

It has been suggested that Canada should implement a system of tax measures to provide increased incentives to exports. Part of this desire arises from an impression that Canada's tax system is neutral to exports versus domestic production while other countries actively promote exports. Part arises from a desire to increase exports and thus Canadian jobs. The possible range of measures that have been suggested is large. The 1979 report of the Hatch Committee, for example, contains a number of suggestions, while the 1978 report by the Second Tier Committee on policies to improve Canadian competitiveness summarized the suggestions offered by 30 sector task forces. While each of such proposals raises its own set of issues, each also shares some general attributes, and raise some fundamental economic and tax policy questions.

Part of the concern motivating suggestions for tax incentives for exports is that the Canadian tax system contains few, if any, explicit incentives for exports while other countries' systems demonstrably do. There are two problems with this point of view. First, the question is not really one of whether Canada should match or exceed what other countries do but rather whether the benefits of such a policy exceed the costs to Canada. There is nothing wrong with Canada enjoying the benefits in terms of cheaper imports from other peoples incentives, though this point of view is not often appreciated by producers, even though they benefit substantially from cheaper intermediate inputs. Secondly, it has to be recognized that while Canada's system may not contain many explicit export incentives, its general corporate tax incentives are significant. One thing is certain, however, if the USA succeeds in making the DISC (Domestic International Sales Corporation) compatible with the GATT, the Canadian government would need seriously to consider its implications for Canadian exporters.

Many of the comparisons of alternative tax systems focus on one or two isolated provisions. As well, the case for export tax incentives often rests on the fact that other countries, notably EC members, levy more indirect taxes which are rebated on exports, while Canada has a substantial corporate income tax. However, Canada's reliance on indirect taxes, including the federal manufacturers sales tax and provincial retail sales tax, is not out of line with that in European countries. Moreover, the link between reliance on direct taxes and trade balances is weak. Indeed, if corporate tax cuts did not affect selling prices (which is quite likely) then any switch of such taxes for VAT/sales type taxes would not improve trade balances and could easily worsen them as the increased domestic inflation fed through into a generally higher cost/price structure.

International differences in the over-all level of tax rates, and in the tax structure as it applies in certain circumstances, can have an important effect on growth, capital flows and the ability of Canadian firms to supply international markets at competitive prices. Any major differences could also affect Canada's ability to attract individuals with special technical and professional skills. International trade is a much larger component of GNP in Canada than is the case for many of our trading partners, particularly the USA. The fiscal burden of tilting the tax regime to favour exports more directly would thus be relatively heavier on Canada than elsewhere. Similarly, Canada cannot afford to enter a competitive race to extend subsidized export credits. Moreover, the use of tax revenues to benefit exports implies a