

Matt Yglesias

Nov 16th, 2010 at 5:29 pm

The Generalized System of Preferences



Far and away the most persuasive critique of the most recent round of proposed trade deals is that these agreements actually have relatively little to do with trade. Instead since all kinds of business regulations “affect” trade, you’ve got a lot of stuff about intellectual property rules, capital flows, privatization of government services, etc. It’s possible to make a case for these things, but you certainly can’t take the general “case for free trade” and then apply it across the board.

The issues surrounding the [Generalized System of Preferences](#) scheme really are classic trade matters. This is a program to allow (some) goods from (some) developing countries to enter the United States without the imposition of special “we don’t like foreign-made stuff” sales taxes. As Sallie James [explains](#):

The program has benefits: some producers in some poor countries are able to sell more than they otherwise would in

the U.S. market, and U.S. consumers benefit to the tune of hundreds of millions of dollars a year because of the tariff exemptions.

But the GSP still represents managed trade, and poorly managed at that. **The program is designed so certain goods in which poorer countries tend to have a comparative advantage — textiles, for example — are excluded from the program, mainly because of the influence of the U.S. textile lobby. There are limits on how much of a particular product a beneficiary country can export duty-free, which means that truly efficient and competitive exporters are shut out.** The very existence of the program has proved a stumbling block to (superior, if not first-best) multilateral trade liberalization, because GSP beneficiary countries don't want reductions in general tariffs to erode their preferential access.

America's habit of charging tariffs on imported textiles is particularly egregious. Clothing represents a larger share of consumption for poor people than for the rich. Consequently, I think most people understand that if I were to propose a special sales tax on clothing it would be an unusually regressive tax measure. By levying the special sales tax exclusively on *foreign-made* clothing we don't eliminate the negative impact on poor Americans. We do, however, shift around who benefits. By taxing only foreign-made clothing, government revenue (which at least finances many programs that are important to poor people) declines and instead many of the benefits are captured by the owners and managers of US-based textile firms. To make things even worse, politically powerful well-heeled people have generally managed to make it the case that [luxury goods are taxed more lightly](#) than things ordinary folks buy.

Long story short, dropping tariffs on imported textiles is one of the easiest and most effective things we could do to help poor Americans while also improving the prospects for economic growth in the third world.

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Or eliminate all narrow tariffs that target product (or country) and replace them with a supersized general tariff to partially replace payroll taxes (or overlay new tariff over existing ones for all I care).

Along those lines, the Levy Institute suggested an iteration of Warren Buffett's "import certificate" plan. The dollar value of US exports would create an equal number of import certificates. Instead of Buffett's cap and trade market with exporters (selling the ICs to capture the rents), the Levy paper had Tsy auctioning off ICs and using the tariff revenue to reduce payroll taxes (their 2008 estimate of 3% of GDP in revenue would cut FICA taxes in half).

<http://www.levyinstitute.org/publications/?docid=1077>

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[DonxWilliams](#) Yesterday 05:49 PM

Re Matthew's comment "Long story short, dropping tariffs on imported textiles is one of the easiest and most effective things we could do to help poor Americans while also improving the prospects for economic growth in the third world. "

Yes --but then the foreign cartel would shut off exports to us like OPEC and we would have to walk around buck naked with winter coming on.

An economic system --e.g. extensive international trade -- is NOT STABLE unless it has a corresponding system of integrated government to regulate it. Look at the disarray within the Eurozone because Angela Merkel can't bitchslap the Greeks the way they deserve.

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"Look at the disarray within the Eurozone because Angela Merkel can't bitchslap the Greeks the way they deserve."

you are illiterate

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[abb11](#) Yesterday 05:52 PM

Well, maybe those poor people could get good paying jobs in the domestic textile industry and stop being poor? Nah, because there can't be domestic textile industry without tariffs.

So, what's going to happen is a lot of poor people buying textile produced in sweatshops abroad, and, of course, a few super-rich importers. Nice.

1 person liked this.

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