advantage over countries relying to a greater extent on ineligible taxes? This is primarily a question of economic theory centering upon the controversial question of how taxes are shifted into prices.

The practical question.—Can changes in border tax adjustments within the existing permitted practices affect competitive trading positions of countries? And, if so, what should be done about it? This further question involves considerations of international trading relations (should existing practices be modified?) international fiscal questions (should tax systems be harmonised?) and international co-operation (what action cay be taken to counter any harmful trading effects flowing from changes in border tax adjustments) of a particular country?

THE TECHNICAL QUESTION

Apart from excise taxes, stamp duties and State monopolies which in the main present only minor problems, there are two questions to be resolved in determining whether or not the practical operation of border tax adjustments influences competitive trading positions.

Are border tax adjustments likely to be greater or less according to which system of indirect taxation is in operation?

What is the extent of "taxe occulte" in the indirect tax system and how much of it is eligible for border tax adjustments?

To answer the first of these questions it is necessary to describe briefly the three kinds of indirect tax system in operation, i.e.:

Single stage or sales tax;
Multi-stage non-cumulative or value-added tax (TVA);
Multi-stage cumulative or turnover or cascade tax.

Taxes are levied sometimes at manufacturer level, sometimes at wholesale level and sometimes at retail level. The normal method of administering these taxes is to register traders who are made responsible for paying the tax. Registered traders may import or buy taxable goods from other registered traders without having to pay the tax, which in most cases becomes due when the goods are sold to an unregistered person. It usually becomes due also if a registered trader uses the goods for his own business, but materials for making goods can usually be bought by manufacturers free of tax.

Value-added tax (TVA)

The main characteristic of the value-added tax is that, although tax is collected each time an article (or its components) is sold, it is assessed only upon the value that has been added at the particular stage. The sum of the values added at successive stages is equal to the final price of the product, so that the sum of the tax paid at the different stages will equal the tax which would have been payable if it had been collected instead as a single payment at the final stage. Thus TVA is like a multi-stage tax as regads its methods of collection and like a single-stage tax as regards the amount finally collected.

Cascade tax

Tax is generally chargeable whenever a sale is made by one firm to another. Rates of tax are generally low but large yields result from this multiple application, by which tax falls not only on the finished products, but also on their constituents at each separate stage of production. Tax enters into cost at each stage as it is charged, so that apart from any variations in rate, the tax element in final prices will vary from one article to another according to the number of stages through which production has passed and the overhead costs and profit margin at each stage. It is not clear for any given class of product what is the tax burden, since this varies according to the number of times components are bought and sold during the process from a raw material or component to finished product. The significance of this as regards border tax adjustments is that in fixing the amount to be repaid to an exporter or the amount to be charged to an importer to compensate for tax borne on similar products on the home market, it is necessary to base calculations upon an assumed average tax burden for the class of product in question.

Comparison between tax systems

In the light of the above descriptions Table 1 can be constructed to show first how the border adjustment mechanism works for each tax system and secondly the amount of the border tax adjustment under each system. The table is simplified in that it does not deal with the relatively minor question of the varying