

European sales tax systems. All countries with significant sales taxes or excise tax systems automatically structure those systems to attempt to keep the taxes from affecting external export prices and to ensure the application of the taxes to imported goods. If the tax is a manufacturers tax on the final product—an automobile, a refrigerator, cigarettes, liquor, and so on—then exports are not made subject to the tax, or if taxed, can secure a rebate. Imported goods, on the other hand, are subjected to the same tax as is imposed on domestic manufactured goods, so that both goods will compete on equal terms in the domestic market in this respect. The United States does this for its few manufacturers taxes; Canada does the same under its 11 percent broad manufacturers tax.

If the tax is imposed at the wholesale stage or the retail stage, such rebates and import taxes are not needed: a manufacturer selling goods whether for internal consumption or export is not subject to these taxes; a wholesaler importing goods will pay the tax on his subsequent sale. The sales for export that a wholesaler or retailer may make will be exempted from tax.

The essential principle under which all these taxes are structured is that sales and excise taxes are intended to be paid by domestic consumers in the form of higher prices—that is the purpose of the levy and that is the intended distribution of the tax burden. But at the same time it is intended that a country's exports should not be handicapped by these taxes—and imports into the country should not be favored.

The European turnover taxes followed the same principle but ran into additional complexities. It was simple, of course, to say to a German manufacturing firm that it need not pay the 4 percent turnover tax on an export sale. But what about the 4 percent taxes paid by the manufacturer on purchases from its suppliers of materials of almost every sort—these 4 percent taxes were built into the costs of the manufacturing operation, just as the 4 percent taxes the suppliers had to pay on their purchases were built into their costs and also passed along as part of the prices charged by the suppliers. For that is the vice of turnover taxes—they pyramid in prices throughout the economy. The economic effects of these taxes were significant at the high rate levels applied in Europe. The principle of protecting exports therefore required a rebate of these taxes previously imposed in the production chain and which cumulated as costs for the manufacturer on its purchases, or for the wholesaler if he was the exporter. But how much should be rebated? Here these countries had to compute the amount through an estimating procedure, for these high rate taxes were hidden in the price structure and, moreover, their total would vary with the extent of integration of productive activities in the prior stages. The European countries therefore carefully developed average figures and used them for the rebates. Corresponding figures were used for the import charges.

A common market ideally requires a tax system that does not have complex border adjustments. A common retail tax would accomplish this—as pretty much occurs in the United States—if care is taken to keep the tax from applying to purchases for business purposes. Failing that, if border adjustments are to exist, their calculation should be made with as much precision as possible. It is here that the value-added tax provided an extra advantage for the Europeans. For just as the value-added tax eliminated for internal sales the distortions resulting from pyramiding and differences in integration of business activities, it also by the same token and procedure offered a ready measure of the taxes that the exporting firm had to pay because of its purchases. Indeed, under the German value-added tax, a firm is given a “rebate” through refund or credit for all of the taxes it has to pay on its purchases, whether its goods are sold internally or externally. The structure of the tax thus readily enables the Government to determine the amount of export rebate needed to reflect the exporter's book costs representing the taxes paid on its purchases. And it similarly permits the fixing of the amount of import charge to reflect the taxes paid by domestic concerns.

In time, of course, if Europe can achieve uniform value-added rates, then it could abandon these border adjustments, export exemptions and import charges for intra-EEC trade, and simply go to the rule that the country of origin taxed the sale. It would be a matter of indifference—within the Common Market—as far as import and export competitiveness are concerned, whether the exporting country were to grant an exemption or rebate and the importing country impose an identical import equalization tax (the “destination” approach), or whether the exporting country taxed the export and the importing country did not impose its import tax (the “origin” approach). There would be some effect on national revenues to the extent that trade is not in balance, but this would be minor. The