STATEMENT BY THE REPRESENTATIVE OF THE UNITED STATES  
ON 23 APRIL 1969

This is but a brief summary of our views in view of the procedure suggested by the Chairman. First, we would like to draw the attention of the Working Party to the statement made by our delegation on 30 April which should serve as a background for this meeting.

The present rules of the GATT favour countries with tax structures of an indirect character which are adjusted at the border, and discriminate against countries which rely primarily on direct taxation not adjustable at the border. This has a discriminatory result in the trade and payments effects.

In our opinion the problem can be separated into three parts:

1. The structural problem. There is question whether there should be any adjustments at the border for internal taxes and if so, how extensive should they be. Again, should adjustments be of a certain type only? The present situation of full compensation for certain types of indirect taxes and of no compensation for all other types is wrong. Full compensation for certain types of indirect taxes means that in countries relying heavily on such taxes there is an unfair amount of overcharge on the import side and an excessive rebate on the export side.

2. Changes in the level of border adjustments. These changes influence the trade account and the payments position of the implementing country. During the discussions that have taken place in this Working Party a distinction has been made between changes that occur simultaneously with the domestic tax changes of an equal amount, and changes that occur without a change in the domestic tax level. The latter case has very clear effects on trade. Those countries that simply alter their border adjustments without corresponding domestic changes can improve their balance-of-payments position significantly. Those that alter their domestic taxes and adjust simultaneously at the border for such changes do not suffer adverse payments effects from this increase in domestic prices.

3. The ambiguity in the present rules. This ambiguity has created conditions under which the practices of countries do differ from each other. These differences have given some countries advantages over others. Moreover, this has created an unstable situation since it would be normal for countries to try to imitate the more questionable practices by which some countries gain trade advantages through stretching the rules.

These three problems must be resolved.
There are subjects covered in the OECD report which need further consideration. One of them is tax shifting. Any change in any general indirect tax, adjusted or not at the border, not only affect goods and services but also other variables in the economy such as consumption, overall investment, level of imports and exports, money supply, wage and interest rates, as well as probable changes in the level of government expenditure. These aggregate variables are important because one of the fundamental questions with regard to shifting is whether one should assume that these variables are automatically adjusted so as to bring about full shifting or whether they are not, simply because governments do not, and probably cannot, change the determinants simultaneously in such a way as to allow the price of goods to increase by precisely the amount of new tax.

Some argue through partial equilibrium analysis that direct taxes are not shifted, and in so doing, they make a number of assumptions on how firms behave. They assume a perfect competition model and do not take into account the actual results of empirical research on business firm behaviour.

The examination of the recent experience of some countries now present at the meeting, with regard to actual price changes, taking into account other adjustments in their economic policy, would be helpful in understanding and solving the foregoing problems. The special measures taken by France and the Federal Republic of Germany in November 1968 could be illustrative of the trade effects of border adjustments.

It is important to note at the outset that to quantify in precise trade terms the trade effects in relation to tax adjustments is a very complex matter on which it is difficult for countries to agree. However, during this meeting, estimates and tendencies can be discussed.

The United States believes that the present rules do not reflect satisfactory approximation of reality and that a better approximation of reality is needed.