PPI | Trade Fact of the Week | April 11, 2007

Tariffs are the United States' Most Regressive Tax

Editor's Notes: *The PPI "Trade Fact of the Week" is a weekly email newsletter published by PPI's Trade & Global Markets Project. To sign up for a free subscription,* ***click here****. (Just make sure to check the box next to "Trade & Global Markets.")*

Original links are included though some may have expired.

The Numbers:

Tariff revenue, 2006:

Total: $25 billion
From clothes: $9 billion
From shoes: $2 billion

What They Mean:

The income tax is the U.S. Treasury Department's largest single source of money. Raising a likely $1.2 trillion in 2007, this week's 1040 forms will bring in nearly half the $2.54 trillion in total 2007 national government revenue. Next come social insurance taxes, led by the payroll tax which funds Social Security and Medicare, at $873 billion; then corporate income taxes at $342 billion, then excises taxes on gasoline, liquor, and cigarettes at $57 billion. Last and smallest in the tax menagerie are the estate tax and the tariff system, both of which will raise a bit more than $25 billion.

Alike in the money they raise for government, estate taxes and tariffs are not alike in the people who pay. The estate tax is mainly a tax on wealth, covering only estates above $2 million and (to quote the IRS) "affecting only the wealthiest 2 percent of Americans." The tariff system is mainly a tax on want, raising most of its revenue on life necessities and cheap consumer goods, and affecting poor families with children more than anyone else. Last year, clothes raised about $9 billion of the total $25 billion in tariff revenue, shoes brought in another $2 billion -- nearly as much as cars. Food raised $600 million, mostly from cheese, butter, orange juice, and canned tuna. Cheap household goods, including: towels, forks, spoons, suitcases, drinking glasses, and plates, added about $2 billion more.[*] Altogether, life necessities and mundane consumer products make up about 10 percent of imports but raise about 60 percent of tariff revenue.

These goods are most important in the lives and budgets of poor families with children. The Bureau of Labor Statistics' Consumer Expenditure surveys show that a typical top-ten-percent family spent about 4.4 percent of its pre-tax income on food and clothes (excluding alcohol and restaurant meals) in 2005, and the comparable bill for a single-parent family was 15.8 percent of income. Any flat tariff on shoes and clothes, therefore, would hit single moms about three times as hard as rich families. The actual tariff system is not flat, though, but steeply tilted against poor people, as tariffs are systematically high on cheap products but low on luxury goods. Sterling silver forks, for example, have no tariff while cheap stainless steel forks get 20 percent. A long-sleeved men's silk shirt has a 1.1 percent tariff and its polyester equivalent 25.9 percent; silk brassieres get 2.7 percent, while cotton and polyester bras get 16.9 percent. Shoes, luggage, plates, drinking glasses, skirts, and similar products are just the same. PPI's 2002 article, "Toughest on the Poor: Tariffs, Taxes and the Single Mom," suggests that though the tariff system is the smallest of the main federal taxes, tariffs rank second only to payroll taxes in the lives of single mothers, and likely cost women leaving the welfare system a week's salary each year.

[*] Luggage and handbags raised $900 million. Towels, pillowcases and other household linens $700 million. Plates, silverware, drinking glasses, clocks and watches $400 million, and costume jewelry $100 million.

Further Reading:

PPI on tariffs, taxes and the single mom:
http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=108

&subsecID=900010&contentID=250828

PPI's Paul Weinstein on family-friendly tax reform:
http://www.ppionline.org/ppi_ci.cfm?knlgAreaID=125&subsecID=163&contentID=253276

The Bureau of Labor Statistics details family spending habits:
http://stats.bls.gov/cex/csxann05.pdf

The IRS explains the estate tax:
http://www.irs.gov/businesses/small/article/0,,id=108143,00.html

The U.S. International Trade Commission publishes the tariff schedule. (Look up any individual product by typing in the name, or use "Official Harmonized Tariff Schedule" on the left of the page to look at entire chapters.):
http://dataweb.usitc.gov/scripts/tariff_current.asp

The Office of Management and Budget, among other things, summarizes tax receipts by type since 1940:
http://www.whitehouse.gov/omb/budget/fy2008/pdf/hist.pdf

And last -- tariffs are the oldest U.S. tax as well as the smallest. The tariff system was the main U.S. tax throughout the 19th century, and raised half of all government revenue until Woodrow Wilson's first administration created the income and estate taxes. (1913 and 1916.) By 1950, after wartime tax increases and tariff cuts under Roosevelt and Truman, the tariff had fallen to about 1 percent of tax revenue, where it remains today. Tariffs are now important to tax policy, according to the World Bank, in Swaziland, Cote d'Ivoire, Lesotho, and Senegal. Among wealthier countries, Russia relies most heavily on tariff money.