value of 100. In 1967, at the German border, there was an import duty of 13%, adding 13.6 points to the price. A 6% import tax adds 7.1 points to the index. So the landed price of the U.S. product at the West German port is 125.2 index points in 1967.

By 1973, the import duty will be cut in half (6.5%) but the import or border tax will match the expected t.v.a. rate of 17%. So the landed value goes up to 130.2 points under the new t.v.a. tax system, in spite of Kennedy Round tariff reductions.

A system of tax rebates works to subsidize exports of integrated European firms in the cascade tax countries. Exhibit VIII shows data derived from exports of General Electric subsidiaries in Common Market countries. The "waived" tax simply shows the extent to which exports are exempt from sales taxes. The intermediate line shows the additional rebate which the government pays the exporter and which supposedly is a function of the average number of turnovers in a given industry. To the extent that a European exporter is highly integrated, the rebate tends to exceed the actual tax burden. It represents an outright export subsidy.

The specific manner in which the excess rebate system operates as an export subsidy is shown in Exhibit IX. Our West German subsidiary manufactures an electric alarm clock which has an f.o.b. plant price in West Germany of $3.86. When this clock is exported to the United Kingdom, the West German government waives 18 cents of inland sales tax and turnover tax. It also pays the German manufacturer an excess rebate of 11 cents. Thus, the clock leaves the German plant for its destination in the United Kingdom at a price of $3.57—or 29 cents less than its price in the German market.

Tax rebates to manufacturers in Europe thus affect competitive positions in third markets. Exhibit X demonstrates the effect on refrigerators going to the United Kingdom, from U.S. and Italian plants. In each case, the price for home markets equals 100 index points. Going to export markets, the manufacturer in Italy gets tax waivers and rebates amounting to 25 points, reducing his export price to 75 points. By the time both have paid duties, customs, and transportation, the total landed value at Liverpool is 125 points for the U.S. product, and 99 points for the Italian product. This gives the manufacturer in Italy such an advantage that, in the case investigated, he decided to take 10 points in extra profit, and sold at 109.

It is conceded that these built-in trade advantages of high-rate sales taxes will diminish in the future as the EEC switches from the cascade to the t.v.a. system. But as long as the EEC countries base their import taxes on landed cost, and as long as their rates exceed U.S. sales taxes by a factor of four, EEC countries will continue to benefit from the current border tax practices.

Conclusions

A realistic interpretation of these data suggests that nations which rely primarily on direct taxes face a chronic problem in international trade, when they compete with industrialized nations whose tax structure is more heavily oriented toward indirect revenues. This in turn raises the question of whether the United States will be capable of correcting its balance of payments problems without either adapting its own tax structure along the lines of its key competitors, or obtaining GATT revisions that treat direct and indirect taxes more equitably for purposes of international trade.

EXHIBIT VI

EUROPEAN TRANSACTION TAXES, 1967

[In percent]

U.S. export of—	National turnover tax rate	Import equalization taxes	
		Official rate	Effective rate (percent of U.S. f.o.b.)
Tungsten carbide to Belgium	7	11.5	13.5
Refrigerator to West Germany	4	6	8.4
Molding compound to Netherlands	6	6	7.3
X-ray equipment to France (t.v.a.)	25	25	35.1