



The Daily Dish

Who Would Pay for the Wall?

DOUGLAS HOLTZ-EAKIN | JANUARY 9, 2019

President Trump took to the airwaves last evening to make the national security case for a wall on the southern border. Who would pay for such a wall? The American taxpayer.

But that's not what the president [argued](#) last night, saying that the cost of the wall would be recouped from the proposed U.S.-Mexico-Canada Agreement (USMCA): "The wall will also be paid for indirectly by the great new trade deal we have made with Mexico." That makes it sound like the U.S. taxpayer is off the hook.

Unfortunately, AAF's Jacqueline Varas [dissects](#) the assertion and finds that the facts don't match the claim. Notice that for Mexico to "pay" for the wall, the adoption of the USMCA has to raise U.S. income enough that the additional taxes on that income cover the budget outlays for a wall. But there's no evidence that the USMCA will generate economic growth and therefore increase tax receipts. The USMCA does provide stronger foundations for trade in digital goods, for example, and those reductions in trade barriers are a plus. But the USMCA leaves in place the steel and aluminum tariffs and raises non-tariff barriers to trade. These are a minus. The net effect is likely not that different from the North American Free Trade Agreement (NAFTA) that is already in place.

Now one might think that the "taxes" could include tariffs on imports from Mexico, although USMCA does not impose any new tariffs. Might that not provide the money? Unfortunately, individuals ultimately pay those tariffs in the form of higher prices – higher prices that reduce their ability to purchase other (taxed) goods and services and otherwise reduce the level of production in the U.S. economy. It is the net effect that matters, so the tariffs are no panacea. Indeed, most of the explanations of how Mexico will pay for the wall are mistaken re-arrangements of the flows of imports and exports. The Varas report unravels the errors in this thinking.

Every American can decide for themselves whether the wall should be a policy priority. But nobody should be under the illusion that it is free.