

Senator MILLER. The reason I asked, I notice that some accounts in the press and some witnesses have referred to some of these quota bills that are pending in the Senate Finance Committee as Smoot-Hawley Act measures. Since the Smoot-Hawley Act did not have anything to do with quotas, I just thought perhaps we ought to bring out that difference.

Mr. ROTH. I think that is a good point. It could be argued that a tariff at a sufficiently high level in effect has the effect of an absolute quota.

Senator MILLER. Of an absolute quota.

Mr. ROTH. But you are correct.

Senator MILLER. Which would mean nothing. I assume when you say absolute quota, you mean that there would be no imports at all because the tariff would be so high that nobody would be able to buy.

Mr. ROTH. I mean a more limited amount.

Senator MILLER. Sir?

Mr. ROTH. A more limited amount of imports. A quota is not an absolute prohibition.

Senator MILLER. I understand that. A quota is certainly not an absolute prohibition. You might have, for example, a quota on behalf of our domestic consumption. That would certainly not be an absolute prohibition, but it would mean that goods would come in at a low price, probably, whereas if we had a Smoot-Hawley Act approach it might put a very, very high import levy on it, and it might narrow the import quantities down to 50 percent, but they would be at a very high price; would they not?

Mr. ROTH. That is right.

Senator MILLER. You referred to the President's balance-of-payments message of January 1, relating to border tax adjustments on trade. Do I understand that there is some intimation that the Congress might be asked to enact some kind of a border tax as sort of a countervailing offset to border tax arrangements in other countries?

Mr. ROTH. As I mentioned, this is one possibility we have looked at, but not in retaliation against the border taxes of other countries. The whole area, as you know, of border taxes is a very complicated one. It is based on the theory that an indirect tax, like a sales tax, is passed on into price fully, whereas a direct tax such as we have, the corporate income tax, is not. Therefore, based on economic theory of 20 years ago, a border tax for one is legal, and for the other is not under the GATT.

In the last 20 years, economic theory has become more sophisticated. It is now, I think, clearer that not necessarily all of an indirect tax is passed on into price and perhaps some part of a direct tax is, depending upon elasticities. Therefore, we feel that there is a basic inequity in the GATT rules.

On the other hand, because we do not have the analysis we should, it is not entirely clear that in the past our trade has been impaired by the offsetting border tax. But this is one we have to get into in great depth.

Senator MILLER. Do you have any idea how soon we will have hard statistics that would enable us to make an intelligent decision on this?

Mr. ROTH. There are two problems. One, what we might consider the basic inequity and the basic difficulty of two systems of taxation operating together. The other is a more specific and immediate prob-