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June 4, 2009

VAT = Big Government

Op-ed in today's Wall Street Journal: [VATs Mean Big Government; The Evidence From Europe Shows That Consumption Taxes Go Hand-in-Hand With Rising Income Taxes](#), by [Daniel J. Mitchell](#) (Senior Fellow, Cato Institute):

The classical argument in favor of a VAT says that it's desirable because it has a single rate and is based on consumption. It is true that single-rate systems (assuming a reasonable rate) are less harmful than discriminatory regimes with "progressive" rates. It's also true that a consumption-based tax would not inflict as much damage as our internal revenue code, with its multiple layers of tax on income that is saved and invested. But these arguments only apply if a VAT replaces the current tax system -- which is not the case here. And the evidence from Europe suggests it's not a good idea to add a somewhat-bad tax like the VAT on top of a really bad tax system.

June 4, 2009 in [News, Tax](#) | [Permalink](#)

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Government begets government and increasing taxes usually increases dependence of more voters on tax money, so any increase in taxation probably leads to more taxation down the road.



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Beyond their obvious covert nature, I think the big disadvantage of VATs is that they penalize industries that have a lot of small companies in a supply chain for a product. Even the paperwork to get VATs refunded becomes a significant burden. VATs therefore favor giant vertically integrated companies that control the entire manufacturing and distribution of a product from raw material to end consumer. VATs push a society further along to the quasi-fascist state in which big government and big corporations join together to create a static cartel. France would be a good example of this dynamic.

Posted by: Shannon Love | Jun 4, 2009 5:15:37 PM

I lived in Germany for over a decade, and I can tell you that a VAT soon becomes applied to almost every good and nearly every service, IIRC by about 19%. It's not just consumption of high-end goods. Want to pay 19% more on having your car's oil changed? Airfare increases by 19%, but actually even more, because airlines will have a VAT on much of what they buy, and will pass the cost on to the consumer. Every lightbulb, every ream of printer paper, almost everything you use on a daily basis, add 19%. This is before the effects of cap and trade increasing consumer prices. It's a bad idea in Europe, leading to a black and gray market in goods and services, it's not something we need to do in America.

Posted by: Rob | Jun 4, 2009 5:15:55 PM

A VAT isn't so much a consumption tax as it is a production tax. The more steps that go into creating the product, the higher the tax. But that's what the US does best--creating complicated stuff that requires a lot of effort to turn sand (or whatever) into something people want to buy.

The very worst thing that the US could do is to impose any sort of VAT tax. If we need new taxes I suggest that we start out with confiscatory style taxes on trust funds that have existed for more than X number of years. The idea of the Camelot Kennedy family being reduced to flipping burgers to survive is an aspect of class warfare that I could get behind.

Posted by: Tcobb | Jun 4, 2009 5:42:17 PM

Here in Doity Joisey, the VAT is known as the Tony Soprano full employment act. What-the-hell, when taxes and duties get too high, it pays to smuggle or steal. They must know this. The only thing keeping this state functioning now is

the underground economy.

Posted by: Pixelkiller | Jun 4, 2009 6:30:28 PM

That's it. We're f**ked!

Posted by: Ferd Berfel | Jun 4, 2009 6:31:13 PM

As an exercise, try to name something tangible bought in a store which does not ALREADY have a "hidden" VAT.

Even without a sales tax, all products have transport fees/taxes, inventory taxes, transfer taxes (manufacturer to distributor, distributor to seller, etc), excise taxes, etc.

About fifty years ago, *Reader's Digest* had an article which tried to cover this: for a twenty-two-cent loaf of bread it showed twenty cents in taxes and fees.

Posted by: teqjack | Jun 4, 2009 6:31:58 PM

The Value Added Tax. Government will always be in favor of a tax that cannot be applied to itself. (smile)

Posted by: Andrew_M_Garland | Jun 4, 2009 7:58:37 PM

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