a substantial reduction in the portion of the U.S. federal government receipts arising from direct taxes and an increase in the portion arising from indirect taxes. To do this would more than likely involve legislation providing for the introduction of a national VAT and to the exemption of low and middle bracket income receivers from the individual income tax, plus a sharp reduction of the corporate income tax on all corporate profits not arising from capital gains and the elimination of all federal excise taxes except those on tobacco and alcohol.

The Congressional discussions, that took place when the 1962 Revenue Act was before Congress and again in the Summer of 1965 and in 1966 in consideration of H.R. 5912 and 13103, demonstrate that the tax differences between the U.S. and Europe are alone sufficiently sharp to warrant new U.S. legislation. The new legislation adopted were stopgaps to permit continued growth of free international economic relations. However, this is not the end of the story.

Domestic U.S. fiscal conditions have become nearly unbearably complicated as a result of the federal tax legislation aimed at arresting the deterioration of the U.S. international balance of payments. Both the domestic and international federal fiscal situation could be substantially strengthened by a fundamental move toward use of the transaction as a tax base.[10]

American tax legislation recommended and adopted during the past six years has not been aimed at a general harmonizing of the American tax system with the tax system existing and evolving in Europe, except in an incidental way, as was pointed out above. *The aim has been to develop procedures to prevent the differences in the prevailing tax systems from placing an unbearable strain on the U.S. balance of international payments under current conditions.* It is questionable if this is the best method of meeting the long-term requirements for the development of the American economic potential and the economic growth of Europe. Also it is a slow and laborious method for harmonizing the U.S. tax system with the existing and evolving tax systems of EEC Member States. The political pressures existing to move European taxation toward the American model have been greatly weakened by the development of VAT as a substitute for the cascade turnover tax. At the same time the economic desirability of the U.S. tax system including VAT as a major tax has increased. In the near future the American people should dare to experiment with a rare innovation, a rational tax program.[11]

Mr. FULTON. Our next witness is Mr. Cerf.

Mr. Cerf, we welcome you in your appearance before the committee and ask that you identify yourself for the record.

STATEMENT OF JAY H. CERF, MANAGER, INTERNATIONAL GROUP, CHAMBER OF COMMERCE OF THE UNITED STATES; ACCOMPANIED BY MRS. KAY VEST, FOREIGN TRADE DIRECTOR; AND HENRY W. MOORE, JR., RESEARCH ASSOCIATE, ECONOMIC ANALYSIS AND STUDY GROUP

Mr. CERF. Thank you, sir.

I am Jay H. Cerf, manager of the international group of the Chamber of Commerce of the United States. On behalf of the chamber I want to thank this distinguished committee for the privilege of presenting several of our views on foreign trade policy in 1968 and beyond.

If I may, I should like to introduce my colleagues.

To the right of me is Mrs. Kay Vest, foreign trade director, of the national chamber, and Mr. Henry W. Moore, Jr., who is research associate in our economic analysis and study group.

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[10] Richard W. Lindholm, "Adaptation of Tax Policy to International and Great Society Requirements," *Tax Changes for Shortrun Stabilization, Hearings of Subcommittee on Fiscal Policy of the Joint Economic Committee,* (Washington, D.C.: USGPO, 1966), pp. 288–291.

[11] Frederick G. Reuss, *Fiscal Policy for Growth Without Inflation,* (Baltimore, Md.: The Johns Hopkins Press, 1963), p. 280.