

The value-added tax is thus a useful solution to the sales tax structural problems that beset the Europeans and blocked their economic unity. As a consequence, Denmark adopted the tax on July 1, 1967; Germany did so on January 1, 1968; the Netherlands and Sweden plan to do so on January 1, 1969, and Austria is also hoping to change on that date; Belgium and Luxembourg will presumably go to the TVA on January 1, 1970; Italy may not be prepared to switch to TVA by January 1, 1970. The changes in tax structure do not appear for the most part to be designed to bring about significant changes in the total revenue yield of the various tax systems or of the sales taxes themselves. France is reforming its indirect tax structure to achieve a similar application of the TVA.

Hence it is fair to say that the Europeans, by comparison to their present situation, have evolved a far more workable sales tax capable of application at a high rate—more complicated than is needed where a retail tax would work, but still a workable mechanism. *If* a country is in the market for a high rate sales tax and *if* it really believes it cannot handle a retail tax, it should look the European model over. Should the United States be in the market for such a tax?

A value-added tax in the United States?

We can first consider this matter in terms of our domestic tax structure and domestic economy, and then in terms of international aspects.

Certainly we hope that the long-term trend in the United States at the Federal level is not that of tax increase but of tax reduction. There is indeed justification for us to look forward after Vietnam to being able to use our fiscal dividends—the increase in Federal tax revenues that comes from growth in the economy—partly to meet our needed expenditure increases and partly for tax reduction or debt reduction. As a nation we have not, since the Depression, sought to increase our Federal taxes except for fiscal policy reasons in times of hostilities. So we should not want a high rate sales tax on the ground of increasing our tax take.

Do we want it as a substitute for an existing tax? Here there are some—the Committee for Economic Development for example—that have for some time urged we should have a sales tax at the Federal level as a substitute for part of the corporate tax. The CED first urged a retail tax and now a value-added tax. Here we reach, of course, a classic split in tax philosophy—between those who favor maintaining a progressive tax structure at the Federal level and those who would, by shifting to a sales tax, lessen that progressivity. Economists on the whole would agree that the corporate tax is a factor working for progressivity in our tax system even though, as will be discussed later, there is some difference as to whether part of that tax is shifted forward in price or perhaps backward in wages and raw material prices. And there is general agreement that a retail tax, either of the single stage type or that achieved through a value-added tax, would increase the price level and largely be passed on to consumers, though as will be discussed later there can be uncertainty as to how fully this forward shifting is accomplished. The CED itself states that, “While it is true that the tax burden is distributed differently under a tax system with a value-added tax, we believe that the other effects of the tax are such as to compensate the nation in larger output and more growth.”²

There is not the time here to examine in detail the validity of that latter belief, either as to the effect of the tax itself in our economy or the need for further incentives to investment that the statement implies. We must remember that the 7 percent investment credit and depreciation reform operate to provide incentives to investment under our present income tax system. At any event, the literature demonstrates that very many, presumably the majority, of our fiscal economists would disagree with the CED belief that we would be better off with the substitution of a sales tax for a part of our corporate tax. The Conference Report of the National Bureau of Economic Research and the Brookings Institution in 1964 on the subject of “The Role of Direct and Indirect Taxes in the Federal Revenue System” ends with the thought: “It is hard, then, to find much support for more reliance on indirect taxation in the record of the conference, even though some participants came, and left, with a disposition toward this view.” (313) Professor John Due, an acknowledged authority on sales taxes, has concluded:

“On the whole, the sales tax must be regarded as a second-best tax—one to be employed only if various circumstances make complete reliance on income and other more suitable taxes undesirable. A carefully designed sales tax is not

² CED, *A Better Balance in Federal Taxes on Business* (1966), 28.