

adjustments. This is so because the tax burden, relative to GNP, is higher in most continental European countries than it is in the United States or the United Kingdom. In this respect a truly "ideal" system of border adjustments designed to produce tax neutrality in international trade should probably take account of government expenditures also. For instance, where tax revenues are employed to reduce production costs, countries rebating indirect taxes may actually reap a double competitive advantage. For example, if an excise tax is levied in order to fully finance a national transportation system, domestic producers would in effect have zero transportation costs on their exports, since the excise tax would be rebated at the border. If in addition, the tax is not fully reflected in final prices, a full rebate would give the exporter a second trade advantage over outside suppliers.

TABLE 2.—Selected countries: General Government revenues and expenditures as percent of gross domestic product, 1965

	United States	United Kingdom	France	Germany	Italy	Netherlands
1. Indirect taxes-----	9	14	18	14	12	10
2. Personal income taxes---	9	9	4	7	(¹)	10
3. Contributions to social security-----	2	3	4	5	(¹)	3
4. Total, 2 plus 3---	11	12	8	12	(¹)	13
5. Corporation tax-----	5	2	2	3	(¹)	3
6. Empl. contributions to social security-----	2	2	10	5	(¹)	8
7. Total, 5 plus 6---	7	4	12	8	(¹)	11
8. Direct taxes, 4 plus 7---	18	16	20	20	17	24
9. Other-----		2	1	2	3	3
10. Total current revenues---	27	32	39	36	32	37

¹ Not available.

Source: "National Accounts Statistics, 1956-65," Organization for Economic Cooperation and Development, Paris, 1966.

On the whole, it is fairly clear that it is currently not practicable to construct an "ideal" system of border adjustments. However, this does not mean that nothing can or should be done to remedy clear existing and future inequities arising from the current border tax treatment.

Impending or recent changes in taxation with definite favorable trade effects for the countries which impose them include:

1. Change from a system of cumulative turnover taxes to one of value added taxes, where tax burdens are now generally not fully compensated under the cascade system (such a change is now pending in Germany and the Benelux countries);
2. Change from a system of retail sales taxes or cumulative turnover taxes including investment goods and fuels (which currently are not rebatable) to a value added system which excludes these items and imposes a higher rate on consumption goods.