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John McCain's Irresponsible Demagoguery on the VAT

By [Bruce Bartlett](#)|Apr 16, 2010, 3:22 PM|[Author's Website](#)

It seems like eons ago that John McCain was a senator worthy of respect even when he was wrong. Now he's just wrong. His irresponsible attack on the value added tax yesterday is a case in point.

Out of the blue, McCain introduced a non-germane amendment to pending legislation (H.R. 4851) denouncing the VAT. Here is the full text of his amendment, which is in the form of a resolution expressing the opinion of the Senate:



Credits: Patrick Barry Barr

It is the sense of the Senate that the Value Added Tax is a massive tax increase that will cripple families on fixed income and only further push back America's economic recovery (Senate Amendment 3724, Congressional Record, p. S2302, April 14, 2010).

On April 15, he rose in support of his amendment. Almost all of his statement in the Congressional Record consists of reprinting anti-VAT screeds by the Wall Street Journal editorial page (probably written by Steve

Moore), Dan Mitchell of the rabidly anti-tax Cato Institute, and J.D. Foster of the Republicans' favorite "think tank," the Heritage Foundation. McCain's actual words are worth quoting in their totality:

Mr. President, as my colleagues well know—today is tax day. Earlier today I came to the floor to speak about the enormous burden Americans bear every year in order to comply with today's deadline for filing their Federal tax returns. We have a complex, antiquated and oversized Tax Code that wreaks havoc on American taxpayers and, according to the National Taxpayers Union, will require them to spend \$103 billion this year in compliance-related expenses. When we have a 2,000-plus page Tax Code which requires over \$100 billion in compliance costs—something is clearly wrong. So what is the answer? Amazingly—instead of offering proposals to reform the system and ease the burden on our citizens—some are suggesting creative ways to impose new taxes on Americans and even further complicate our Tax Code.

According to this morning's Wall Street Journal, the Obama administration and its allies have floated the idea of imposing value added tax—a sales tax imposed on each stage of production, on each firm's value added with the actual cost ultimately hidden from the end user with the final bill being paid by the consumer at the cash register. This type of tax has been widely imposed throughout Europe. This morning, in an editorial titled "Europe's VAT Lessons," the Wall Street Journal stated....

While there is no official proposal to impose the VAT—I think it is necessary for my colleagues to be on record on this onerous new tax. Therefore, I am offering this very simple sense of the Senate amendment which calls the VAT exactly what it is—a massive tax increase that will cripple families on fixed incomes and only further push back America's economic recovery.

Daniel Mitchell, a senior fellow at the Cato Institute recently wrote....

J.D. Foster, a senior economics fellow with the Heritage Foundation, wrote....

I agree with Mr. Foster—every current Member of Congress should say where they stand on the VAT. With this amendment I am giving Members of the Senate that opportunity.

Several of my colleagues have explained that they would support a VAT if it was replacing the Federal income tax or the current corporate tax structure. I say to those colleagues that I have not seen a shred of evidence from the administration or anyone in Congress that the VAT would be used as a replacement tax. I am supremely confident that—if and when it is offered—the VAT will be an additional tax on the American people. And that is the last thing the American people need right now. The solution to America's worsening government fiscal outlook is not to increase taxes—it is to cut spending. Congress could get America's economy back on track by focusing on tax relief and simplification, liability reform, regulatory reform, health care security, and energy independence—not on imposing a new, massive tax increase that will cripple middle- and low-income families and delay America's economic recovery.

The solution to America's worsening government fiscal outlook is not to increase taxes, it is to cut spending. Congress could get America's economy back on track by focusing on tax relief and simplification, liability reform, regulatory reform, health care security and energy independence, not on imposing a new massive tax increase that will cripple middle- and low-income families and delay America's economic recovery.

I ask for the yeas and nays on the amendment (Congressional Record, pp. S2351-2, April 15,

2010).

I have quoted McCain in this way because the HTML version of the Congressional Record does not appear to differentiate between a senator's spoken remarks and those inserted by him or her. You can only tell which is which by looking at the PDF version, wherein the type face is slightly different.

It's hard to know where to begin to dissect McCain's guerrilla attack on the VAT. There's certainly no serious effort to impose one in the Obama administration or anywhere else that I know of. I just know of a pathetically small number of serious budget analysts who have looked at the budgetary trends and concluded that Congress is never going to cut spending enough to forestall a fiscal crisis and that a significant tax increase is inevitable. That being the case, it makes sense to raise those revenues, which will be raised in any event, in a way that is least damaging to the economy. Hundreds of years of analysis show that a broad-based tax on consumption is the best way to do that and a VAT is simply the best form of such tax ever invented.

No economist I know of denies this. The problem is that right wing economists have talked themselves into believing that it is better for us to raise taxes in the most economically distorting way possible, better to hold down the tax burden and prevent tax increases. Casey Mulligan of the University of Chicago business school [made such an argument](#) on Wednesday.

Personally, I think this is nuts. Perhaps if there were any evidence that economically debilitating taxes are harder to raise than those with a low deadweight cost (the output that is discouraged over and above the tax itself) I might be willing to at least think about it, but I am not aware of any. My observation is that when faced with a fiscal crisis politicians are more likely to raise the taxes they already have than impose new ones even when they know that the new ones will be less burdensome, which means that we will raise income tax rates when the time comes unless there is some other form of taxation already in place.

Furthermore, I think we have to remember that low taxes or tax rates are not an end in themselves; they are the means to an end, which is higher growth and greater prosperity. In this sense, I think right wingers pay far too much attention to the negative economic consequences of taxation while essentially ignoring the negative economic consequences of extremely large deficits. The only reason we haven't seen such effects already is because investment has collapsed, saving is unusually high, deflation is the dominant economic problem, unemployment is high, and, most importantly, current deficits are assumed to be temporary. When the day comes that markets come to believe that they are semi-permanent—perhaps because markets believe that Republicans will block any budget deal that involves higher taxes and may even be stupid enough to block a debt limit increase—then all hell will break loose; inflation and interest rates will skyrocket and voters will demand action on the deficit.

Sadly, when that day comes many senators may conclude that a foolish consistency—the hobgoblin of small minds—may require them to oppose a VAT because they were blindsided by McCain's amendment and voted for it without thinking. In the final vote, 85 senators supported McCain, not one spoke against it.

Under the circumstances, any senator voting against McCain's demagogic resolution deserves credit. Here are the names of 13 senators with honor and guts: Akaka, Bingaman, Brown of Ohio, Byrd, Cardin, Dorgan, Kaufman, Levin, Reed, Udall of New Mexico. Voinovich, Webb, and Whitehouse (Nelson of Florida and Warner did not vote).

I applaud all of them.

Finally, I wish someone would ask those voting for this resolution how they feel about the [47 percent of tax filers who pay no federal income taxes](#). No doubt, they will all proclaim that it is shameful and a scandal. Then ask

them what we should do about it. If they oppose a VAT then the only other way of getting millions of Americans to pay something to support the general operations of the federal government is to eliminate the tax credits that are mainly responsible for them having a negative or zero tax liability. If they are also oppose to that, then it is reasonable to assume that they are either cowardly, stupid or lying.

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