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Why Not a VAT?

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Dan Mitchell of the Cato Institute has a [piece up](#) at Reuters about why a Value Added Tax would be a bad idea. Some highlights:

It does not matter, however, how much revenue a VAT generates with a five-percent rate. One of the many problems with a VAT is that it is a hidden levy. Unlike a regular sales tax, which is imposed at the cash register, VATs are imposed at each stage of the production process and thus get embedded in the price of goods. And because the VAT is hidden from consumers, politicians find they are an easy source of new revenue – which is one reason why the average VAT rate in Europe is now more than 20 percent!

If you go back to the mid-1960s, before the imposition of VATs, Western European nations had relatively modest-sized government, only slightly larger than in the United States. Adopting a VAT, however, gave politicians a giant new source of tax revenue. And just like you don't cure an alcoholic by giving him keys to a liquor store, you don't promote fiscal responsibility by giving government a new source of revenue.

Some ... say that a VAT is better for a modern economy with lots of trade. And when you ask them to elaborate, they provide a protectionist argument that the VAT is imposed on imports and rebated on exports. But even for those who think the trade balance is important, this is an absurd argument.

It's worth noting that some prominent fiscal conservatives like [Mitch Daniels](#) have actually supported a VAT on the grounds that it discourages consumption, but encourages investment. The thought here is to get away from taxing income, which encourages people to work and save less. That doesn't mean a VAT is a good idea, but it does make it an interesting subject for debate.

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