

This is a most complex issue, having to do with theories of taxation and the rules of the GATT. As this Committee knows, GATT rules permit indirect turnover taxes on domestic production to be rebated when goods are exported, and permit an equivalent tax to be levied on imported goods. Under these same GATT rules, the U.S. uses the same border tax and rebate system to reflect our own manufacturers' excise taxes, such as those on tires and tubes at our border.

When the border tax system was conceived in 1947, it was considered an "equalization" tax, based on a theory that indirect taxes are passed on to consumers. The theory of taxation on which the border tax system was based is now widely challenged. It appears obvious that indirect taxes are not all passed to the consumer. In whole or part they may be absorbed by sellers. It appears equally obvious that direct corporate taxes, on which the U.S. heavily relies, are not completely absorbed by corporations, as the theory held, but may to varying degrees be passed on to consumers in higher prices.

U.S. negotiators have recently opened talks in GATT to obtain changes in the border tax. We believe this is the best course of action at this time. It is difficult to expect that a 2% charge on imports and a 2% rebate on exports, such as had reportedly been proposed within the Treasury, would produce any real impact on our balance of trade. Although a program of rebate would mean cash in hand to our members, we understand that many of our major trading partners could legally justify additional border taxes should the U.S. choose this course of action. Such a course, even though to our own immediate advantage, would in the end be self-defeating.

Neither do we think that a border tax or a tariff surcharge are needed for bargaining reasons, even were our trading partners to accept such measures without retaliation. There are existing remedies in U.S. law for inequities against some American firms and industries. The countervailing duty law provides protection against foreign imports that are subsidized. Section 337 of the Tariff Act of 1930 is intended to provide a recourse for those firms that suffer because foreign firms and their U.S. agents or distributors are violating our anti-trust laws. We have treaties of Friendship, Commerce and Navigation with most countries, treaties that provide that unfair trade practices, and discrimination in other matters such as investment, shall be removed. We have an anti-dumping law designed to curb the selling of foreign goods in this market at prices below those in the home market of the exporter. A national security provision in the 1962 trade act provides for an investigative procedure and special import protection when a sound case of national defense essentially is made. We further have in the 1962 trade act an escape clause and adjustment assistance procedure. Finally, we have the provisions of the General Agreement on Tariffs and Trade, rules that give us rights to take action against foreign trade practices that violates our rights. No doubt these mechanisms can and should be employed more vigorously. But we submit, Mr. Chairman, that they provide a very strong basis for protecting ourselves from injurious foreign practices that are felt by our businessmen both here and abroad.

Mr. Chairman, what concerns us as businessmen about both types of special import charge is not only the likely harmful impact on our trade, but, equally, the impact of an international trade "war" on U.S. business operations overseas. It is vitally important to this country that the climate for U.S. foreign investments be as healthy as possible.

The profits of American owned businesses abroad strengthen American firms and the American economy. These foreign business operations are in a sense the hostages of foreign governments. They operate under host country laws, and they depend on a favorable business climate in those countries. Foreign hostility toward American firms would be one of the first results of a trade war started by this country. There are a number of ways in which this hostility could be expressed—none of which would be helpful. I have in mind such devices as government taxes and licensing policies that could be used to discriminate against existing and prospective U.S. investments.

The diminishing strength of the balance of trade is a serious problem. Putting our own domestic economy in order is the overriding corrective measure. Other measures such as vigorous diplomatic representations on behalf of U.S. interests are in order. The offer of sixteen of our major trading partners to accelerate their Kennedy Round tariff cuts has been encouraged by our Committee in direct contacts with overseas business organizations. While the present offer is conditional on certain U.S. actions that may prove unacceptable, it is in the right direction of multilateral solutions to domestic problems.