After listening to the Chairman's very able and learned exposition of the complex issues, I tried to reflect on this problem of trade effects of border tax adjustments. It seems to me that there are two basic and cardinal issues which so to say cut across the four-fold division of our work suggested by the Chairman this morning. These two critical issues in border tax adjustments arise from two premises about which consensus seems to have emerged from the general statements made by various representatives. One point of consensus is that precise quantification of forward tax shifting is a difficult or rather an impossible exercise, given our present knowledge of the working of our economies, the theory of tax shifting, impact of fiscal measures, elasticities of demand and supply and, in some countries, lack of adequate statistical data on crucial variables. The second point of consensus seems to be that even in the case of indirect taxes - single stage, TVA, cascade or tax occulte - one cannot claim on a priori ground that there is full and total forward shifting of such taxes in the case of all kinds of products.

Now, one of the two cardinal issues regarding trade effects of border tax adjustments is to determine whether one could establish conceptually that direct taxes are shifted forward. I would underline that this vital issue is to be considered at the conceptual level within the analytical framework of either partial equilibrium or general equilibrium. If a consensus emerges that there is forward shifting of direct taxes on a priori consideration, we could then move on to the practical question of how and at what level or rates border tax adjustments should be permissible regarding direct taxes. This leads me to the second cardinal problem. It is that the practical question relating to the extent of border tax adjustments or the rates at which border tax adjustments should be permissible either regarding direct taxes or indirect taxes leads us to the realm of arbitrariness, given the difficulties of quantification of tax shifting and given the partial forward shifting of both direct and indirect taxes. We should therefore address ourselves as to the tolerable degree of arbitrariness in any border tax adjustment practice, or to put it differently, as to whether a given rate of border tax adjustment is significant or insignificant from the point of view of its trade effects. This again I am afraid will land us into difficulties of quantification. In any case, we should recognize that the arbitrariness in border tax adjustments arises not only at the aggregative or average level but also its degree differs from product to product subjected to border tax adjustment. A relevant and important question in this context is the tolerable degree of arbitrariness in border tax adjustments regarding imports which are not domestically
produced either at all or in a meaningful quantity in the importing country. The tolerable degree of the arbitrary nature of border tax adjustments may also vary regarding imports from one set of countries to those from other sets of countries. This approach will, it seems to me, tie up well with the important question raised by our Canadian friend viz. how to prevent misuse of border tax adjustments concerning selective excise duties directed at specific products which would hit imports.

During our discussion, I hope that we shall take up the problem of forward shifting of direct taxes and deal with the question of tolerable degree of arbitrariness involved in border tax adjustments, arbitrariness in average terms, in terms of different classes of products and in terms of imports from different groups of countries.