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Thursday, June 04, 2009

## 'VATs Mean Big Government' [[Veronique de Rugy](#)]

Cato institute's Dan Mitchell has a great piece in the *Wall Street Journal* about the Value Added Tax (or against the VAT, I should say). There is no doubt that some of the VAT's features, such as its single rate, its consumption base, or its gentler treatment of savings and investments, makes it superior to our current tax system. However, Mitchell reminds us that this is only true if you replace the current income tax with a VAT, not if you add the VAT on top of our income tax. In that case, the VAT is a terrible idea:

VATs are associated with both higher overall tax burdens and more government spending. In 1965, before the VAT swept across Europe, the average tax burden for advanced European economies (the EU-15) was 27.7% of economic output, roughly comparable to the U.S., where taxes were 24.7% of GDP, according to data from the Organization for Economic Cooperation and Development (OECD). European nations began to impose VATs in the late 1960s, and now the European Union requires all members to have a VAT of at least 15%.

Results? By 2006, the OECD reports that the average tax burden for EU-15 nations had climbed to 39.8% of GDP. The tax burden also has increased in the U.S., but at a much slower rate, rising to 28% for that year.

The spending side of the fiscal equation is equally dismal. In 1965, according to European Commission figures, government spending in EU-15 nations averaged 30.1% of GDP, not much higher than the 28.3% of economic output consumed by U.S. government spending. According to 2007 data, government spending now consumes 47.1% of GDP in the EU-15, significantly higher than the 35.3% burden of government in the U.S.

Another argument for the VAT concedes it will increase the overall tax burden but preclude higher taxes on personal income and corporate income. The evidence from Europe says otherwise. Taxes on income and profits consumed 8.8% of GDP in Europe in 1965, giving Europe a competitive advantage over the U.S., where they consumed 11.9%. By 2006, OECD data show that the tax burden on income and profits climbed to 13.8% of GDP in Europe, slightly higher than the 13.5% figure for the U.S.

Last but not least, some protectionists in the business community and on Capitol

Hill are attracted by the VAT because it is "border adjusted." This means that there is no VAT on exports, but the VAT is imposed on imports. For people who obsess about trade deficits this is seen as a positive feature. But they do not understand how a VAT works.

Read the whole thing [here](#).

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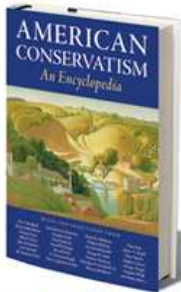


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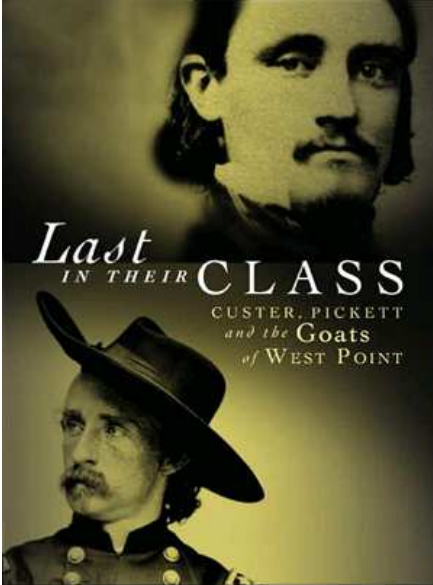
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—William F. Buckley Jr.

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