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Tariff for Revenue

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It is most unusual for a single policy measure to help achieve a number of economic policy objectives, but a *tariff for revenue* can do just that. It can help contain and reverse the twin deficits that have plagued the United States: the budget deficits of the Federal Government and the chronic deficit in the United States' balance of payments. These two deficits are legacies of the ill begotten supply side economics which aided and abetted the destruction of the revenue base of the United States even as it encouraged a consumption boom.

The cumulative effects of these twin deficits have been:

a national debt which has increased dramatically relative to the size of Gross Domestic Product, and

a transformation of the United States from being a major net owner of assets in and liabilities of units in other countries to being the major net place where others own assets and whose debts are assets of units domiciled in other countries: The United States has become a net importer of capital, a peculiar position for the richest economy and most powerful military power.

Interest payments on the national debt has added a large sterile expenditure to the nations budget. The debt is a barrier to effective fiscal actions to achieve a closer approximation to full employment. There is an unfortunate political barrier to increasing direct taxation. A new revenue source, which has beneficial effects aside from its impact on revenues is needed. A tariff for revenue will help leveling the playing field between the United States and its trading partners.

The transformation of the United States from being a net creditor to being a net debtor country has weakened the economic and political power of the United States in the world transformed by the collapse of the Soviet Union.

The Reagan administration created a Federal revenue system that has been unable to raise sufficient funds to pay for the duties, both foreign and domestic, that the world's richest and most powerful country must attend to. The addition of a TARIFF FOR REVENUE to the revenue system will offset some of these two debilitating legacies of the 1980's.

The third deficit, which is the inability of the United States to achieve a sufficient number of jobs so that a close approximation to full employment is achieved and sustained, will be reduced by the impact of the tariff on the demand for foreign goods, which will be minor relative to GDP and the total spending on imports, but which will nevertheless have a positive impact upon domestic employment. The significant impact upon the fiscal strength of the United States of such a a trial will lead to an increase in the ability of the United States' fiscal and monetary policies to increase domestic demand for domestic output.

A tariff for revenue cannot be an exclusionary tariff, such as the 100% tariff which the Clinton administration proposed for luxury Japanese cars in the failed exercise about access of American automobile and

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Table 1.

	1992	3	4
custom duties etc.	17.5	18,8	20.1
imports goods	668.4	724.3	818.2
10% of imports	66.9	72.4	81.8
12.5 %	83.5	90.5	102.5

Source: The Economic Report of the President

part manufactures to the Japanese market.

I propose that the United States impose a flat tariff of 10% to 12.5% on all imports to the United States, bar none. Furthermore the United States will demonstrate its commitment to free international trade by removing all quotas, regardless of whether the quota is by way of an international agreement, unilateral or an exporter administered quota, such as the current system with Japan, over a five year transition period.

A tariff for revenue can be in the neighborhood of 10% to 12.5%. As the accompanying table shows a 10% tariff would have yielded about $ 67 Billions in 1992, $72 in 1963 and $82 in 1994 and a 12.5% tariff would have yielded about $ 84 billions in 1992, 91 in 93 and 103 in 1994. Inasmuch as custom duties were 1&.2, 18.8 and 20.1 billions of dollars in 1992, '93 and '94 the net gain in revenue could be as in Table 2: the net gain in tax revenue would be in the order of magnitude of 1% of GDP. Inasmuch as --

Table 2

net gain in rev			
at 10%	49,4	53.6	61.7
at 12.5%	66.0	71.7	82.4

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the tax revenues are about 20% of GDP, there would be a 5% per year increase in revenues: with tax revenues about 21% rather than 20% of GDP, the policy aim of decreasing the ratio of government debt to GDP to some 25% would be attainable.

The new world trade treaty recognizes that quotas are a much greater barrier to achieving the mutual gains from trade, which is the rationale for free trade, than a modest tariff. Ever since Bretton Woods the imposition of a tariff has been legitimate in the case of a fundamental deficit in the balance of payments. The United States' payments balance has been in deficit long enough and the cumulative deficits have been large enough so that the imbalance can be considered as a flaw in the adjustment mechanism, not as a mere transitory blip.

A tariff will level the playing field between United States and foreign producers in the United States market. This is especially true for countries that have a value added tax in their revenue structure, for such countries rebate the value added tax on exports and add the value added tax on imports. All of the countries with a value added tax, which can be as high as 30% on luxury imports, do have both a tariff and a form of export subsidy.

We do not have a tax that is called a value added tax but we do have a partial value added tax. A value added tax is levied on the difference between the selling price of a product and the costs of purchased goods and services: it is a tax on wage costs and the producer's mark up on wages and material costs. Value added by a firm is equal to the value added by labor and the value added by the plant and equipment i.e. the capital used by firms. Our partial value added tax, which we call the employers contributions to the Social Security and the Medicare Trust Funds, is levied on wages up to a maximum level which varies each year.. We do not remit these taxes on exports and we do not now levy any contributions to the trust funds on imports.

Furthermore in environmental and health and safety requirements we mandate costs on our producers. A person buying and American Luxury car such as a Cadillac is contributing to the medical care and pensions as well as our environmental legislation. One buying an imported luxury car such as a Lexis avoids such payments on the imported car. (Of course the Social Security and medicare taxes are paid on the Costs of preparing and selling the car after it is in the Unites States.

The numbers are large. At present our $ 7,000 + billion economy imports about 10% of our Gross Domestic Product: a 10% - 12.5% tariff would yield about 1 % to 1.25 % of our GDP per year. At present such a tariff would yield between $ 70 to $ 90 billion per year. It would lead to a revenue system that not only can easily carry the national debt inherited from the failed exercise in supply side economics.

There is nothing more American than a tariff for revenue. The fiscal structure of the young United States was based upon a tariff, some excise taxes (hence the Whiskey Rebellion) and the revenues from the sale of the public domain (with the problems associated with the doctrine of squatters rights). During Andrew Jackson term this limited revenue system allowed the United States to rebate taxes to the States. We should also recall that our Senators well recognized the difference between a tariff for revenue and a protectionist Tariff of Abominations. In no way is a tariff for revenue to be compared with the protectionism of the Smooth Hawley Tariff of 1929, which was an exclusionary tariff.

Equality of v is a key American Doctrine. The greatest of the many achievements of the Roosevelt years was the revitalization of the opportunities to work, to learn and to become professionals and entrepreneurs. The great State Universities were of course subsidized opportunity centers. But such opportunity is meaningless unless a close approximation to full employment exists. The protection of domestic jobs and enterprises is minimal in a tariff for revenue - at most it will directly reduce imports by 10%, which translates into about a 1 % increase in the number of jobs. The fiscal and economic power that an improvement in the balance of payments will yield will enable the government to pursue a more effective employment policy than has been possible under the present regime of a sorely compromised fiscal system.

Value added tax, existence of a partial VAT in the employers contribution to social security.

Kantor and I expect the Clinton administration lost their nerve in the confrontation with Japan and retreated to the acceptance of Japanese promises that markets will be opened. But the Japanese economy is founded upon good old mercantilism lines which views a strong positive balance of payments, which leads to an acquisition of income earning assets that are validated by incomes "earned" in a foreign economy either through wages, profits or taxes, as a good thing.

Whereas we in the United States base our foreign economic policies on theorems derived in an abstract goods only model. a model which blithely ignores the existence of problems of employment, the variability of the ratio of achieved income to potential income, and financial interrelations among nations, our trading and financial partners base their foreign economic policies upon a more realistic view in which net export surpluses well as net asset incomes from abroad are good things for a national economy. Japan's economic policy is based upon being rich is better than being poor and therefor a net asset position in the United States is a good thing.

The guiding principles for the foreign economic policy of the United States has to be whether it is good for the employment and the incomes of the American people. It is fashionable for pundits and professors to extoll the virtues of free trade. But the arguments in favor of free trade assume that full employment is sustained in both the surplus and the deficit economy throughout the adjustment process and that the surplus country cannot accumulate anything of true value, i e. assets which increase their future flows of incomes because they are claims upon the flows of income in their trading partner.

The United States is now holds the World championship in the net asset position of foreigners in the United states economy: the total foreign asset position in instruments whose contractual terms can only be met out of income flows in the United states economy. A portion of wage profit and tax incomes in the United States are ultimately paid to the owners of the assets, real or financial, in other countries.