

TAXES AS A PERCENT OF GNP IN SELECTED INDUSTRIAL COUNTRIES, 1959, 1961, 1963, AND 1965—Continued
[In percent]

	1959	1961	1963	1965
United Kingdom:				
Social security contributions.....	3.70	3.90	4.26	4.76
Personal taxes.....	7.32	8.19	8.21	9.18
Corporate profits taxes.....	3.84	2.75	2.64	1.90
Total direct taxes.....	11.16	10.94	10.85	11.08
Indirect taxes.....	13.19	13.27	13.23	14.10
Total taxes.....	28.05	28.11	28.34	29.94
United States:				
Social security contributions.....	3.58	4.06	4.48	4.22
Personal taxes.....	9.18	9.64	9.89	9.27
Corporate profits taxes.....	4.82	4.37	4.39	4.50
Total direct taxes.....	10.00	14.01	14.28	13.77
Indirect taxes.....	8.67	9.29	9.39	9.31
Total taxes.....	26.25	27.36	28.15	27.30

¹ Not available broken down.

Source: National Accounts Statistics, 1956-65, Organization for Economic Cooperation and Development, 1967.

EXHIBIT B

REMARKS BY HON. STANLEY S. SURREY, ASSISTANT SECRETARY OF THE TREASURY BEFORE THE NATIONAL INDUSTRIAL CONFERENCE BOARD

IMPLICATIONS OF TAX HARMONIZATION IN THE EUROPEAN COMMON MARKET

The subject of European tax harmonization has evoked a misty glamour in the United States. Any movement that goes by the description of "harmonization" is attractive in these troublesome days. We also hear about a new tax that is sweeping across Europe, the "value-added tax," which has the intriguing, and also disconcerting for us, shorthand label of TVA. Certainly the question, "Is the TVA good for the USA?" can throw one of my generation off stride for a moment, as he wonders if he is back in the 1930's with the shade of Senator Norris of Nebraska and hearing a replay of Senate debates on our Tennessee Valley Authority.

As a consequence, many are apt to believe the Europeans have suddenly discovered a wonderful new tax system and that the rest of the world should rush to emulate them. The reality is quite the contrary. The Europeans for years have had a serious tax problem on their hands. With the advent of the European Economic Community they have had to face the fact that this tax problem was a serious obstacle to achieving an effective Common Market and the desired economic unity. They have therefore started on the difficult task of correcting that problem.

Background of tax harmonization in Europe

What is this serious tax problem? The tax systems of the EEC countries were all characterized by high rate sales taxes, whose structures were extremely complicated, highly discriminatory and economically inefficient. As to rates, France until this year imposed a 25 percent tax on a value-added basis, and the present rate is 20 percent. The other countries had multi-stage, cumulative turnover taxes (also called "cascade taxes") at basic nominal rates of 4 to 6 percent (Luxembourg was at 3 percent, and Italy at 3.3 percent). These nominal turnover tax rates do not tell the whole story, however, since they were levied at each stage of the production and distribution process. Thus, the German 4 percent turnover tax rate was equivalent to an average rate of 12 percent on the value of the final product.

As to complexity, consider, for example, the French system where in addition to the 25 percent value-added tax (TVA) on manufacturers, wholesalers, and some retailers of goods, there was also a retail sales tax covering other retailers and handicrafts at 2.83 percent, and a sales tax on services at 13.66 percent—along with a whole miscellany of specific excise taxes on such items as entertainment, wines, meat, gasoline, transport. Each tax was characterized by a lengthy list of special rates, exemptions, and options. Thus, the French TVA covered mining and building along with manufacturing—but not farming and fishing and allied processing, or handicrafts. These complexities of basic rates followed by innumerable special rates and exemptions were characteristic of all the European taxes.