

Obama Administration Sends Mixed Message on VAT as Fiscal Commission Prepares First Meeting

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By Fred Lucas, Staff Writer



White House Press Secretary Robert Gibbs speaks during the daily briefing at the White House in Washington, Monday, April 19, 2010. (AP Photo/Susan Walsh)

Washington (CNSNews.com) – As President Barack Obama prepares to kick off his National Commission on Fiscal Responsibility and Reform on Tuesday, the administration continues to give mixed messages on whether it supports imposing a European-style Value Added Tax (VAT) on top of all existing taxes to help cover the federal government’s \$1-trillion-plus deficit spending.

While the official line from the White House is that the president is not considering a VAT, comments by the president and administration officials seem to leave the door open to the possibility.

“I think the president, I think the administration, has talked about this,” White House Press Secretary Robert Gibbs told CNSNews.com on Friday. “We have a budget that doesn’t raise the VAT tax. It’s not a proposal that we are working on here. It’s not something that’s being contemplated here.”

A Value Added Tax “is imposed on products as they pass through the production process, each enterprise in the chain of production being taxed on whatever value its operations added to the product,” reported economist Thomas Sowell.

“The advantage of this kind of tax, from the standpoint of the officials who impose it, is that the total amount that the taxes add to the final price paid by the consumer is not apparent, as it is with a sales tax, for example,” Sowell added.

“In general, the less visible a tax is, the more revenue can be collected without resistance or electoral retribution by the voters,” said Sowell. Many European governments use a VAT to generate extensive revenues.

The 18-member fiscal commission co-chaired by former Clinton White House Chief of Staff Erskine Bowles and former Republican Sen. Alan Simpson of Wyoming was created by an executive order from President Obama on Feb. 18.

The panel has a deadline of Dec. 1 to provide recommendations on reducing the federal budget deficit from 10 percent to three percent of the gross domestic product by 2015 and submit solutions for containing the cost of entitlements like Social Security and Medicare.

Currently, the government is obligated to pay out \$43 trillion in Social Security and Medicare over the next 75 years – money it owes in 2010 dollars but does not have the funds to pay.

“I think Democrats and Republicans alike agree we’re going to have to deal with our fiscal situation,” Gibbs said on Friday. “That’s why the president will kick off the fiscal commission’s meetings next week, and as I said, Democrats and Republicans will get together and search for ways we can put ourselves back on a sustainable fiscal path.

“That’s why the president has made some very tough decisions like capping non-security non-discretionary spending for the next three years,” Gibbs added.

The president appointed six members, while the House speaker, House minority leader and Senate majority and minority leaders each appointed three members to the commission. One of Obama’s most controversial appointees is Andy Stern, outgoing president of the politically powerful Service Employees International

Union (SEIU).

When asked about a VAT, the commission's executive director, Bruce Reed, **told** Major Garrett of Fox News, "We need to talk through all sides of this equation. We're going to look at the discretionary spending, mandatory spending, tax reform ... look at the issue from every angle. And also look at ways and making sure that the economy is strong and it's growing faster than debt is growing."

Vice President Joe Biden, appearing on ABC's "The View" on April 22, was asked about the VAT and said, "The president said he was open to listening. ... The president has said everything is on the table. Everything on the table, from cuts to even considering revenue."

The day before, in a CNBC interview, Obama did not rule out a value added tax.

"I know that there's been a lot of talk around town lately about the value added tax," Obama told CNBC's John Harwood. "That is something that has worked for some countries, and something that would be novel for the United States, and before I start saying, 'This makes sense or that makes sense,' I want to get a better picture of what our options are."

Meanwhile, Treasury Secretary Timothy Geithner told MSNBC's "Morning Joe" show that, "The president does not support a VAT, but we all recognize that our deficits are too high."

According to House Minority Leader John Boehner (R-Ohio), "under a 5 percent VAT, a \$3.70 gallon milk would sell for \$3.89" and "a \$2,000 MacBook Pro would cost \$2,100."

"A 5 percent VAT would pump nearly \$300 billion into government coffers, taking thousands from every household," said Boehner in a **statement**.

Because a VAT would affect every consumer, it would violate President Obama's campaign promise not to raise taxes on households earning less than \$250,000

or individuals earning less than \$200,000.

As a candidate during a Sept. 12, 2008 campaign rally in Dover, N.H, Obama said, “I can make a firm pledge: Under my plan, no family making less than \$250,000 will see their taxes increase—not your income taxes, not your payroll taxes, not your capital gains taxes, not any of your taxes.”

A 10 percent VAT would raise about \$500 billion a year for the United States, or about \$4,300 from every household, according to the Cato Institute, a pro-free-market think tank.

VAT taxes typically rise over time, according to the Organization for Economic Cooperation and Development (OECD). An OECD study shows that most European countries began with a VAT of five percent, but then the rates climbed to an average of 20 percent today.

“In sum, a VAT would not solve our deficit problem because Congress would simply boost its spending even higher, as happened in Europe as VAT rates increased over time,” wrote Chris Edwards, a Cato tax policy expert.