

forward and absorbed by the consumer. Conversely, the GATT rules assume that direct taxes, such as income taxes, are always and completely borne by the producer. Theoretically this, of course, means that with respect to indirect taxes, each seller would increase the price of its product by the amount of the tax so that the final price of the product to the consumer would include the tax and thus be entirely absorbed by or shifted to the consumer. Conversely, direct taxes would be borne entirely by the seller and that no matter how heavy the income tax, none of it is ever passed on to the buyer in the form of higher prices.

In recent years this classic assumption has been questioned, and it now seems to be recognized that indirect taxes, *such as the TVA*, may be shifted forward only in part with some part of the tax being shifted backward. Likewise, it is now recognized that a considerable portion, if not all, of direct taxes is passed forward to the consumer.¹

The exact extent of such shifting is not known, and shifting itself is difficult to measure. It obviously differs from product to product depending upon the supply, demand and the multiplicity of other factors affecting price. It seems clear, however, that under existing GATT rules American commerce is disadvantaged in international trade to the extent there is backward shifting of indirect taxes or forward shifting of direct taxes.²

D. Proposed U.S. Action on Border Taxes

The chemical industry believes that the U.S. must take certain measures that will affect both U.S. imports and exports. An attempt should be made to have the GATT rules amended to allow for rebates of direct as well as indirect taxes, or to have the nations that impose border taxes remove them. Failing to achieve these objectives, a border tax should be imposed on the nations that assess them against U.S. imports. Those nations which do not apply the import tax should be exempt from this tax. Another possible solution would be to adopt a sliding-scale formula for border taxes which would vary with the balance-of-payment surplus of the nation.

E. Surcharge on Imports

One of the ways to help solve the balance of trade and of payments is to place a temporary surcharge on imports. This method has been used by Britain and Canada in the past. We agree that imports should be temporarily deterred and exports should be increased to improve the balance-of-payments. For that reason, we support the proposal as a temporary measure. It is important that any such surcharge should not be applied to essential raw materials in which the U.S. is not self-sufficient.

F. Other Incentives That Could Lead to an Increase in U.S. Exports

One of the most positive ways to alleviate our persistent balance-of-payments problem is through an increase in exports. The rebate of taxes on exports would be one way to accomplish this. For a number of years, Government and industry have cooperated in this effort through vehicles such as the National Export Expansion Council. Despite a number of positive steps such as improvement of export credit facilities and greater emphasis on commercial functions in U.S. Embassies, the goal of a quantum increase in the trade balance has eluded us. This is all the more frustrating because of the relatively minor increase in exports—in terms of our vast production—needed to solve the problem.

The Government is now exploring the incentives that might be used to bring about this desired result. From a chemical industry point of view we tend to agree that some system of export incentives is necessary to favorably modify the economics of exporting many of our products.

Several studies have been made by the National Export Expansion Council dealing with incentives that could increase exports. It is suggested that the recommendations contained in these studies should be considered during review of U.S. trade policy by the Committee.

The MCA believes that income tax incentives will have more impact and, accordingly, will be more helpful in increasing exports than the rebate of indirect taxes. Under the GATT rules such incentives to domestic companies apparently cannot be provided. However, the foreign sales companies which were so popular before the 1962 Revenue Act were never considered as violations of GATT even though the foreign sales income was not currently taxed by the United States. The export trade corporation provisions in subpart G of the Internal Revenue

¹ *Chemical Engineering News*, page 19, May 20, 1968.

² See Appendix A.