicans believe that "family values" are stronger among Latin American immigrants than among native-born Americans, but the numbers do not support this belief. In Mexico the rate of birth out of wedlock in 2008 was 55 percent, compared to our rate of 41

percent. In El Salvador, which is the second largest source of Latin American immigration, the rate is much higher.

Most Americans (including this author) are descended from people who came to the U.S. in recent generations, which gives us an emotional attachment to immigration. But two important factors make the current wave of mass immigration more difficult to assimilate than earlier ones. One difference is that a large portion of immigrants currently in the U.S. (32 percent according to the Pew Foundation) comes from a single country with which we share a 2000-mile border. This makes assimilation less necessary and therefore less successful for these immigrants than it was for most earlier ones. One can observe many disturbing indications that something is different this time, such as the widespread booing of the American soccer team when it played the Mexican team this past June at the Rose Bowl in Los Angeles. No other country in the world currently hosts as many immigrants from the rest of the world as we host from Mexico alone.

A second, perhaps more important difference between past and present immigration is that immigrants are now, alas, coming to a different country. America used to be a land where people came to work hard in pursuit of a better life—and to a large extent it still is. But now it is also a land where newly minted citizens—and, to a surprising extent, non-citizens as well—are eligible for welfare benefits which, meager though they might seem to middle-class Americans, are astonishingly generous in the eyes of many newcomers. America has also become a land of widespread multiculturalism and belief in the moral superiority of putative victims to productive citizens. These changes make new immigrants and their descendants less likely to join the mainstream of American life.

The problem is in part one of numbers. It would be much easier for the U.S. to digest unskilled immigrants from Latin America and elsewhere, and turn their children or grandchildren into Americans indistinguishable from the rest of us, if we took in fewer of them. Massive unskilled immigration poses a danger to the long-term health of our politics and our country, to say nothing of the huge strains it puts on schools, hospitals, city and state budgets, our transportation infrastructure, and even the environment. (When people move from Mexico or El Salvador to the United States, their “carbon footprint” increases dramatically.) Skilled immigrants do not cause the same problems—they bring valuable skills, they pay more in taxes than they need in social services, and they and their children tend to assimilate fairly easily. In addition to reducing the overall number of immigrants to the U.S., we should try to change the mix towards more skilled and fewer unskilled workers.

Republican politicians fear that favoring immigration reduction will cost them Hispanic votes. Obviously it might to some extent, but the point of reducing immigration is not to harm immigrants but to help American workers, many of whom are of Hispanic descent. We want to increase the wages of working class Americans, white, black, Hispanic, Asian, and other, as well as mitigating other problems to which the current high level of immigration gives rise. We want to maximize the proportion of American citizens who lead comfortable, productive, and responsible lives. If it articulates this policy with even minimal clarity, the GOP should gain more votes than it loses.

Of course we are a nation of immigrants, and it is fitting that we continue to have some immigration. But do we need a level of immigration which increases our population by almost 1% a year, thereby doubling our population over the course of a lifetime? According to the Census Bureau, our population grew 9.7% from 2000 to 2010. Our native-born

population is reproducing itself roughly at replacement levels; the population is growing mostly due to immigration (including children born to immigrants). Following Borjas's analysis, if we cut total (legal plus illegal) immigration in half, we will increase the wages of unskilled Americans by roughly 4 percent (or more precisely prevent it from being reduced by 4 percent), without fostering dependency or creating expensive and self-perpetuating bureaucracies. The effect will be greater if we also shift the mix of the immigrants we accept towards workers with more skills, who won't be competing for jobs with unskilled Americans.

The GOP is right to focus first on enforcement of the laws we already have. However, once we get our borders under control, we should reduce legal immigration from its current historically high level. The level of illegal immigration has declined in the last few years, partly due to stronger enforcement measures and partly due to the recession, but legal immigration has not significantly declined, and the total level of immigration is still very high. By giving our fellow citizens who didn't go to college fewer competitors from countries with much lower standards of living than our own, we will help the working class remain or become part of the middle class, rather than producing a separate and growing low-wage class in which all sort of problems and resentments are likely to fester.

The issue of mass immigration from much poorer countries is obviously related to that of free trade with such countries. Like mass immigration, free trade puts downward pressure on wages, especially for unskilled workers. (We do not currently have completely free trade, but our average trade-weighted tariff is only 2 percent.) Moreover, the impact of foreign trade on domestic wages has grown substantially in recent decades, largely because we have so

much more trade with countries whose workers are much less highly paid than ours. Our top three trading partners in 1975 were Canada, Japan, and Germany. They are now Canada, China, and Mexico. China has actually surpassed Canada as the top exporter to the U.S., though if we consider both imports and exports, Canada is still our largest trading partner. (Our trade with Canada is of course much more balanced or mutual than our trade with China—and so is our trade with Mexico.) In the past 20 years, the value of imports from developing countries as a percentage of U.S. GDP has more than doubled.

Josh Bivens of the Economic Policy Institute estimates that foreign trade currently decreases wages for unskilled labor in the U.S. by 4 percent. Bivens also estimates that foreign trade raises the wage ratio between skilled and unskilled labor by about 7 percent, and that this figure will grow significantly over the next generation. In other words, foreign trade increases income inequality by increasing the disadvantage unskilled workers face relative to skilled workers in the U.S. (There is debate among economists about some aspects of Bivens's analysis, but he seems to present the best estimates available.)

It is harder to restrict the import of products than that of people, and doing so in order to support a particular domestic industry is tantamount to welfare; nonetheless, there are some things we can do. China, which exports about four times as much to the U.S. as it imports from us and which has been manipulating its (and our) currency for years in order to sustain this imbalance, is the obvious place to start. The fear that some people have of angering China is pusillanimous; there is little China can do to harm us without doing more harm to itself. There is no need for hostile rhetoric, but if China will not allow its currency to float freely on international markets, we should impose a substantial tariff on Chinese products, one aimed at producing something like the ratio of imports to exports we have with the rest of

the world, which is roughly 1.5 to one. (In recent months China has allowed its currency to appreciate modestly, but not to anywhere near the level that would produce this ratio.)

Beyond the case of China, we should consider implementing a modest uniform tariff, in the range of 10 percent, on all imported goods from countries with which we do not have bilateral trade agreements. (We currently have such agreements with 20 countries, including Canada and Mexico. We run an overall trade deficit with these countries, but our trade with them is more balanced than with countries with which we do not have such agreements, and the agreements with these countries bolster friendly relations.) Unlike other forms of taxation, this would increase domestic employment, and thereby decrease dependence on the government. Moreover, a 10 percent tariff on imported goods would produce additional federal revenue of about \$100 billion annually—which is impressive for a form of taxation that voters would actually welcome. If we simultaneously increase the tariff on Chinese goods to 25 percent, we would increase federal revenue by \$150 billion from its current level.

Of course there are arguments against such a policy. Everybody who has taken economics in college has learned that free trade maximizes one's advantage, even if other countries follow a different policy. However, the advantage thereby maximized is total consumption, not total production. In the long run consumption and production tend to come into balance, but the long run can take a long time to appear, especially when the world's second largest economy is working to foster an imbalance which favors its exports; in the meantime, damage may be done both to individual citizens and to a nation's work habits and political system. Some international trade economists (including the famous or infamous Paul Krugman) have studied the harm free trade causes workers in developed countries at a time of rapid manufacturing growth in less developed countries. While this situation will not last

forever, a 10 percent tariff seems like a modest and reasonable way to cushion our economy against whatever external shocks the future may hold.

For now, this policy would increase employment and add to the take-home pay of less skilled American workers at a time when they are being squeezed by low-wage foreign competition. We'd all pay a little more for a lot of products, but that's a price many people would gladly accept in exchange for some protection of domestic manufacturing jobs. If Republicans advocate the policy described here, working class people might come to feel that the GOP is on their side, and that they aren't forced to choose between the party of welfare and the party of Wall Street.

There are other issues the GOP should examine through the lens of enabling people to live as self-reliant citizens rather than recipients of government largesse, notably the choice between a healthcare policy which provides or purchases healthcare for everybody, and one which addresses problems that make it difficult for people to purchase healthcare themselves.

Republicans are not always clear on this distinction. The plan which John McCain put forth in 2008, and which is still supported by some GOP policy wonks, entails eliminating employer deductibility of healthcare costs and replacing it with a \$5,000 credit or voucher per family (\$2,500 per individual) to be used for the purchase of health insurance. The McCain campaign called this a "tax credit," but also indicated that it would be given to those who do not owe any taxes, so "voucher" seems like a more fitting term.

Vouchers have their place. Many conservatives support replacing public funding for schools with a voucher system under which parents choose the school their child will attend, and the state pays the school a fixed amount per child. However, while most Americans think

it is proper for taxpayers to pay for children's schooling, we as a society have *not* decided that taxpayers should provide healthcare to able-bodied adults. At least we hadn't decided that before the passage of Obamacare, and much of the reaction against that legislation is surely directed at its implicit denial that people can and should be responsible for themselves.

Perhaps supporters of the McCain plan think we have lost this battle, so we need to consider how the federal government can pay for healthcare as efficiently as possible. It is not obvious, however, that this battle is in fact lost, either politically or on its merits. The 2010 election suggests that Americans are still attached to self-reliance and responsibility, and that voters want policies which expect all of us to live up to that standard. At the very least, in addition to repealing Obamacare, the GOP should try to correct the inefficiencies of the current system (especially the tax deductibility of employer-provided but not individually purchased healthcare) before taking the drastic step of making the federal government responsible for our healthcare. (For an alternative approach, please see <http://www.weeklystandard.com/articles/put-patient-charge>.)

More broadly, the GOP should seek to foster self-reliance, maturity, and decency in American citizens, rather than dependence and blaming others for one's problems. Of course the party already does this to some extent, but it could do so more explicitly. It would thereby articulate the instincts of most Republican voters—and of many independents and Democrats. Perhaps the single characteristic most common among Republicans today is that we see or sense the damage produced by the Democratic Party's vision of a government that takes care of people.

In the long run, the policies that Democrats support would be disastrous for working class families; nonetheless, Democrats sometimes seem to care more about the problems such

families face than Republicans do. Republicans need to do better on this. We must strive to be, and to be seen as, the party of responsible ordinary citizens rather than the party of Wall Street. We should aim to enable people to live well as citizens rather than poorly as wards of the state. That's the real alternative we can offer to the Democrats' European model.