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Race to the Top, or Race to the Bottom

As the United States starts to open up the economy from the medically-induced coma, the progress is uneven, and the results uneven as well. In a New York Times article this morning (<https://www.nytimes.com/2020/05/18/opinion/germany-coronavirus-reopening.html>), Anna Saurbrey quotes Karl Lauterbach, a Social Democratic lawmaker and an epidemiologist. Lauterbach notes that “The way we’re easing the lockdown is unsystematic”. Lauterbach is afraid that states may outbid each other to jump-start the economy.

The economics here are instructive. On the one hand, isn’t competition a good thing, to get people working, and to get goods in the hands of the consumers, taxes into the state coffers, and multiplier impacts into the spending? Surely we don’t want for the current (the last 3 months) situation, with Depression-level output and employment. Why not have a race to the top?

On the other hand We have an economic analysis for this. For many years, economists and policy-makers have used models to examine the sending of production and jobs to places where there are lower wages, lower safety standards and worse pollution. Isn’t this a race to the bottom?

Where the current situation differs is that when we send the jobs to Mauritius (your blogger had a terrific shirt made in Mauritius), Sri Lanka, Vietnam, or China, there is little feedback in terms of the lower safety standards, and particularly the pollution. The goods are cheaper for us, and the pollution is there, not here.

Suppose that Indiana or Ohio opens up faster than Michigan, so that factories in South Bend, Elkhart, or Toledo (with a long-time Tigers baseball farm team, the Mudhens), open up sooner. Workers, and shoppers cross the border, work, shop, bring back the virus, and infect others. This is not Mauritius – we have an open economy with Indiana and Ohio. Unlike our international ports of entry, there is no conceivable way to monitor these borders. The more that opens up, the more people and the more commerce (at least for now), the more danger for feedback. Imagine, if a large University, for example, in South Bend, a mile or two from the Michigan border, opened up its stadium for a football game.¹ Does anyone think the contagious results would stay in Indiana?

Preliminary results of re-opening have suggested that both business owners and consumers have, if anything, erred on the side of caution, but there are still voices (particularly at the highest level) clamoring for “full stadiums” and a full reopening. Let’s continue the caution.

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¹ No University at this time has seriously considered doing this, so the example is “imaginary”.