Value-added taxes put U.S. manufacturers at disadvantage

by Phyllis_Schlafly

Daniel Drew, the legendary 19th century Wall Street insider, reputedly said that all he wanted in any deal was "a little unfair advantage." Most of America's trade competitors seem to want the same thing, or even a big unfair advantage.

Imagine how it would help the competitiveness of American exporters if U.S. companies could cut their prices an average of 19 percent in Europe and 17 percent in Asia. Imagine what it would also mean if foreign imports into the United States from overseas were raised by the same percentages.

U.S. financial generosity to our allies after World War II included giving them special trade advantages to help speed up their postwar recovery. The United States agreed that they could rebate to their producers any indirect taxes they paid on goods they exported to the U.S., and they could also impose an equal charge on any U.S. products they imported.

Those nations recovered from World War II many years ago, but they still cling to what started out as a little advantage but has steadily increased to become a massively unfair advantage. The cost to U.S. producers increased to a whopping $327 billion in 2006.

In practical terms, this means that the German manufacturer of an automobile exported to the United States gets a rebate from the German government equal to the indirect taxes paid in Germany, a type of tax called the value-added tax. Since the VAT rate in Germany is 19 percent, the German carmaker gets a 19 percent tax rebate on every vehicle exported to the United States.

That's a significant subsidy to German auto manufacturers which enables them to sell cars in America for much less than they sell for in Germany. But what about U.S. automobiles exported to Germany?

A U.S. manufacturer exporting an auto to Germany must pay the German government a VAT equivalent tax of 19 percent of the price of the car plus 19 percent of all the costs of transportation, insurance, docking and duties involved in getting the car to Germany. The U.S. company gets no credit for corporate taxes it pays in the United States.

Today, 157 other countries use a VAT tax system that gives foreigners a large and unfair advantage over U.S. producers in both our markets and in foreign markets. This two-edged sword cost U.S. producers $327 billion in 2006.

But that's not all. The VAT advantage also creates a perverse incentive for U.S. companies to move their plants and jobs to other countries so they, too, can take advantage of the VAT subsidy.

Thousands of U.S. producers have already shifted their production overseas to get the same tax break, and more are ready to follow. Even companies that don't want to leave the United States have little choice when faced by competitors who move overseas and cut their prices.

U.S. producers face another inducement because most banks are now reluctant o lend money to companies that refuse to move offshore, particularly to China. The banks don't want to risk lending to a company facing such strong disadvantages.

The outsourcing of factories and jobs is devastating towns, counties and states all across America. It badly reduces the tax revenues that would otherwise be paid by successful U.S. companies and their employees.

Congress tried repeatedly to address this injustice by instructing our trade representatives, in 1974, 1988 and 2002, to negotiate away the unfair VAT advantage. Our so-called friends and "trading partners" refused to deal with the issue, or even to talk about it.

Congress tried another tack to redress the VAT imbalance by modifying our U.S. tax system in 1971, 1984, 2000 and 2004. But the European Union filed a case against us at the World Trade Organization in the early days of the George W. Bush administration and got the WTO to rule our legislation illegal.

Our laws were completely constitutional, but Congress decided to repeal them rather than risk a trade war.

The big question is, how can the United States offset this massive economic disadvantage that cost our producers $327 billion in 2006, and resulted in the loss of 3 million U.S. manufacturing jobs in the last six years?

Some members of Congress are now considering legislation to allow our government to impose a fee on imports from other nations that is exactly equal to the VAT subsidy given them by their home government, and also to give U.S. producers a rebate on their exports exactly equal to the VAT charge imposed on them by a foreign country. The former would more than pay for the latter, so this plan should be cost-free to U.S. taxpayers.

The goal would be to get equal treatment for U.S. producers both in home and in foreign markets. Our hope would be that foreign countries that have been enjoying the VAT scam would realize that the United States is no longer willing to be Uncle Sucker, so they had better change their policies and agree to a level playing field.

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