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EDITORIAL/OPINION

Rethinking a Nafta Border Tax

By STEVE CHARNOVITZ

The North American free-trade agreement is in trouble. Despite the recent affirmation of support by the Clinton administration, the agreement has not garnered the enthusiasm of the American public. Unfortunately, many environmentalists, consumer groups, Perotians and minorities remain skeptical. Labor unions continue to oppose it.

The U.S. Congress has never approved a trade agreement on a close vote. Maybe 1993 will be different. But it is hard to envision how legislation can be introduced without backing from a majority of congressional Democrats. Even if it can, one wonders if the White House, several months down the road, will be able to count on Republican votes.

One of the biggest stumbling blocks facing the agreement in Congress is the inadequacy of environmental infrastructure along the Mexican border. State governors who strongly favor the agreement, like Ann Richards of Texas, are also deeply concerneu. While estimates vary as to how much new investment is needed — from billions of dollars to tens of billions of dollars — there is a consensus that the federal government lacks the resources to do the job. The administration's 1994 budget does not propose any major initiatives in the border region. Indeed, the budget indicates a freeze in contributions for the U.S.-Canada and U.S.-Mexico boundary commissions.

Something must be done to finance new investment in environmental infrastructure. Last year, House Majority Leader Richard Gephardt and Sen. Max Baucus suggested a tax on transborder trade. This idea was greeted with widespread disapproval. But many months later, the naysayers have not come up with an alternative solution for funding. Thus, the idea of a border tariff, earmarked for the environment, should be given a second look.

Designing a cross-border tax is not easy. It has to be large enough to generate a significant amount of revenue. Yet it has to be small enough not to undermine the free-trade agreement. Can a tax be tailored to fit? Here is one proposal.

The administration should seek an agreement with Canada and Mexico that would permit each country to levy a small tax on all imported merchandise from the other two — perhaps one-half of 1% of value. Approval by all three countries would be needed because such a tax would violate the U.S.-Canada trade pact and the North American free-trade agreement.

A 0.5% tax would produce considerable income. Based on $36 billion in imports from Mexico and $101 billion in imports from Canada, a U.S. tax would generate $680 million. A parallel tax in Canada would generate $465 million; in Mexico, $205 million.

Raising taxes is easier than spending the money wisely. Thus, the new tax should be linked to the creation of a Regional Environmental Bank related to the North American free-trade agreement. The $680 million in U.S. taxes should be covered directly into a trust fund to provide capital for the new bank. If Canada and Mexico did the same, the bank would have an annual inflow of more than $1.3 billion, which it could use to float several billion dollars in bonds.

The bank's purpose would be to finance environmental infrastructure projects whose benefits are too risky or long term for the market. Since the bank would want to be repaid, it would only approve projects that could levy user fees or receive co-financing from state governments. Decision-making by the bank could minimize "political" influence in the selection of projects.

What are the objections to a border tax? First, it is argued that such a tax strikes against the conceptual foundation of the free-trade agreement — trade without barriers. That's correct. But a little compromise on principle may be necessary to broaden support for the agreement.

"Hey, it's standing up to the toxic waste brilliantly."

Moreover, a better environmental infrastructure will enhance its economic success.

A second objection is that a border tax will distort trade to the disadvantage of North American countries. That may be true, but a tiny tax could cause only a tiny disadvantage. For years, environmentalists have been lectured not to worry about the inter-country differences in the cost of environmental regulation because they amount to only 1% to 2% of total cost. The portrayal of a 0.5% tax as apocalyptic is inconsistent with this lecture.

A third criticism is that special taxes to pay for the environment should be eschewed in favor of "general" revenues. But this is disingenuous because general revenues are already spoken for. Indeed, the federal government is overcommitted this year, since it is outspending receipts by 28%. It is true that a tax solely on imports is economically inferior to a broader based tax, like a value-added tax. But taxing the "consumption" of imports is politically feasible. Taxing all consumption is not (at least not in time to save the free-trade agreement).

Fourth, some critics have invoked the environment as an argument against the border tax. It is said that such a tax violates the polluter-pays principle because clean producers are treated the same as dirty ones. But this argument is a green herring. The polluter-pays principle is well-recognized as inapplicable for correcting past environmental disasters.

All three governments have rejected, with varying emphasis, the idea of a border tax. Still, there is a way to put this idea on the table. The Trade Act of 1974 requires the president to undertake negotiations with any country that enters into a trade agreement in order to gain the consent of that country to a "small uniform fee" on imports. Although this provision foresees using the fee to pay for worker adjustment, the goal of the fee can be shifted to environmental adjustment. Indeed, the case for dedicating a tariff to environmental protection is stronger than for worker retraining because environmental projects would help both sides of the border.

A new tariff contradicts conventional wisdom on establishing a free-trade agreement. But for political reasons, advocates of the agreement must be willing to change.

Steve Charnovitz is policy director of the Washington-based Competitiveness Policy Council. The views expressed are his own.

Sizing Up the US-Japan Summit

By MARK MAGNIER

ASIA VIEW

TOKYO — Last week's summit between President Clinton and Japanese Prime Minister Kiichi Miyaza-

so as quickly as possible. These in-

Minister Miyazawa met was greatly

ton may be talking the yen up to punish Japan and that the United States spends far too much time criticizing Japan rather than getting its own house in order.