



Will America Get a Value Added Tax (VAT)?

Former Federal Reserve Chairman Paul Volcker sent up a trial balloon at the New York Historical Society April 6 when he said that a Value-Added Tax (VAT) needed to be considered in light of the huge deficits facing the country. According to Volcker, the VAT is “not as toxic an idea” as many have considered it to be in the past, and “if at the end of the day we need to raise taxes, we should raise taxes.”



He wasn't the first one to float this recently. Charles Krauthammer [wrote](#) late last month that “as the night follows the day, the VAT cometh” and that “a national sales tax near-universal in Europe is inevitable.” Because of the huge deficits facing the nation, exacerbated by the newly passed ObamaCare bill, there is no way out except to raise taxes, according to Krauthammer. Present entitlements like Social Security can be trimmed through salami-slicing: raising taxes on the front end, and delaying payments on the back end. But other potential cost savings in Medicare and Medicaid have already been pre-empted under the fuzzy math of Obamacare, which counted the cuts that haven't been made in those programs yet as a way to make that law appear “revenue-neutral.”

Krauthammer writes:

Obama set out to be a consequential president, on the order of Ronald Reagan. With the VAT [in place], Obama's triumph will be complete. He will have succeeded in reversing Reaganism.

Liberals have long complained that Reagan's strategy was to starve the (governmental) beast in order to shrink it: First, cut taxes - then ultimately you have to reduce government spending.

Obama's strategy is exactly the opposite: Expand the beast, and then feed it. Spend first — which then forces taxation.

Now that, with the institution of universal health care, we are becoming the full entitlement state, the beast will have to be fed.

And the VAT is the only trough in creation large enough.

The VAT is a national sales tax that is applied at each step of production. Obviously, such a tax can



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generate gigantic sums of money for the government. And it has [many advantages](#) to politicians. The collection costs are borne by businesses, not by the government. It is difficult to escape through normal tax evasion strategies and would force the 50 percent of people in the poor and middle classes who pay no income taxes at present to start to contribute to the ever-increasing costs of the nanny state. And its enactment could be accomplished during a lame-duck session of Congress following the November elections and before the new Congress is sworn in. [Brit Hume](#) of Fox News said, "You could hardly get [the VAT] through the Congress right now, but you might be able to slip it through after the [November] election."

As an aside, commentator Dick Morris just [predicted](#) that in November "a sweep of unimaginable proportions is in the offing ... [and that] Republicans will gain more than 50 House seats and at least 10 in the Senate, enough to take control of both Houses." That increases the likelihood that a lame-duck session would try to enact a VAT, prior to the new Congress being seated next year.

Although Fed Chair Ben Bernanke briefly mentioned the VAT in a passing comment in his comments to Congress, the Obama administration is officially distancing itself from consideration of a VAT, at least for now. "Mr. Volcker was speaking for himself and not [for] the administration," according to a White House spokesman. "The President has not proposed the idea, nor is it under consideration." Any such denial is of course suspect.

Opposition to such consideration is coming from various places, including the office of Senator Chuck Grassley (R.-Iowa) which said that "Volcker was expressing what the administration was [in fact] considering: enacting a VAT to cover [its] excessive spending." He said, "Chairman Volcker is giving an unvarnished assessment of where the administration feels it must go. To make up for the largest levels of spending and deficits in modern history, the administration is laying the foundation for a large, misguided new tax, a first-time American VAT." Grassley noted that such a new tax "would only be a cover-up for the government's inability to do what every responsible American household does, and that is to live within their means."

The Heritage Foundation said that installation of a VAT "would devastate families and business, kill jobs, and hammer the economy. The problem is not declining revenues, but rather a spending spree unlike any in American history."

Back in 1972, Austrian economist Murray Rothbard was asked about the VAT:

Well, it's a national sales tax. It is one thing that has not been tapped yet. I think Chodorov said that the principle of taxation that the government always uses is the same principle as the highwayman: Grab them where they are — if it moves, tax it! If you can find something that hasn't been taxed yet, well, tax it. VAT is a new gimmick which hasn't been imposed yet in the United States....

It's a sales tax, so it will tax the poor more than the wealthy. Also, it's a hidden tax, so the public wouldn't realize it. It's a value added tax which is paid by each manufacturer as they go down the list....

It will also bring about vertical integration — mergers — which the government claims are monopolistic. If the thing turns over it means that you pay an extra tax, but if the two firms merge they won't have to pay any tax on that phase of it. So, it will encourage mergers.

The writer at the [Baltimore Sun](#) asked the question: "What's wrong with this tax?" He answered: "We can begin with the fact that it is the very essence of a regressive tax in that it makes people with lesser



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incomes pay a far higher percentage of what they have under it than do people with higher incomes. Also ... this is the tax that beyond all others *provides the fuel for government gigantism*, in part because it is hidden in the price of goods." (Emphasis added.)

It is clear that the VAT would be added onto the many layers of existing taxes levied directly and indirectly on the American consumer. And the amount of new monies to expand further the government into private affairs is massive. Fox News said: "Just think: a 10% VAT would produce 1 Trillion [with a T] in revenues. Cash register sounds go off in the minds of every leftist that hears it."

John F. McManus, President of The John Birch Society, said a VAT "would place more burdens on our nation's already overburdened businesses and industries because of its requirement for [additional] bookkeeping ... another expense that would surely grow in time.

And Ryan Ellis, writing for Americans for Tax Reform, said:

During the campaign, President Obama said he didn't want to raise "any form" of taxes on families making less than \$250,000 per year. He has spent all year trying to get around that promise with his healthcare plan. Now it appears that liberals in Washington are working to build momentum behind a new value-added tax (VAT) on everything we buy. Most recently, House Speaker Nancy Pelosi said that a European-style VAT is "on the table."

So on top of your income tax, your payroll tax, your property taxes, and your state sales taxes, Obama and friends want to slap on a new VAT tax. This would be a brand new tax on everything you buy. Worst of all, you wouldn't even see it (except in the form of higher prices), so politicians will jack up the rate like they have in Europe. It's all part of the Left's plan to permanently [fund the continued expansion of] the size of the federal government.

The underlying false assumption with so much of the current discussion about a VAT is that "the beast must be fed." If Dick Morris is correct about November, and if the gathering influence of the limited government, pro-Constitutionalist Tea Partiers can pull it off, putting the beast on a diet is more than just a dream. It can instead be the beginning of the new American freedom from the beast.



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