"The Road Less Traveled"
Keynote Address by Matthew J. Slaughter

"Outlook for North American Trade and Immigration"
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Thank you very much for that kind introduction, Karel. It is an honor to have been invited to deliver this luncheon keynote address: an honor because of the bracing timeliness of the overall topic that you and colleagues chose, an honor because of the distinguished panelists and moderators earlier in today's program, and an honor because of the long history that both the Dallas Fed and Peterson have in being at the vanguard of research and impact on international trade, investment, and globalization more generally. Let me here give a special shout out to Kei-Mu Yi, who kindly invited me here today and whose seminal work on the topics of today I have admired and learned from since my earliest days in the academy, and to President Logan, for hosting us and for her opening insights this morning. Finally, let me thank the dedicated staff of the Dallas Fed who have prepared and delivered this delicious lunch fare for which we all are fortunate.

As you all continue to enjoy this lunch, I would like to place into a broader context of political economy both the insights we all heard this morning and the and the bracing history of our broader world today. Let me stress that word "history." Truly, we come together today at time when the United States is attempting to replace the open global economic order it orchestrated and led for 80 years with a system of tariffs and other walls to globalization—the likes of which none of us in this room have seen in our lifetimes.

Why is this happening? It is happening because a fundamental reason Donald Trump was elected and then re-elected president was his astute understanding of how deeply ambivalent Americans rightly feel about trade and globalization. On the one hand, majorities of Americans say trade is more of a growth opportunity than a threat. On the other hand, majorities also worry about the labor-market pressures that trade imposes on American workers and communities—worries that sound academic research has validated.

Thus has President Trump gone down the road of a barrage of tariffs on imported goods against both friend and foe alike. Building walls to address concerns about globalization is, to echo the famous words penned in 1915 by the decorated poet Robert Frost, a road well-traveled—well traveled by the United States earlier in its history, and by many other sovereign nations as well.

But a crucial question needs asking. To address their concerns, do Americans today really want trade wars? My earlier research with my longtime coauthor and dear friend Ken Scheve, of Yale University, found the answer to be a loud and clear, "no." Americans would love to take a road less traveled. In my remaining lunch remarks, I would like to draw on my earlier work with Ken to describe what this road less traveled might look like for the United States.

What Ken and I found most Americans want is not trade wars that build walls. They want engagement with the world combined with investments in their labor-market skills to give them a better shot at thriving amidst the world's dynamism.

In surveys and focus groups during the first Trump presidency, we asked thousands of U.S. adults to choose among three broad policy options for how to better deliver good jobs and incomes. The first was walls: "Implement policies that reduce international trade." The second, safety nets: "Adopt new policies that substantially tax those firms and individuals that benefit from globalization, and then spend the new revenue on government income programs for everyone else." The third we called ladders of opportunity: "Adopt new policies that substantially tax those firms and individuals that benefit from globalization, and then spend the new revenue on programs that provide more people with greater opportunity to benefit from globalization."

What did we find? Fewer than one in three Americans—just 29%—opted for walls. Even fewer—26%—wanted bridges-plus-safety nets. The clearly preferred strategy was bridges-plus-ladders: 45% of Americans nationwide chose this option, as did a plurality or majority of people in all eight of the U.S. cities in which we conducted related surveys.

Why do so few Americans opt for safety nets and redistribution? While we heard concerns that those struggling would never be adequately compensated, the most consistent answer was that the problem extends far beyond money. For many Americans, a deteriorating labor market brings not just lower wages and less job security. It also cuts to the heart of their sense of dignity and purpose and their trust and belief in the country.

Another reason why so few Americans opt for safety nets and redistribution is that they know well that the best jobs in America tend to be the globally engaged jobs. Companies that export and import—or, even more, that are part of a multinational company with operations in multiple countries, tend to perform more of the high-innovation, high-productivity activities that ultimately support high compensation. Consider the U.S. parent companies of U.S. multinationals perform large shares of America's productivity-enhancing activities that lead to high average compensation for American workers. For the most recent year of data available, 2022, contributions of these U.S. parent companies included the following.

- Output: Parent companies produced over $5.3 trillion in output (measured in terms of gross domestic product), which was approximately 23.3% of all private-sector output.
- Capital Investment: Parent companies purchased $826.1 billion in new property, plant, and equipment—43.5% of all private-sector non-residential capital investment.
- Research and Development: To discover new products and processes, parent companies performed $448.9 billion of research and development. This was 66.6% of the total R&D performed by all U.S. companies.
- Finally, Jobs and Paychecks: All these productivity-enhancing activities contribute to large average paychecks for the millions of employees of U.S. multinationals. Parent companies employed over 30.2 million U.S. workers. This was 22.6% of total private-sector payroll employment. Total compensation paid by U.S. parent companies was nearly $2.8 trillion—a per-worker average of $92,208, approximately 20% above the per-worker average in the rest of the private sector.

These data on some of America's best jobs being the globally connected jobs in multinational firms are one angle among many that show the very large aggregate gains that America continues to enjoy from globalization. And for many decades, many Americans have acknowledged these gains. A Gallup poll released last month found that 81% of Americans surveyed believe trade is an opportunity for growth—the highest level since the poll began in 1992—and only 14% view trade as an economic threat. One way so many Americans see this opportunity of trade and all forms of globalization every day is in their beloved world of sport. Consider the National Basketball Association. On the opening-night rosters of the current 2024-2025 season, there were a record-tying 125 international players from a record-tying 43 countries across six continents. All 30 NBA teams featured at least one international player—a fact that, I acknowledge to our gracious Dallas hosts, might not salve the sting of this season's trade from the Mavericks of Luka Dončić.

And the benefits to America of high-talent immigration extend across the economy. Consider my industry of higher education. For many years, educational services has been the industry with the second-most approvals of the H-1B visa—after professional, scientific and technical services. At the Tuck School of Business at Dartmouth, where I serve as dean, nearly half of our tenure-track faculty were born outside America, and many of these colleagues have at some point worked here on an H-1B visa. This almost unlimited flow of skilled migrants stokes innovation that benefits all Americans far more than it curbs the opportunities for U.S.-born scholars.

Research isn't a zero-sum endeavor: New ideas can be widely shared and lead to innovations. Foreign-born Tuck faculty have won global awards and acclaim for their scholarship. They have earned American patents. And they enrich the scholarship of all Tuck faculty through collaboration in our seminar rooms, at our lunch tables and on campus strolls. Teaching similarly isn't zero-sum. Foreign-born Tuck faculty have been selected by our students as the school's best teachers. They have won similar accolades when visiting other schools. Exemplary teachers strengthen Tuck's reputation and finances, which benefits all faculty and staff. And they bolster the pedagogical skills of all Tuck faculty through their embrace of new technologies like virtual reality and generative artificial intelligence.

I was born and raised in Minnesota. During my career I have competed against foreign-born scholars for jobs in America. My Ph.D. cohort at the Massachusetts Institute of Technology was half international, half U.S.-born. Today, many peer-school deans are immigrants. When I was on the rookie-professor job market 31 years ago, would I have had more and higher-paying options if the U.S. had barred its universities from hiring non-U.S. professors? Sure. But today would I be as good a researcher, teacher and dean if I had no foreign-born colleagues? No way. I would be less creative, less productive and ultimately lower paid.

The aggregate benefits to America of globalization are indisputable. So, what would it mean to build ladders of opportunity aimed at more people realizing those benefits? Building ladders of opportunity would give all citizens more of the human capital needed to better adapt to the dynamic forces of globalization. It is human capital, more than any other factor, that determines an individual's chances of thriving in today's dynamic economy. This fact will be true for America regardless of whether its economy is completely open to the world or completely closed behind tariff walls.

Ken Scheve and I argued that the first rung of our ladder should be a collection of early childhood education programs for every American child from birth to kindergarten, funded by the federal government and based on evidence of what works. Recent research confirms the enormous private and social gains from investing in children's human capital—and, conversely, the costs of neglecting to do so. A series of studies by the Nobel laureate James Heckman and other researchers, for example, looked at two early childhood interventions in North Carolina and concluded that the benefits were seven times as large as the costs.

The second rung of the ladder of opportunity should be federal funding for two years of community-college tuition for every high school graduate who is not pursuing a bachelor's degree, which would ensure that each could earn an associate's degree. The economic case for this is compelling. A few years ago in the United States, the median lifetime earnings of a high school graduate was about $1.3 million in constant dollars. The figure for someone with an associate's degree was $1.7 million, nearly a third higher. That additional $400,000 in income comes from spending only about $30,000 on the typical two-year associate's degree—a substantial return on investment, which is even larger for many in-demand programs, such as radiation therapy.

Finally, the third rung should be a lifetime training scholarship for every working American who does not have a four-year college degree. Each person would get $10,000 a decade through his or her 20s, 30s, 40s, and 50s for use as a tax credit by his or her employer to invest in that person's skills. Eligible investments would include online courses, in-person programs at local colleges, and in-house training crafted by the employer. Rather than rely on the ability of the government or higher education institutions to identify the skills needed by workers across the U.S. labor force, this program would harness the insights that businesses uniquely have about which skills they need the most. And since the program would be available to every worker without a college degree, the stigma that has been attached to many similar training programs would be removed.

How much would all this cost?

Today, there are about 25 million children in the United States between the ages of zero and five. If every one of these children each year received an average of $4,000 worth of early childhood programming, that would be a total annual fiscal cost of about $100 billion. In recent years, about half of the United States' three million high school graduates each year did not go on to a four-year college or university. If every one of them received full tuition, limited income support, and assistance for other related costs to attend a two-year community college, the total annual cost to the federal government would be about $50 billion. Finally, today there are about 100 million U.S. workers who never graduated from college. With a tax credit of up to $10,000 per decade for every one of these workers, the annual cost would be about $100 billion.

So, the three rungs on our ladder of opportunity together would cost the U.S. government about $250 billion each year. That would represent the largest federal investment in human capital in American history. That might be a lot of money to you and me. But it is a small fraction of the approximately $10 trillion dollars by which global equity markets have fallen in the past 10 days.

New ladders of opportunity would not guarantee success for everyone. But a majority of the members of our focus groups recognized that these ladders would raise the odds that more people thrive in and gain from a dynamic economy instead of just avoiding or mitigating its harms. As one respondent put it in my research with Ken, "You're not just spreading revenue across to everybody; you're using it to provide greater opportunity and training and education—which then, in theory, should bring everybody up, also, to where they benefit from trade."

Earlier this year brought even more grim evidence of how badly America is failing to build the human capital that people want and need. The biennial National Assessment of Education Progress, a test that functions as a national report card, reported several new lows. In 2024, 33% of U.S. eight graders—the largest share in the exam's 30-year history—have "below basic" reading skills. An even higher 40% of fourth graders scored "below basic," the biggest share in 20 years. No wonder that most Americans today say they are dissatisfied with the quality of primary and secondary education.

Americans who believe that the United States' economic and political institutions are no longer delivering enough opportunity are right. And, given how little Americans see of the policy solutions they would prefer like what I have outlines above, Americans are also right to have lost faith in the future. For decades, *The Wall Street Journal* has periodically asked the following survey questions: "Do you feel confident or not confident that life for our children's generation will be better than it has been for us?" Even during the two recessions that preceded the financial crisis (in 1990 and 2001), more Americans said they felt confident than said they felt not confident in their children's future. But more recently, that confidence has evaporated. Even in August 2017—the start of the ninth year of the current economic recovery—nearly twice as many Americans were not confident about the future as were confident. And the last time this question was asked, in 2023? Fully 78% of Americans were not confident that life for their children's generation would be better—versus just 21% confident.

Trade wars against the world are an inadequate solution to all this faded hope. Whatever gains these wars generate will be too few and too ephemeral. To have America thrive in the 21st century, broadly and sustainably, leaders should build bridges and ladders, not walls.

So let me close by saying what is the road less traveled that America could have taken: a road not of tariffs and other walls to keep out the world but rather a road of bridges to that world—combined with ladders of opportunity to help more Americans thrive through global engagement. America today could still pause and find its way to take that road less traveled. And that road less traveled could still make all the difference. But to make that happen, the question before all of us is, which leader or leaders will guide us there?

A thousand thanks for the invitation to share these reflections. I am very happy to take any questions you may have.