

CONCLUSION

The higher productivity of labor has offset a major portion of the higher wage costs paid U.S. steelworkers when compared with foreign wages. Higher material, transportation and capital costs have largely, or completely, offset any other cost advantages foreign steel producers may have. For most steel products, American steel products are already "cost competitive" in U.S. markets. For those foreign steel products which have a present cost advantage, the American industry has it in its grasp through a higher rate of new investment and greater research and development expenditure to eliminate this advantage in most products. However, "cost competitiveness" cannot be equated with price competitiveness. What is lacking is an aggressive price competitiveness to match the high cost competitiveness of the American industry. Steel makers can take small solace in any success they obtain in shutting out steel imports with tariffs or quotas. Under their present policies, if imports do not erode their domestic markets, aluminum, cement, plastics and glass will.²⁷ The rise in steel imports in being a highly visible indicator well may be a blessing in disguise in calling attention to the loss of domestic steel markets to other competing materials, among them steel imports.

The solution to the steel industries' problem of the loss of domestic markets²⁸ is a high rate of investment over the next decade both in plant and equipment embodying recent technological developments and in research and development to create new products and to achieve a future technological advantage, and the introduction of a more aggressive price policy.

(The following statement was received, for the record, by the committee:)

STATEMENT OF RICHARD W. LINDHOLM, PROFESSOR OF FINANCE AND DEAN OF THE GRADUATE SCHOOL OF MANAGEMENT AND BUSINESS, UNIVERSITY OF OREGON

The value added tax is rapidly becoming the major tax of the industrial nations of the world. However it is not being considered in these Hearings. The United States is not seriously considering this approach to the solution of its balance of international payments problem. Nevertheless, the close relationship of the expansion of value added tax use to the international flows of commodities, services and capital justifies a summary at this time of its basic theory and broad operational principles. My analysis which follows is based on over ten years of careful study of the tax as a public finance professor at Michigan State University and as professor of finance and dean of the Graduate School of Management and Business at the University of Oregon.

A NATIONAL VALUE ADDED TAX TO STRENGTHEN THE U.S. INTERNATIONAL PAYMENTS POSITION

The adoption of a value added tax as a major national tax would help to harmonize the U.S. tax system with that of most industrial nations. The term "tax harmonization" has been popularized by Professor Neumark, who completed with others a very influential report for the Member States of the European Economic Community (EEC).¹ It considers how to make national tax systems sufficiently similar so that tax differences do not become a major element in a decision to invest, sell, produce, or where to hold income earned.²

²⁷ These substitutes for steel products have made large inroads into traditionally iron and steel markets. Their prices have all fallen in relationship to steel and their output has grown considerably faster than that of steel. Cf. Council of Economic Advisers, op. cit., chapter 3, and R. Thorn, "The Trouble with Steel," *Challenge* (July 1967), for further discussion of this point. Cf. *Steel Imports*, pp. 109-117.

²⁸ To regain foreign markets, however, will also require government assistance to reduce non-tariff barriers to steel exports and freight rate discrimination. See R. Thorn, "The Challenge to Steel," *American Metal Market*, Feb. 7, 1968, p. 1.

¹ Translation of the Neumark Report of the Fiscal and Financial Committee on Tax Harmonization in the Common Market. The membership of the FFC Committee was Chairman Fritz Neumark, Frankfurt am Main; members, Willy Albers, Kiel; Alain Barrere, Paris; Cesare Cosciani, Rome; Joseph Kauffman, Luxembourg; Maurice Masoin, Brussels; Bernard Schendstok, The Hague; Carl S. Shoup, New York; G. Stamatil, Rome; George Vedel, Paris (Chicago, Illinois: Commerce Clearing House, 1963).

² A definition geared to economic goals suggested by Douglas Dossar and quoted by Melvyn Krauss in "Balance of Payments Aspects of Tax Harmonization," *National Tax Journal*, March 1967, p. 30, is as follows: "... tax structures are deemed to be harmonized when they are moved from an unsystematic to a systematic set of tax rate differentials geared to some objective of economic or political policy."