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Networks Fail to Report VAT Tax Since Volcker Call for Tax Increases

White House adviser calls 15-25 percent European tax 'not as toxic an idea;' some online news media praise consumption tax as 'efficient,' 'only option.'

By **Julia A. Seymour**
Business & Media Institute
4/14/2010 3:14:37 PM

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As procrastinators rush to beat the April 15 tax deadline and thousands rally at Tea Parties to oppose out of control government spending, politicians and the national news media are mulling the possibility of a new European-style national sales tax.

On April 6, former Federal Reserve chairman and current White House economic adviser Paul Volcker revealed the Obama administration's possible strategy to tame massive deficits with a value-added tax (VAT).

"Volcker, answering a question from the audience at a New York Historical Society event, said the value-added tax **'was not as toxic an idea'** as it has been in the past and also said a carbon or other energy-related tax may become necessary," Reuters reported.

"If at the end of the day we need to raise taxes, we should raise taxes," Volcker added that day. In Europe, VAT taxes range from about **16 percent to 25 percent** with an average of roughly 20 percent, according to Olivier Garret of Casey Research. Garrett, who grew up in France, called the VAT "a license to steal without people knowing it."

A VAT is a consumption tax "levied along stages of production," according to the [Wall Street Journal](#). In contrast to Garret, Fortune called it an "extremely efficient, virtually fraud-free way to collect money." But it is also a regressive tax that hits the poor and middle-class and would contradict Obama's pledge to protect taxpayers.

Despite the huge news that the White House was leaving the door open to additional taxes that would hit the poor and middle class especially hard, the three broadcast networks haven't mentioned a VAT tax at all since Volcker's speech. In the previous three months, only NBC's "The Chris Matthews Show" has even brought up the issue.

In contrast to the networks' silence, Fox News Channel and Fox Business Network have brought up the VAT in more than a dozen programs since Volcker's speech. But some print and online news media, including [Reuter's](#) columnist Christopher Swann and Fortune's Shawn Tully, actually promoted the idea of a VAT.

On Feb. 10, Tully wrote, "America is hurtling towards a fiscal trap that is forcing us into the only option we'll have to restore budgetary sanity: A Value-Added Tax."

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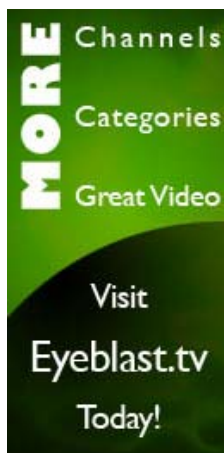
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CNN.com also supported VAT on April 13 suggesting the U.S. “can learn from New Zealand when it comes to taxes.” The article cited New Zealand as the “best” example of a VAT.

“So who does it best? Tax experts and economists point to New Zealand, where a 12.5 percent goods and services tax applies uniformly to nearly everything with very limited exceptions – only rent paid for a private home, charitable contributions and interest earned are exempted. (The government offers clear details, too, on its website.)” wrote CNN’s Dody Tsiantar.

But according to Dan Mitchell, a CATO Institute senior fellow and Business & Media Institute adviser, a value-added tax would be “an economy-killer.”

“Don’t get me wrong: The VAT – on top of all the other taxes Washington imposes – is a terrible idea. Imposing it would pretty well finish the transformation of our country into a European-style slow-growth nation. The right way to close Uncle Sam’s gaping deficits is to reverse the continued explosion of federal spending,” Mitchell wrote in a New York Post op-ed.

Mitchell explained that a VAT has the “virtues” of simplicity and less economic distortion, but ONLY if it were to replace the Internal Revenue code. That, however, is not what Volcker or Sen. Kent Conrad and House Speaker Nancy Pelosi have suggested.

In Mitchell’s opinion, the end result would be a huge expansion of government, rather than deficit reduction.

Liberals Predict, Promote VAT Tax

Especially after Volcker’s comments, the mainstream media should have been examining value-added taxes, talking to tax experts and publicizing the fact that this sort of a tax would be yet another violation of Obama’s pledge to protect the middle-class from tax increases. But they weren’t.

In the past three months, a value-added tax has only been mentioned on one network program: NBC’s weekend talk show “The Chris Matthews Show.”

Matthews casually mentioned the options for reducing deficits on his April 4 program, saying, “You know, cutting deficits comes down to two decisions: you’ve got to raise taxes somewhere with a value-added tax or something, or you’re going to cut benefits. Neither one are pleasant for politicians.”

Guest David Ignatius of The Washington Post joined the discussion predicting that Obama would “build a case for a value-added tax, which gets us out of the – out of this mess.”

The tax was mentioned on CNN during a special called “I.O.U.S.A. Solutions” April 11. That special hosted by Christine Romans aired video clips from the documentary and then discussed the proposals with several panelists.

Panelist Maya MacGuineas, who was in the documentary, told viewers that even with necessary spending cuts there is no way to fix the deficit without raising taxes.

Robert D. Reischauer, former director of CBO and President of the Urban Institute, claimed in the video: “We’re going to have to look at consumption taxes like a value added tax or some form of national sales tax as a mechanism for maintaining some of the benefits that we are promised through our entitlement programs.”

But in the panel discussion that followed no one pointed out the flaws of VAT or mentioned any of the harm it could do to the American economy.

On April 8, the overwhelmingly liberal cable network MSNBC mentioned the problem liberals have with a VAT.

“There is a problem. A value-added tax tends to be regressive. There are ways to deal with that – one way is to provide an income tax credit to offset the regressivity at the bottom. That might sound like a radical liberal proposal, but it’s basically the same thing the national retail sales tax or FairTax people have been proposing,” Leonard Burman of

Syracuse University told Ed Schultz.

Burman was correct about the regressive nature of a value-added tax, but not about its similarity to the FairTax.

FairTax proponents would like to see the entire federal taxation system replaced with a progressive [national retail sales tax](#). It would include a "prebate to ensure no American pays federal taxes on spending up to the poverty level." The recent calls for a VAT have been for additional taxation, not reforming the confusing current system.

I Wanna Be Like Europe (or New Zealand)

Proponents of a VAT often lament that the U.S. is only developed nation that doesn't have one.

That was Alice Rivlin's argument for a VAT in the film I.O.U.S.A. Solutions. Rivlin, senior fellow for the liberal Brookings Institution, said "all the industrialized countries have a national sales tax of some sort."

CNBC guest co-host Mark Olson, Corporate Risk Advisors co-chairman, praised the success of value-added taxes in Europe.

"A VAT makes a little bit more sense ... But the value-added tax, I don't think there's a chance that's gonna happen this year. But it's gonna be something – it seems to work well in Europe." Olson said on "Squawk Box" April 12.

In response, "Squawk Box" co-host Joe Kernan groaned that "We're turning into, we're turning into" Europe.

Reuters economic columnist Christopher Swann supported the creation of a VAT tax. He called it a "money machine," and said "America is alone among rich nations in not charging a VAT, and its continued unwillingness to do so will make it harder to cope with the fiscal challenges ahead."

Instead of suggesting we emulate Europe, CNN.com highlighted New Zealand's example calling it the "best."

"In New Zealand, it [VAT] contributes about 25 percent to the government's bottom line, and the Tax Policy Center in December [projected](#) that a 5 percent VAT tax here would generate over \$3 trillion in revenue by 2019. That's not enough to cover America's huge debt obligations, of course, but it's a start," CNN said.

But conservative and libertarian tax experts like Dan Mitchell oppose following in the footsteps of Europe or New Zealand and warn that such a taxation plan will lead to bigger government, more spending and make it easier to raise taxes in the future.

Mitchell explained that "[real-world evidence shows that VATs are strongly linked 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 percent of economic output, versus 24.7 percent of GDP in the United States."

Then Europe instituted VATs (and the European Union requires its member to impose VATs of at least 15 percent) and the tax burden of EU-15 nations rose to nearly 40 percent, compared to 28 percent in the U.S. According to Mitchell, government spending rose in Europe along with the VATs: from 30.1 percent of GDP to 47.1 percent of GDP.

Another CATO expert, Chris Edwards opposes adding to the tax burden and would prefer spending cuts. "I think America has prospered because the general level of taxation has been lower than Europe," Edwards told CBSNews.com.

But even tax experts who "loathe" the idea of a VAT think the U.S. will head in that direction. Ryan Ellis, tax policy director at Americans for Tax Reform, told CBSNews.com "I think it's coming, in the next five to 10 years certainly."

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