The Daily Dish

Confusion at the Border

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A new report released by the Bureau of Labor Statistics shows that union membership hit an all time low in 2016. According to the report only 10.7 percent of the U.S. workforce is "organized," and of those who are organized, more than one in three is employed in the public sector. According to the Bureau of Labor Statistics, union membership has been steadily declining since they began keeping track in 1983.

Last week Secretary of Defense General James Mattis, ordered a Pentagon review of the F-35 and Air Force One replacement plans. Mattis's order comes amid President Trump's criticism of the high costs of the projects. Mattis's review will look for ways to reduce costs in both projects and both reviews have been ordered to begin "immediately."

Eakinomics: Confusion at the Border

The economy closed out 2016 growing at a paltry 1.9 percent annual rate, reinforcing the need for structural (supply side) reforms that can raise the long-run trend rate of productivity and overall growth. Among the possibilities is tax reform, especially business tax reform that would lower the corporate tax rate and diminish its negative impacts on growth and competitiveness.

To date, the leading proposal for tax reform has been the House "A Better Way" blueprint, which contains a hotly-debated provision for "border adjustment." As I have emphasized previously, border adjustment is not trade policy. Indeed, its primary role in the House proposal is to protect the integrity of the U.S. tax base. Border adjustment would be imposed by excluding all cross-border transactions from the tax base — revenues from exports would not be taxed, while costs from imports would not be deducted. Because cross-border transactions are excluded, their value cannot affect a firm's tax liability. In the absence of this provision, there is huge opportunity for tax avoidance in a territorial system. A firm could sell to a foreign subsidiary goods, services or intellectual property at artificially low prices and then purchase its products at inflated prices. The result would be lightly-taxed foreign profits that could be repatriated back to the U.S. tax-free.

A key question has been whether the Trump administration would back the House plan, including border adjustment. Late last week, it appeared to do so as White House press secretary Sean Spicer argued that the Administration could force Mexico to pay for the controversial wall "using comprehensive tax reform as a means to tax imports from countries that we have a trade deficit from, like Mexico". As noted above, the border adjustment would impose a tax on net imports at the proposed rate of 20 percent. Given the roughly $60 billion net deficit with Mexico, this would look like revenue of roughly $12 billion that could be used to pay construction costs. (Of course, that would be $12 billion unavailable for other goals in tax reform.)

So the White House is now on board with the House tax plan, right? Not so fast, as the administration quickly muddied the waters by suggesting that this was only one of many possible options. Still, this represents the possibility of better policy than unilateral tariffs on Mexican goods or other protectionist measures that have been floated over the past few months. Only time will tell exactly what the Trump administration actually supports.