

If Europe achieves uniform value-added rates, 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 company were to grant an exemption or rebate and the importing country impose an identical import equalizations 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 border adjustments would, of course, remain applicable to trade by the EEC with other countries.

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. It is in this setting that the question of the external trade of the Common Market countries, particularly with the United States, can be discussed.

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. Presumably, some exporters had not been receiving rebates at the level that appeared to be called for under the turnover taxes. German exporters presumably had adjusted to this situation over the years, and the effect of the undercompensation, if it existed, can no longer be traced through all the prior history of exchange rate changes, devaluations, and the like. The net effect of this sudden increase in export rebates under the value-added tax, while the internal overall burden of the tax remains unchanged, is an advantage to German exporters. Equally, the rise in the import charges is an added competitive burden to imports.

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 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 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 advantage in most countries.

Coverage increased

There is an additional feature of the shift to a value-added tax that operates to increase this advantage 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 tended to increase its coverage and eliminate other taxes. Any commodity previously taxed under a specific excise tax but not 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. The result is that a number of hidden, and hitherto unrebated taxes, in effect come to light and are rebated and included in the import charge.

What about the rest of the world? The United States does not have a high rate sales tax and 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 does not apply to business purchases. Canada does not apply its manufacturers tax to most business purchases and 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. Unlike 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 generally apply their sales taxes to business purchases. A high sales tax was therefore not a part of the cost of their exported goods. As a consequence, they have not been rigorous in seeking fully to eliminate indirect taxes from export costs, and do not have a system of export rebates for tax costs or import charges.