

# The American Common Market - Gone!

A new Supreme Court ruling may require all companies to charge a sales tax when selling goods to residents in every state.

July 1, 2018

**Fred Foldvary, Ph.D.**

Economist

One reason why the US Constitution replaced the Articles of Confederation was to establish America as a free-trade area. The U.S. states are prohibited from levying tariffs on the goods imported from other states. As a result, the USA had a common market which generated prosperity and a high standard of living.

The US common market is now gone. Overturning its 1992 ruling requiring that a firm must have a physical presence within a state to levy a sales tax, the U.S. Supreme Court in “South Dakota V. Wayfair, Inc., et al” (June 2018) has now ruled that state governments may tax the goods imported from other states. States also levy a “use tax” on goods from outside the state, equal to the sales tax, but such taxes are widely evaded. Now, with the new Supreme Court ruling, a state may require all companies that sell goods to its residents to charge a sales tax.

The sales tax imposes a large cost on companies that sell goods to the public. Each state that levies it has different tax rate structure and different rules. Foreign companies now have to levy the sales tax to US residents. The cost - of levying the tax and paying it to the state - will be passed onto the buyer. Goods will be more expensive, and the quantities produced and bought will shrink.

Advocates of interstate sales taxes complain that it is not fair for stores in the state to charge a sales tax while stores out of state may effectively sell tax-free, given that the use tax is evaded for goods other than registered cars. Yes, this is unfair, but the optimal solution is not to broaden the sales tax, but to eliminate it. The sales tax is an antiquated 19th-century levy unsuited to the digital e-commerce of the 21st century. Sales taxes are also regressive, taxing a greater portion of the income of the poor than of the rich.

Since US states may now tax imports from other states, the sales taxes will be in effect tariffs on the goods of other states. The elimination of the American common market will reduce American prosperity while increasing inequality. With local additions to the sales tax, any city or county will be able to impose a tariff on goods from other countries.

If state governments seek more revenue, the optimal policy is to tap the land value of the state rather than interfere with interstate commerce. It is of course a political decision to subsidize land value while imposing higher costs on worker-consumers.

© Text Copyright 2018 Fred Foldvary, Ph.D. All rights reserved.

E

Start the discussion...



2

Share

Best

Newest

Oldest

Be the first to comment.

Subscribe

Privacy

Do Not Sell My Data

# Find Out More.

Inside information on economics, society, nature, and technology.

Name

Email

Subscribe

We don't like spam either: you can unsubscribe anytime.

## Fred Foldvary, Ph.D.

Economist

**FRED E. FOLDVARY, Ph.D.**, (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](#)

Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty, Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

© Copyright 1997-2024, [Progress.org](https://progress.org). All rights reserved.