

effect on such prices is even greater than that of an equivalent increase in a consumption tax.

Even those who are of the opinion that consumption taxes are not fully shifted into prices and that profits taxes are appreciably shifted, so that the GATT rules are not entirely logical and their effects not entirely neutral as regards international trade, tend to recognise certain offsetting factors. The first is that while these writers consider that it is primarily countries with a relatively high reliance on profits taxes (e.g. United States) which are placed at a disadvantage by existing border tax adjustment practices, they accept to varying degrees that the same kind of tax shifting argument which they apply to profits tax may also be applied to social security charges (especially that part paid by employers), which are also ineligible for border tax adjustment, and it so happens that countries relying most heavily for their revenue on consumption taxes also have some of the heaviest social security charges (in particular France and Italy).

Secondly, while some countries rely more heavily than others for their revenue on profits taxes, there is not a great deal of difference between relative rates of profits tax between Member countries of the OECD, so that to allow border adjustments to be made in respect of profits taxes—apart from the difficulty in devising a means of calculating them, which is a separate question—would be unlikely to affect greatly competitive positions.

Finally, it has been suggested that any advantage accruing as a result of border tax adjustment practices to countries relying predominantly on consumption taxes may have been largely offset over the years by changes in exchange rates and general price levels.

Conclusion on the theoretical question

The theoretical question of whether existing border tax adjustment arrangements favour some countries at the expense of others as a consequence of their different tax structures remains unresolved largely because the question of the extent to which various kinds of tax affect prices of articles also remains unresolved. Consequently it cannot be determined whether a more neutral result could be obtained by some other border tax adjustment arrangement which either restricted or extended the taxes to which the principle of destination applied.

It is, however, generally considered that even if existing arrangements have some distorting effect on international trade, this is likely to be slight, and it is not generally believed that any alternative border tax adjustment arrangements would effect sufficient improvement in present practices as to warrant the substantial political and practical difficulties that their introduction would cause. Changes in border tax adjustments within the existing arrangements, whether or not resulting from changes in the structure or rates of internal taxation, present an entirely different set of questions however and this leads to the practical question now to be discussed.

THE PRACTICAL QUESTION

The practical problem is what can or should be done about the effects on countries' international trading positions following from changes in border tax adjustments.

It is immediately clear that changes in border tax adjustments unaccompanied by changes in domestic taxation will affect the trading position of a country, since such changes affect the prices of exports and imports without affecting the price of domestic products. Such changes usually occur in practice because countries operating cascade systems on revising their calculations consider that the export rebate or import equalisation tax on particular products is too low to compensate for the home burden. Whether or not this view is justified, exports of the product in question become cheaper and imports more expensive, so that the trading relationship with other countries is affected.

A more important, because more general, example of changes in tax adjustments unaccompanied by changes in domestic taxation, is the possibility of a country deciding to compensate for "taxe occulte" when it has not hitherto done so. In some countries full compensation for such "taxe occulte" would probably amount to something approaching 5 to 10 per cent of the value of certain products. The possibility of an increase of an amount of this magnitude on imports by way of border tax adjustment illustrates the potential importance of the question since it could, for example, nullify some of the tariff reductions negotiated during the Kennedy Round.