A Macro Perspective on Border Taxes

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Uniform Border Taxes

1. Import Tariff + Export Subsidy
   - Keynes (1931)
2. VAT $\uparrow$ + Payroll tax $\downarrow$
   - Farhi, Gopinath, Itskhoki (2014)
3. Border Adjustment Tax
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   - Cannot deduct imported inputs costs
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- If monetary policy targets constant prices $\rightarrow$ nominal ER appreciates

What if prices/wages *not* flexible and trade *not* balanced?

1. Sticky Prices/Wages: *Symmetry* in the pass-through of exchange rates and taxes into prices faced by buyers preserves neutrality

   - Producer currency pricing (Mundell-Fleming)

$$P'_{FH} = \frac{\bar{P}^*_{FH}\mathcal{E}'}{1-\tau} \qquad P^{*'}_{HF} = \frac{(1-\tau)\bar{P}_{HH}}{\mathcal{E}'}$$

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   - Dollar Pricing (Asymmetric)

$$P'_{FH} = \frac{\bar{P}^b_{FH}}{(1-\tau)} \qquad P^{*'}_{HF} = \frac{\bar{P}^b_{HF}}{\mathcal{E}}$$

     - 100% passthrough of taxes and 0% of ER
     - Sizeable decline in imports and exports

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No easy formula for ER change in the absence of neutrality