

*Competitive effect*

It is not the levels of rebates and the differentials between them that measure the competitive effects of border tax adjustments. If Country A has a value-added tax of 10% and rebates to an exporter the total of the taxes, at a 10% level, that he has paid on his purchases, it means that Country A does not want his tax costs, which are real, to enter into export prices. If Country B has no value-added tax or other sales tax, then there are no comparable tax costs to rebate to its exporters. However, knowing only these facts does not really explain trade competitiveness between these countries. It is not B has no subsidy. Nor can it be concluded that the goods of Country A have an advantage entering into Country B because no import charge is imposed whereas the goods of Country B face a 10% charge on entering Country A and are at a disadvantage there. If sales taxes were fully shifted forward, the goods of both countries would, in terms of sales taxes and border adjustments, be on an equal competitive basis in spite of the different levels of adjustment. When such taxes are not fully shifted, the exporters of Country A have an advantage over the exporters of Country B—not necessarily to the full extent of the differentials in border adjustments but rather to the extent to which the tax in Country A is not shifted forward.

*U.S. disadvantage*

These are difficult, intriguing—and highly important—questions. They will become more acute if the Europeans take the next step of harmonizing their indirect tax rates; this could mean an increase in the value-added taxes—perhaps to 15% or more—for all countries except France, which today is at 20% (on the value of the product excluding tax).

Certainly, to the extent that the generalities are not fully valid, the disparity in indirect tax levels can only work to the disadvantage of the United States in world trade. The extent of that disadvantage and the extent to which it has been adjusted for in prior exchange rates and devaluations may be difficult to measure, but the direction is disadvantageous to the United States.

As a consequence, the 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. The premises and rules of GATT with respect to export subsidies and border tax adjustments rest on the generalities of incidence and shifting. Under those premises and rules, the European countries have almost entirely kept their high sales taxes from increasing export costs and prices. The shift to value-added taxes will underscore this effort and make it easier of accomplishment. 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 tend to provide 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 is really “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 mean the uniformity of taxes that harmonization connotes with the EEC. Rather, it means the process whereby national tax systems that may differ both in kind and in burdens imposed, can coexist in harmony. The full exploration of this question within GATT and in other ways involves many aspects of international trade, including those of nontariff barriers, and the mechanisms for reaching adjustments between countries in a balance of payments surplus position and those which are 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 may countries which desire to rely on a progressive tax structure or countries which do not wish to place heavy overall tax burdens on their peoples and have no need for high rate sales taxes, continue with these domestic goals and still maintain in their international trade full competitiveness with the European countries which have a different domestic tax philosophy? 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.