

EUROPE'S FATAL AFFAIR WITH VAT

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Capital", showing how "Yield Taxes" (sales taxes on timber harvests) slow down average rotation periods. He equates average tree life with the sales/capital ratio simply by inverting the order of integration – a simple trick for him, a math major (1971). It was consistent with his lifelong efforts to tax capital gains as they accrue, following the Haig-Simons definition of income.

Summary

We are left with this. Jobs depend on turnover. Turnover is measured by the sales/capital ratio, which varies hugely among different firms, products, locations, stages of the cycle - and tax regimes. Elected officials control the last, and we as economists try, at least, to influence elected officials. Sales taxes, rampant and rising in our times, depress turnover heavily, and so depress demand for labor – both the number of jobs and their pay rates. Property taxes have the opposite effect, and so may some aspects of income taxation. We do not here address how both property and income taxes may be modified for the better, although they may and should be. Our main point here is that sales taxes (and their twin, VAT) are among the worst possible choices when the objective is to make jobs and raise pay rates.

The U.S.A., with all its faults, has no national VAT. We do not lack for crusading VATsters. They chide us for being behind Europe, where all nations in the EU depend heavily on VATs, the dependence rising fast ever since France introduced it in 1954. As the EU careens to financial crisis, and derivative political crises, while world capital flees for refuge in the U.S.A., the evidence of history is not speaking well for VAT. Forecasting is perilous, and some see doom ahead for the U.S. dollar, but as of this writing the evidence is against VAT.

6. Scholarly origins of and support for VAT

We have seen how Maurice Lauré pioneered VAT in France in 1954, whence it grew with the idea of European Union, before going viral around the world. Lauré was not the first to broach the idea, however. Others had been tilling the seedbed before. Of course, everyone touting a retail sales tax had been conditioning minds for years before, but there were only few who limned out the specific form of VAT.

One was the American economist Thomas S. Adams (*QJE*, August 1921). Adams was disturbed by the growth of income taxes, especially on "business" (property) incomes, and proposed substituting a national tax on gross sales. His prose was muddy and equivocal, and anyway, Andrew Mellon soon led Congress to lower surtax rates on high incomes, relieving much of rich families' grievances and Adams' case against income taxes.

Another was Wilhelm von Siemens (1918), who saw VAT as a technical improvement to avoid cascading in the Ger-

man sales tax. Siemens could cite some earlier pamphlets as supports, but they and he were only on the margins of power and there was no followup. Soon German governments, saddled with debts and reparations, turned from collecting taxes to printing money, causing one of history's worst hyperinflations.

The high income-tax rates of W.W. I in the U.S.A. led to a spate of proposals for a national sales tax in the U.S.A. including some from Andrew Mellon, W.R. Hearst, Ogden Mills, and his friend R.T. Ely. While they never prevailed nationally, their views reinforced a climate of opinion that influenced the many states that rushed in a horde to substitute retail sales taxes for property taxes in the 1930s. Another less obvious factor was the 18th Amendment (Prohibition) which cut deeply into Federal revenues from sumptuary excise taxes on alcohol, forcing more reliance on income taxes, both corporate and personal. The du Pont family subsidized the campaign to repeal the 18th Amendment, a less extreme but more successful move to relieve themselves and their class from income taxes. The du Ponts, as major owners of GM, also had an interest in holding down gasoline taxes.

The next tranche of advocates included scholars Irving Fisher, Kaldor, Meade, and Prest. Following W.W. II Professor Carl Shoup of Columbia joined the tranche. General Douglas MacArthur as head of SCAP was in a position to dictate many policies to occupied Japan, and he picked Shoup to head an advisory group on tax policy. Shoup, of professorial and objective mien, was the scion of Paul Shoup, President of the S.P. R.R. and developer of upper class Los Altos in San Mateo County. Shoup came out strongly for a VAT. Shoup was one of the first American economists to push VAT abroad. Like MacArthur, he hoped that his policies applied first in a foreign nation would set an example to be followed in the U.S.A. itself, but it did not work out that way, either for him or later Americans working for the IMF, World Bank, OECD, and other international bureaucracies.

More recent champions are Pete Peterson, Harold Somers, Michael Dukakis and his advisor Larry Summers, Cary Brown, James Buchanan, Paul Krugman. G.N. Hatsopolous, James Poterba, Steve Forbes, Rick Perry, Robert Hall and Alvin Rabushka backed by The Hoover Institution, Newt Gingrich, Milton Friedman, Richard Arney, Henry Aaron, Charles McLure, Richard Lindholm, John Due, Raymond Mikesell, Arnold Harberger, and many others. The Republican platform of 2012 even included a plank to repeal the 16th Amendment and adopt a national VAT. Centrists scoffed at the extremism, but in our times we have seen how fast, sometimes, extreme becomes mainstream.

7. International Enforcement Agencies for "Harmony", Lending, and Collections

European Union has required and spawned its own governing legislatures and bureaucracies in bewildering array, layered on top of existing national bureaucracies. These new agencies take on powers and lives and (continued on pg. 11)