The harmonization of diverse tax systems

As a consequence, these basic aspects of domestic tax systems in their international settings require full international discussion and consultation looking to a solution—a process that is already under way. It is here that we reach an important implication for the United States of European tax harmonization. The premises and rules of GATT with respect to export subsidies and border tax adjustments rest on the generalities of incidence and shifting that I have described. Under those premises and rules the European countries have almost entirely kept their high sales taxes from increasing their export costs and prices. The shift to value-added taxes will underscore this effort and make it easier of accomplishment. In addition, to the extent that the incidence of these taxes in the actual economic world is at variance with those premises and rules, the European tax systems operate in the direction of providing a trade advantage for the Europeans. Looking ahead, most European countries may well be moving to higher sales taxes in the tax harmonization steps needed to perfect their Common Market. Given European tax harmonization, the larger question becomes that of "harmonization" of their tax systems with those of the United States and other countries in a broad sense. This "harmonization of tax systems" does not, however, mean the uniformity of taxes that harmonization connotes within the EEC. Rather, it means the process whereby national tax systems that may differ both in kind and in burdens imposed can coexist in the world without creating difficulties for each other—can coexist in harmony. The full exploration of this question within the GATT and in other ways can take us into many facets of international trade, including those of non-traiff barriers. It can take us into the mechanisms for reaching adjustments between countries in a balance of payments surplus position and those in a deficit position.

Clearly such exploration is needed to preserve freedom of action for countries to establish their domestic tax systems and the distribution of their tax burdens in keeping with their notions of economic growth and tax equity without at the same time prejudicing their international trade position. The essential question is how many countries which desire to rely on a progressive tax structure or countries which do not wish to place heavy overall tax burdens on their people, and hence have no need for high rate sales taxes, continue in these domestic goals and still maintain in their international trade full competitiveness with the European countries which have a different domestic tax philosophy? For surely a better answer can be found than that the rest of the world to protect its trade position must simply emulate the Europeans and their domestic tax philosophies, whatever may be the impact of that emulation on the tax systems and internal economies of the other countries.

The United States—and the rest of the world—thus has a high stake in a full exploration of these issues—issues which are made both more pertinent and more important by the process of tax harmonization in Europe.

EXHIBIT C

[From the Columbia Journal of World Business—May–June 1968]

Set the rates high and cover as many people as possible. The value-added tax will do all this and something more: it will favor exports. It is the latest European position in

THE WONDERFUL WORLD OF TAXES

(By Stanley S. Surrey)

An attorney and Professor of Law, Stanley S. Surrey has had extensive experience in government service. Since 1961 he has been Assistant Secretary of the Treasury for Tax Policy. He is particularly interested in international tax programs and policies and has served on tax and fiscal missions to Japan, Venezuela and Argentina. Mr. Surrey's comments are adapted from his address at a recent meeting of the National Industrial Conference Board.

The tax systems of European Common Market countries have for years been characterized by high rate sales taxes, whose structures were extremely complicated, highly discriminatory and economically inefficient. France, until this year, imposed a 25% tax on a value-added basis; the present rate is 20%. The