Tit for Tat on Taxes and Tariffs?

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Eakinomics: Tit for Tat on Taxes and Tariffs?

Tariffs are taxes on imports. And taxes are tariffs on transactions. The point is that there is a conceptual similarity among all these "t" words (or, perhaps, that the number of "t" words exceeds their economic roles).

France's contribution to recent tax policy is the adoption of a 3 percent tax on the revenue of large tech companies. It's not much of a tax policy because it violates the G20-directed work on taxation that concluded it was impossible to "ring-fence" the digital economy and, thus, levy a principled digital-services specific tax. (France is not alone in violating these tenets; the UK just did so as well). The second issue is that this tax is, effectively, designed to tax only American firms. When combined with the fact that the tax base is revenue, this digital sales tax is really a tariff on French imports of U.S. digital services.

The digital tax is a provocative and unfair trade practice. President Trump has ordered an investigation into the tax. "The United States Trade Representative is in the process of completing its investigation under Section 301 of the Trade Act of 1974," the agency said in a statement announcing the upcoming release. Section 301 is the same provision that the president used to impose tariffs on China; it permits sanctions on countries that engage in unfair trade practices.

The United States and France agreed at the G-7 summit this past August to a 3-month delay to see if they could agree on a framework for addressing the issue, but the deadline has passed and the United States Trade Representative is expected to release its findings any day.

The entire episode is reminiscent of the start of the China trade war. There was no disagreement that China was a bad actor. There is no disagreement that France is a bad actor. There was a multilateral strategy (the Trans-Pacific Partnership) that the Trump Administration chose not to pursue. The Trump Administration did not come to an agreement on a framework for the Organisation for Economic Co-operation and Development to handle the digital sales tax. With China, the president chose ever-escalating tariffs.

So it is not a surprise that last night USTR concluded that the digital sales tax "discriminates against U.S. companies, is inconsistent with prevailing principles of international tax policy, and is unusually burdensome for affected U.S. companies." USTR's report carries with it the recommendation of up to 100 percent tariffs on $2.4 billion worth of French goods. The full list of proposed products includes some predictable candidates like "Sparkling wine, made from grapes"; "Lip make-up preparations"; "Eye make-up preparations"; "Manicure or pedicure preparations"; "Cheeses, nesoi, from sheep's milk in original loaves and suitable for grating"; and so forth. You get the idea: wine, cosmetics, and food products.

The final decision is up to the president. Stay tuned.