

border adjustments would, of course, remain applicable to trade by the EEC with other countries.

But the day of uniform sales tax rates will take some time to arrive in Europe. In the meantime the shift to value-added taxes has brought about a precise system of border tax adjustments given the structure of the taxes, and this will facilitate economic unity within the Common Market. In this setting our discussion can turn to the effect on the external trade of the Common Market countries, especially as respects the United States.

Border tax adjustments and international trade

In the German situation, the rebates for taxes paid on goods purchased by the exporter and import charges under the value-added tax are turning out to be higher than the averages used under the previous turnover taxes. This varies, of course, from product to product but the over-all result is higher. In effect, it would appear that some German exporters had presumably not been receiving rebates at the level that their tax costs under the turnover taxes appeared to call for.⁶ Of course German exporters presumably had adjusted to that situation and effect of the undercompensation if it existed could no longer be traced through all the prior history of exchange rate changes, devaluations, and the like. Hence viewed as of today as the starting point in time—which is the proper way to consider the effects of the change—this sudden increase in export rebates under the value-added tax, while the internal overall burden of the tax remains unchanged, becomes an advantage to German exporters. And equally, the rise in the import charges can be an added competitive burden to imports.⁷

What is happening in Germany is, and will be, reflected elsewhere in Europe as the countries shift to value-added taxes. The Netherlands, Austria, Belgium, and Italy are even raising their rebates and import charges under their existing turnover taxes in advance of a later shift to a value-added tax. Sweden is shifting to a value-added tax because it realizes that its previous "retail tax" had been levied on producers' goods and hence was in effect a turnover tax to that extent but it had not been rebated to exporters. As a consequence, European exporters in general will get an added lift in most countries.

There is an additional feature of the shift to a value-added tax that operates to increase this lift to exporters. Countries with a value-added tax seek to achieve as broad a base for the tax as possible, since it operates effectively to prevent pyramiding as compared with specific excises. In France, for example, the reforms of the value-added tax have been in the direction of increasing its coverage and eliminating other taxes. Any commodity previously taxed under a specific excise tax but now swept into a value-added tax immediately falls into the rebate process, under the structure of the latter tax, so that the tax paid on the purchase of the commodity is rebated whether the business concern at that stage is selling internally or abroad. Hence, the result is that a number of hidden, and hitherto unrebated taxes, in effect come to light and now are rebated—and also included in the import charge.

But what about the rest of the world? The United States does not have a high rate sales tax and therefore only rebates its specific manufacturers taxes on final products. The United Kingdom has a purchase tax at the wholesale level which over-all does not require rebates for tax costs since essentially it did not apply to business purchases. Canada also does not apply its manufacturers tax to most business purchases and likewise does not need rebates except for any tax paid on the final products that are exported; similarly neither does Japan for its variety of manufacturers excise taxes. Thus, unlike the European countries whose high rate turnover taxes entered into the costs of exported goods through the cost of the goods purchased by the exporter and thus necessitated export rebates and import charges, these countries did not apply their sales taxes to business purchases and thus did not have high sales tax costs imbedded in their exported goods. As a consequence they have not been as rigorous in seeking fully to eliminate indirect taxes from export costs and hence do not have a system of export rebates for tax costs or import charges.

⁶ As Professor Due has pointed out, German businesses had earlier suspected this: "German firms argue that the failure to obtain full sales tax refund places them at a disadvantage, particularly in competition with American and British firms not subject to a similar tax. . . ." Due, *Sales Taxation* (1957), 62.

⁷ The Germans assert that these trade advantages are offset by transitory tax arrangements outside the value-added tax affecting investments in plant and equipment, and state that in any event any calculations are to a large extent hypothetical.