

The Value of Trade to the US Economy: An Assessment of the Economic Consequences of Border Closure in Response to a Security Threat.

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Abstract

We use USAGE, a dynamic CGE model of the US economy, to investigate the economic consequences of a twelve-month closure of US borders. The federal government might contemplate such action in the face of coordinated terrorist attacks, a global pandemic or other public health threat. In our core simulation, we interpret border closure as cessation of trade, tourism and net immigration flows. We find that complete border closure would cause substantial economic damage. Using a computable back-of-the-envelope (BOTE) model of USAGE, we show that a substantial proportion of the economic cost of border closure can be traced to restrictions on a few critical imports (such as energy). We demonstrate via additional USAGE simulations that the economic costs of border closure can be reduced significantly when critical imports are either exempted from the policy, or made available through use of domestic stockpiles (such as the Strategic Petroleum Reserve). USAGE simulations under alternative labour market assumptions show that the economic damage from border closure can be reduced further if workers accept lower real wages for the duration of the security crisis. Border closure costs are lower still if prohibited cross-border activities are limited to only those relating directly to the nature of the security threat. We argue that if border closure were ever to be contemplated as a response to a security threat, the policy would need to be accompanied by real wage reduction, exemption of critical imports, use of strategic reserves, and careful targeting of prohibited border activities.