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## VAT Will Spell Anything But Relief

Posted 04/08/2010 06:48 PM ET



Former Fed chairman and now Obama adviser Paul Volcker, getting ready to testify on Capitol Hill Wednesday, sees a value-added tax in America's... [View Enlarged Image](#)

**Taxes:** Asked why he robbed banks, thief Willie Sutton famously replied: "That's where the money is." The same logic is now being used by the White House as it floats the idea of a broad new tax on all consumption.

White House adviser and former Fed chief Paul Volcker, one of the most respected men on Wall Street, broached the delicate topic of taxes Tuesday.

In his remarks, he said a value-added tax "was not as toxic an idea" as it had been in the past, and suggested it might be a way for the U.S. to escape its growing budget crisis.

"If at the end of the day we need to raise taxes, we should raise taxes," he said.

No doubt this is a trial balloon. Based on the \$10 trillion in budget deficits expected over the next 10 years, this is one crisis the White House won't want to waste, as Rahm Emanuel would say.

Already, it's waged open war on the rich — vowing to take as much from those having \$200,000 in income as it can. The 10-year budget plan submitted by President Obama in fact hits that group with \$636 billion in new taxes.

But that's not even close to being enough to pay for the Democrats' reckless expansion of government.

As we've noted here before, Obama's new budget spends \$45 trillion from 2011 to 2020. That's a 70% rise in spending from the previous decade. The only problem is, we're expected to collect only \$35 trillion in taxes — and even that might be an overestimate, based on recent dismal economic growth.

So just going after the rich can't close that gap. The wealthy literally don't have the money. And even if we raised income taxes on everyone, which is highly unlikely, we would have to double current income tax rates to balance the budget, according to a recent Tax Foundation study.

So with deficits averaging \$1 trillion a year through 2020 and spending soaring, where will the

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**Investing Tip**

An IPO's initial base will sometimes be shorter than normal.



money come from?

Answer: A VAT. Only a VAT will give the government enough money to let it continue its out-of-control spending — which now seems to be the Democrats' main political goal.

Right now, the poor and the middle class pay virtually no taxes at all. In 2008, 49% of all households paid no taxes, new data show.

Those who had no tax liability at all receive about \$70 billion in benefits and cash a year. In effect, for many, tax day has become an opportunity to collect a giant welfare check.

Yet, despite Obama's pledge that those with incomes below \$200,000 wouldn't see their taxes raised "one dime," the fact is, they're the ultimate target of a VAT.

Yes, Obama is giving them lots of goodies. But he and the Democrats in charge of Congress know they'll have to tax the poor and the middle class to create the cradle-to-grave welfare state they so desperately want. It's the dream of all so-called progressives.

And it's already happening. In the health care takeover just signed into law, there are 13 new taxes — many of which will hit the poor and the middle class.

Still, that's penny-ante stuff. A VAT, as used in 150 countries around the world, would be a real money gusher — a Trojan horse for tax hikes on all Americans, especially the poor and middle class.

A VAT, remember, is really a tax on consumption. And since the poor and middle class spend a much greater ratio of their incomes on consumption than the wealthy, they'll bear the brunt.

A recent report from the liberal Urban-Brookings Tax Policy Center said: "A major concern with a VAT is that it could be regressive, raising tax burdens proportionately more on lower income than on higher income taxpayers."

Even so, many Democrats point favorably to the European Union's welfare states, where VATs as high as 20% have long been a staple of public finance. The U.S., these critics suggest, would do well to imitate our EU friends.

Or not.

As the Cato Institute's Daniel Mitchell recently noted, "real-world evidence shows that VATs are strongly linked with both higher overall tax burdens and more government spending."

Indeed, in 1965, just before the EU adopted the VAT broadly, the average EU tax burden was about 28%, vs. 25% in the U.S. By 2006, the EU tax burden was 40% — compared with 28% in the U.S.

The VAT tax grew and grew and grew. But Europe's economies didn't. Now, thanks to too much government and excessive taxation, the EU is almost hopelessly behind the U.S. in terms of both innovation and productivity. Is that the future we want?

No. The VAT's a terrible idea. It would bring higher taxes, slower growth, fewer jobs and lower standards of living. But it would do one thing well: give bureaucrats a lot more of your money to spend.

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Posted By: jaytrain(125) on 4/9/2010 | 9:11 AM ET

What's really cool about the VAT is that the Kids get to pay it all. I'm 60+ and I've paid , I reckon , 70% of the taxes I'm gonna pay ,other than estate taxes which I don't really pay .So it's the dopey kids who will pay and pay to finance this garbage . Not to mention the dead weight cost of all the debt piled up . How did we raise such DUMB kids ???

Posted By: 13mogul(240) on 4/9/2010 | 7:10 AM ET

VAT works like this: Product taxed when sold from factory to distributor, taxed again when sold from distributor to retailer, then taxed when sold from retailer to you. Every transaction is taxed. Do you ever wonder why Europeans fly over here to go shopping? Do you ever wonder why the USA is the destination of choice for almost all emigres? Do you ever pause to think what our lives will be like when they have completely Socialised this country? Helloooooo, Canada!!!!!!

Posted By: ngp3(10) on 4/9/2010 | 1:06 AM ET

Ty Coon, corporations are taxed only on their profit. No profit, no tax. So your unsupported statement that "two-thirds paid no tax" is essentially meaningless. Now, where do corporate profits come from? Consumers, that's where. So basically, "corporate income tax" is just another way for the Democrats to get money out of our wallets. The VAT will be no different. Don't think for a minute that a VAT will go to reduce the deficit. It won't. It will go to pay for more liberal spending programs.

Posted By: sneakers(15) on 4/8/2010 | 10:32 PM ET

It looks like Obama has yet another lap-dog. How does he do it? And I once respected Paul Volcker. Right or wrong, Volcker managed to break the inflation spiral created during the mess Carter made and managed the beginning of a long period of sustained prosperity. Part of the governmental policy at that time was a major tax reduction which contributed to growth of the productive economy.

Posted By: Ty Coon(40) on 4/8/2010 | 10:00 PM ET

I think a good statistic is that only 49% of our citizens paid income tax in 2008. It should be zero income tax for all. I also think that what we should do is only tax corporations. Let them pass it on, at least then we won't have to file and worry about taxes anymore. How many corporation pay zero income tax? How many tax abatements do they get? Where's the data on that? I googled it. Two thirds paid no income tax between 1998 and 2005 according to CBS.

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