



**Ideas Changing the World**

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## Daily Policy Digest

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### Taxes

September 13, 2010

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#### If VAT Is Rx for Deficits and Debt, Why are VAT Users on the Brink?

Drums are beating in Washington for a value-added tax (VAT) in addition to the "stimulus" taxes, health care taxes, energy taxes and other taxes President Obama has imposed and wants to impose on hard-pressed taxpayers, says Jim Powell, a senior fellow with the Cato Institute.

Supposedly a VAT is a magic elixir for curing budget deficits and excessive debt. If it worked, though, you'd observe that countries with a VAT had budget surpluses and no debt problems. But almost every country that has a VAT is plagued with budget deficits and excessive debt.

- Iceland has the highest VAT rates, but this didn't prevent its financial crisis and the near bankruptcy of its government.
- Italy's VAT rates are almost as high, and its debt exceeds its gross domestic product (GDP).
- Financial crises are looming in Spain and Portugal, and of course they have a VAT.
- Greece has a VAT, too, and when politicians ran out of money to pay government employees for more than a year's worth of work every year, they rioted in the streets.
- Great Britain has a VAT, and its government finances are in the worst shape since World War II.

Moreover, the Organization for Economic Cooperation and Development has acknowledged that "(VAT) tax and transfer wedges have discouraged firms from offering employment and individuals from taking it, reduced employment and increased inequality."

By disrupting the economy, VAT-induced spending makes it more difficult to handle budget deficits and debt. The last thing we need is a VAT, says Powell.

Source: Jim Powell, "If VAT Is Rx for Deficits and Debt, Why are VAT Users on the Brink?" Investor's Business Daily, August 31, 2010.

For text:

<http://www.investors.com/NewsAndAnalysis/Article/545596/201008311833/If-VAT-Is-Rx-For-Deficits-And-Debt-Why-Are-VAT-Users-On-The-Brink-.aspx>

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