

This is not to say that continued study of the value-added tax is not useful. At the very least we should know what the Europeans are doing. But the studies should be tough-minded and straight-forward. They should not be content just to admire the outside wrappings and never examine the contents of the package. They should not become bemused with semantics and fail to make clear that the European value-added taxes are in fact sales taxes in their structural design and economic effects. Hence, to substitute a value-added tax for the corporate income tax does not involve just another way of taxing corporations. The issue is not, despite the way it is sometimes put in the United States, of economic and technical judgments over two methods of taxing corporate business. The basic issue still remains that between substituting a sales tax on personal consumption for an income tax on corporate profits. However appealing to some may be the semantic gain, the issue should not be allowed to be blurred by omitting the term sales tax when we discuss the value-added tax.

If we are to study the adoption of a sales tax in the United States we should extend the studies to encompass the retail sales tax as well. The studies should also recognize there are many issues to be explored in addition to that of regressivity and the allocation of the tax burden between consumers and investors. Thus, there are considerable shifts in burden among the various sectors of the economy when a value-added tax or any sales tax is substituted for a corporate tax: e.g., banks and financial institutions are generally exempted (that is, the tax does not reach their services but may reach their purchases); the activities and profits of foreign investment are not reached; unincorporated business gets swept into the structure of a value-added tax; the tax falls on unprofitable concerns as well as profitable concerns so that if the tax cannot be shifted forward the former concerns will suffer; the coverage of Government-provided services becomes an issue. All in all, there is much more to be studied than the calls for study have generally indicated.

In pursuing such studies we must also remember we already possess a "common market" and economic unity within the United States and so do not have the sales tax problems that the Europeans must solve to achieve their economic unity. As stated above, we do have retail sales taxes in most of the various States, but they do not produce any serious economic distortions or competitive effects. There may be some irritating compliance problems for interstate business, but even these are moving, albeit slowly, to improvement. Hence we do not have any sales taxes to "harmonize" as do the Europeans.

In this regard the same story may be told for what may some day be the next major step in tax harmonization for the EEC—the harmonization of corporate income taxes. We in the United States invest and our businesses operate in our "common market" under our Federal corporate rate, which applies uniformly throughout the United States. While State corporate income taxes exist and differ as to rates, their deductibility from the Federal corporate tax greatly lessens their effective rate, although irritating compliance and bookkeeping aspects remain. But Europeans in their common market must invest and operate under as many different high rate corporate tax systems as there are countries involved—systems that differ both as to rates and structure. So if Europe finally decides on a common corporate tax, it will, as respects economic unity, merely be reaching the stage the United States has enjoyed for many years.⁵

European border tax adjustments—Their background

Let us turn now to an aspect of the European sales tax systems that has been highlighted in recent years as a result of our balance of payments problems—the aspect of export rebates and compensatory import taxes that characterize the

⁵ Other aspects of harmonization that have a similar consequence may briefly be noted: A common market implies a relatively free flow of capital within the market area and will therefore require removal of existing restraints on capital movements. There will be increasing concern among European countries on the extent to which differences in other aspects of direct taxes affect capital flows. Low withholding taxes in a given country would attract portfolio investments from other countries, particularly in the light of the widespread use of bearer shares and bonds. Consequently uniformity in withholding taxes is important. There may also be a reappraisal of attitudes toward the foreign tax credit approach as a means of eliminating double taxation in contrast to the tax exemption approach presently used in many European countries. With more volatile capital movements the consequences of tax exemption of foreign income will appear more serious than in the past. A common market with increased fluidity in capital movements requires the removal of barriers to corporate mergers, reorganizations and the like. Consequently the tax treatment of capital gains, for example, will have to be modified so as to remove a barrier toward integration of industries and reorganizations in line with the emerging needs of an enlarged market area. But again, the United States does not have these problems.