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Back to the drawing board

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CNMI senators should be commended for coming up with — and considering — an actual revenue-generating measure: imposing a fee on money sent out of the islands.

It is a politically feasible proposal — the "targets" are primarily guest workers (non-voters). Low-hanging fruit indeed.

Moreover, even before introducing the bill, the senators consulted the agency that would implement it, the Department of Finance-Division of Revenue and Taxation, and sought legal advice from its counsel, an assistant AG. Then they talked about it in public.

There are major legal impediments involving the U.S. Constitution itself, the assistant AG said. He also recommended a more legally viable proposal — imposing an additional tax on remittance centers. But that proposal, of course, would not be warmly embraced by those who would pay for it, and these include U.S.-owned companies that have considerable political influence.

In any case, if the tax-hike becomes law, the affected businesses could pass on the additional cost to their customers who, most likely, would find other and less expensive ways to send their money abroad. And so the probable end result is that the remittance centers would see a decline in their earnings which means less revenue for the government which, once again, would have to deal with an unintended result of its legislative misadventures.

In a report published in 2016, the International Monetary Fund noted that "international experiences show that taxes on remittances have been rare and short-lived…." Why? "A remittance tax would be inefficient and difficult to administer as it would result in a migration of remittances out of the banking system…. To avoid being taxed, remitters would resort to unofficial channels of money transfers…." The IMF stated that "Gabon imposed 1.5% tax on non-bank/wire outbound money transfers in 2008 to finance the government's expenditure on healthcare. The tax collections were negligible, about 0.03% of GDP, and this tax gave rise to an exchange restriction. In November 2013, Palau imposed a 4% tax on outward remittances to finance the Civil Service Pension Fund. The tax collections were insignificant, and the tax was unpopular with many sectors in the country." In an article published in 2017, economists Dilip Ratha, Supriyo De and Kirsten Schuettler stated that "a few countries that had such taxes on inward remittances ended up removing them. Vietnam removed its 5% tax on remittances in 1997 and found that remittances through formal channels increased."

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Some say Oklahoma shows the way when it comes to taxing remittances.

So let's take a closer look at OK then.

Its economy is the nation's 29th largest with a gross domestic product of over $197 billion as of Dec. 2018. The state is a "major producer of natural gas, oil, and agricultural products," and "relies on an economic base of aviation, energy, telecommunications, and biotechnology." OK has a population of close to 4 million people.

In 2015, according to the American Immigration Council, 235,350 immigrants (foreign-born individuals) comprised 6% of OK's population. The largest shares of immigrant workers in the state were in construction; agriculture, forestry, fishing and hunting; accommodation and food services; administrative and support; waste management; remediation services; and manufacturing.

As for the CNMI, it has an estimated population of over 50,000 and is allowed to have a CW-1 workforce not exceeding 12,500 in FY 2020. The U.S. Government Accountability Office says CW-1 permit data for fiscal year 2019 showed that the CW-1 permit holders most commonly worked in building service or food service.

Two years ago, before Yutu and Covid-19, the islands' GDP was $1.3 billion. (The CNMI government owes the Settlement Fund over $700 million.) Although it has been trying to diversify its economy from the get-go, the CNMI has only one industry, tourism, which is at a standstill.

Now let's go back to Oklahoma and the "tax" it has imposed on remittances. It is called a "drug enforcement and money laundering fee," and is "attached" to each wire transaction. The fee is "$5 for the first $500 and 1% thereafter." (I don't know a lot of CWs on Saipan who can afford to remit $500 each payday, but that's another story.) The libertarian Cato Institute said Oklahoma labels this tax a fee because it's *a fully refunded tax credit*. The fee is aimed at *illegal aliens* who do not file tax returns.

A remittance tax proposal, in any case, is based on an economic fallacy. Says economics professor and writer Deirdre McCloskey: Non-economists think that economics is about "keeping the money circulating" within a jurisdiction because "money is wealth." Lawrence Reed of the Foundation for Economic Education said this notion was refuted in the 18th century by Adam Smith who pointed out that "people are prosperous to the extent they possess goods and services, not money…. All the money in the world — paper or metallic — will still leave one starving if goods and services are not available."

We hear about foreign workers' remittances and the money "leaving" the CNMI that could have been spent here. But spent on what? Most, if not almost all, of the things we use, consume or need are from abroad. Every time we purchase/acquire/use them money "leaves" the CNMI. How much does the Commonwealth spend on fuel, for example? Or on cars and other vehicles? Travel by plane? Utilities? Computers? Medicines? Construction materials? Equipment? Tools? School and office supplies? Entertainment? Cell phones? Other electronics and other appliances? Food? Clothes? Furniture? Etc? Etc?

If the goal is to "keep" CNMI money in the CNMI then what exactly can we buy that are or can be produced in the CNMI?

Meanwhile, money is being generated by the local economy (at least before it was shut down by the Covid-19 restrictions) because of all the imported things we can acquire, including labor. They made possible the tourism industry, healthcare and educational facilities, buildings,

typhoon-proof homes, utilities, a telecommunication system, paved roads, restaurants, grocery stories, Laundromats, etc. etc.

Because we *exchange* our money for these things/services we acquire the ability to generate more money and live a more comfortable life on a small, remote tropical island located in the typhoon zone.

Money *is* circulating — in the global economy. And the CNMI is part of it. This is why the people who live here can buy/acquire more affordable products/items/services from around the world: more choices, more amenities and more opportunities for a better life.

To paraphrase economist Norman Van Cott: Suppose you buy foreign-made travel luggage for $25 per piece, and the dollars end up in a foreign country. What is going on here? You get travel luggage and the foreign country gets pieces of paper that, as far as the United States is concerned, are easily produced at relatively low cost. "You get travel luggage in exchange for extra turns of the printing press crank at the Bureau of Engraving and Printing. Sounds like a good deal if you ask me."

In short, the money that "left" the island was *exchanged* for what is needed but cannot be produced/obtained on island at a reasonable price.

However, to paraphrase another economist, Don Boudreaux (who compared them to flat-earthers), some believe that decreasing our access to goods and services offered for sale by foreigners should increase our access to goods and services.

Where do the U.S. dollars that "leave" the U.S. end up anyway? Foreigners use them to buy U.S. products/services/assets.

The U.S. also benefits even if foreign countries stash away their dollars (as part of their foreign exchange reserves) and not spend them *immediately* on U.S. products/services/assets. As economist Bill Conerly points out, dollar reserves help all Americans by keeping interest rates low. Or as another economist, Paul Krugman, would put it, "the large holdings of U.S. currency outside the United State…represent, in effect, a…zero-interest loan to America."

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Anyway.

CNMI senators and other elected officials, for that matter, should realize that the best — because most painless — way to improve the government's financial condition is to pursue *balanced* economic growth.