

## Foreign Policy Magazine

### The Cost of Living Dangerously

By *Kenneth Rogoff*

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#### Can the global economy absorb the expenses of fighting terrorism?

As this article is being written, the threat of a horrific preemption terrorist assault against the United States has yet to materialize. Unfortunately, the news this summer that al Qaeda operatives have painstakingly targeted major U.S. and international financial institutions only underscores the likelihood of more attacks. Politicians, economists, and ordinary citizens rightfully worry that terrorism—beyond the tragic human costs—could derail economic growth in the United States and around the world. What also worries me, however, is the potential economic impact of antiterrorism efforts. Forget the long lines at airports. The global economy has become so dependent on the free flow of goods and people across borders that even a little additional security can have a greater impact than most might think.

Consider, for example, the likely consequence of enhanced security at shipping ports worldwide to monitor for biological or nuclear weapons material, a precaution many experts consider inevitable. Currently, only about 2 percent of all cargo reaching U.S. shores is subject to inspection. The July 2004 report of the U.S. 9/11 Commission noted that, until better technologies become available, authorities should improve methods of “identifying and tracking the high-risk containers, operators, and facilities that require added scrutiny.” But what if such added scrutiny means that the level of cargo inspected jumps to, say, 50 percent? Today’s slowest customs lines—in countries such as Japan that already use port delays as veiled forms of trade protectionism—would start to seem like express lanes, and the costs of many consumer goods would skyrocket. Worse yet, as trade in goods and the flow of people slows, so too will the breathless pace of product innovation that many individuals now take for granted. Any abatement of the competitive pressures of globalization or any reduction in the free movement of people and ideas would surely undercut growth—not to mention raise prices sharply at your local Wal-Mart.

Think about what is happening already. Despite introducing relatively limited antiterrorist restrictions thus far, the United States will likely register slower economic growth in a few years due to post-9/11 visa restrictions alone. Few Americans appreciate the extent to which scientists, engineers, and businesspeople from other countries contribute to U.S. economic growth. Historically, the United States has attracted legions of enterprising foreign-born workers; today about 2.5 million foreigners with advanced degrees work in the United States, and many hold leading positions in science and industry and serve as key transnational links for the increasingly globalized U.S. economy. More than 30 percent of all Ph.D. recipients in U.S. science and mathematics programs are foreigners on student visas. In engineering, almost half of all graduates have come to the United States on foreign visas; many of them stay in the country upon completing their degrees. The U.S. economy grows in no small part by skimming the cream off the rest of the world’s workforce.

Unfortunately, U.S. companies today often shy away from hiring U.S.-educated foreigners. The price tag on the visa application process has soared, and companies never know if and when work permits will be approved or precisely when a new foreign employee can come on board. And yes, workers from Muslim countries are particularly hard hit, but the difficulties have worsened for everyone. Even obtaining visas to attend academic or policy conferences in the United States is now an ordeal. Little surprise that international applications to U.S. graduate programs have declined by roughly a third in the last year.

Added security won't come cheap, either, and raising the necessary taxes will prove painful, especially with the United States and Europe facing the costs of aging populations and shrinking workforces. The United States estimates its 2005 homeland security budget at about \$40 billion, a sum that could easily double in a few years. But these direct costs of increased security reveal only a limited picture. Perhaps the greatest danger is that increased security will distort and accentuate government taxation and regulation. Orwellian *1984* scenarios aside, suppose governments were able to keep much closer tabs on citizens? Just like individuals, economies need a bit of privacy to function efficiently. Idiomatic government rules and regulations abound, and citizens must have ways to evade the worse of them. The reason why roughly one fifth of Italy's economy is "underground" is not just high tax rates or the Sicilian Mafia. The real explanation is more prosaic: Ordinary people need to hire painters, plumbers, and carpenters to fix their houses, or nannies to care for their children, without wasting endless hours tangled in red tape. Germany—hardly famous for its mafia—has an underground economy approaching one sixth of its national income.

More severe security measures are probably necessary and inevitable, even from a narrow economic perspective. Another atrocity on the scale of September 11 would wreak havoc on energy prices, stock markets, and consumer confidence, slamming the brakes on today's global economic recovery. But just like other desirable government initiatives (such as environmental regulations or workplace safety laws), antiterrorism measures can work at far less cost when they are flexible and market-friendly. For example, just as some countries provide fast-track airport security lines to high-paying business travelers, shippers ought to be able to pay higher fees to move more quickly to the head of the customs queue. Similarly, higher fees should help accelerate visa applications. No doubt, such measures may offend some people's sense of egalitarianism, but these policies and others like them are essential. The benefits of today's interconnected market economies won't survive under a vast and inflexible command-and-control security arrangement.

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