Next Social Contract Initiative and Economic Growth Program

Tax Reform That Works

Building a Solid Fiscal Foundation with a VAT

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Tax reform is like the weather – everyone talks about it, but no one ever does anything about it. But unlike inclement weather, the problems of the tax system don't go away; they continue to fester and compound. Today there are a number of unpleasant trends in the federal tax system that are crying out for attention:

- Taxes are too low to finance the level of government people appear to demand. Federal revenues are just 15.8 percent of GDP. They have averaged 18.5 percent of GDP in the postwar era, but only reached that level once in the last 10 years; every other year revenues have been well below that level, contributing heavily to the budget deficit and growth of the national debt.[1]

- The tax code is getting harder and harder to understand and administer and desperately needs radical simplification. Yet Americans show no appetite for giving up cherished deductions and credits that clutter the tax code, overlap and duplicate each other, and often encourage inefficient and wasteful economic activities.[2]

- It is widely believed that the tax code, especially on the corporate side, is a drag on economic growth. While the idea that tax reform is essential to jumpstart growth is unrealistic, there is no question that there are potential reforms that would raise the long-term trend rate of growth if implemented properly.

People often point to the Tax Reform Act of 1986 (TRA 86) as an example to follow. It eliminated various tax preferences and lowered statutory tax rates. While in principle this would be worth doing again, there are a number of obstacles, both political and substantive, that make a simple reprise of TRA 86 unrealistic.

First, the Tax Reform Act of 1986 was the culmination of almost two decades of efforts to reform the tax system that previously produced budgets laden with tax expenditures and included the tax reform acts of 1969 and 1976. In many ways, there was an infrastructure in place at that time regarding knowledge of the tax system and a consensus on at least the general outlines of reform that does not exist today.

Second, in advance of the 1986 effort there were two important congressional tax reform proposals – a Democratic bill cosponsored by Sen. Bill Bradley of New Jersey and Rep. Dick Gephardt of Missouri, and a Republican plan cosponsored by Rep. Jack Kemp of New York and Sen. Bob Kasten of Wisconsin – which showed enough similarity that both sides recognized the potential for a bipartisan tax reform effort. Nothing remotely the same exists today, with the two parties deeply polarized on tax policy.

Finally, the ultimate impact of TRA 86 was disappointing, both politically and economically. As early as 1990, critical aspects of it were already unraveling: in particular, the top rate was raised without restoring tax preferences that were eliminated as part of a package deal, and the agreement to tax capital gains at the same rate as ordinary income was broken. Subsequent analysis of the real world economic effects of tax reform showed surprisingly little impact despite widespread expectations that the 1986 act would have large effects.[3] The paucity of meaningful impact suggests that extravagant claims for how tax reform is all that is needed to jumpstart growth should be taken with many grains of salt.

Earlier tax reform efforts in the 1960s and 1970s were driven largely by liberals wishing to make the tax code more progressive by ending tax loopholes for the rich.[4] This effort was joined in the 1980s by conservatives anxious to cut statutory tax rates, which they believed to be the key to growth, and they were willing to pay for rate reductions with base-broadening. Critically, the budget deficits of that decade imposed a hard constraint on tax reform: rate cuts had to be honestly paid for with real reforms that raised revenues to guarantee a revenue-neutral package.[5]

Additionally, all previous tax reform efforts were strongly supported by the Treasury Department, which was really the central driver. The 1969 and 1976 tax reforms were essentially drafted by Treasury and the 1986 reform grew out of a three-volume report drafted by Treasury economists.[6] However, since the 1990s, under both Republican and Democratic administrations, Treasury has been marginalized in terms of tax policy, with Congress taking the lead role.[7] As a consequence, tax legislation has become increasingly unfocused, with tax bills being little more than random collections of various tax provisions that often overlap with existing law and may even conflict with each other. Restoring Treasury's central role in tax policy is a necessary precondition for meaningful tax reform.

Another precondition is strong support by the president. Congress is too divided and heterogeneous to do tax reform by itself. Under the Constitution, tax bills must originate in the House of Representatives and then, if successful, the process must start all over again in the Senate. The president must be actively engaged to make sure they don't go off in different directions, that the integrity of the effort is maintained, that unintentional subsidies or penalties aren't inadvertently inserted, and to help overcome resistance through lobbying and political pressure.[8]

Presently, the tax reform effort is in its infancy, with no strong leadership, no framework with the potential for bipartisan support, or even a consensus among tax experts on where to begin.

Republicans are keen to reduce rates further, as they did in 1986, but steadfastly refuse to put many of the largest tax expenditures on the table that they would be willing to abolish or restrict to pay for lower rates. The reason is simple: meaningful rate reduction in a revenue-neutral reform would require going after one or more of the most popular tax preferences: the exclusion for health insurance or the deductions for mortgage interest, state and local taxes, charitable contributions, or the many provisions for retirement saving.[9] Just the top ten tax expenditures account for 70 percent of the revenue loss from all tax expenditures. Not surprisingly, polls show that people oppose eliminating these tax preferences either to lower tax rates or for deficit reduction.[10]

Table 1: Top 10 Tax Expenditures, Fiscal Year 2013	
Provision	**Cost (Billions of Dollars)**
Exclusion of employer contributions for medical insurance	180.6
Deductibility of mortgage interest on owner-occupied homes	100.9
401(k)-type pension plans	72.7
Deductibility of state and local taxes, including property tax	68.6
Capital gains special tax rate	62.0
Employer-provided pension plans	52.3
Exclusion of net imputed rental income	51.1
Charitable contributions	48.9
Exclusion of interest on state and local bonds	36.2
Accelerated depreciation on machinery and equipment	33.2
Top 10 total	**796.5**

Source: Office of Management and Budget, "The President's Budget for Fiscal Year 2013," Table 17-3.

Given the barriers to a 1986-style tax reform that would trade base broadening for lower rates in a revenue-neutral manner, many tax experts are very skeptical that it is possible to do something similar today.[11]

In my opinion, the greatest potential to break the tax reform gridlock is to get away from the model of cutting popular tax preferences in order to pay for rate reductions. That is the political equivalent of World War I-style trench warfare. I think it makes more sense to adopt a different approach, one more akin to Douglas MacArthur's strategy of leapfrogging Japanese strongholds in the Pacific during World War II, leaving them impotent.

The tax equivalent of MacArthur's strategy would be to leave in place all the existing deductions and credits, but make them irrelevant for most people. Prof. Michael Graetz of Columbia University has devised exactly such a plan.[12] He would institute an exemption of $100,000 for married couples ($50,000 for singles, $75,000 for heads of households). All the existing deductions and credits would remain in place and could still be used by those with incomes above $100,000, but for the vast bulk of taxpayers they would become irrelevant because they would have no taxable income against which to take them. About 100 million of the 140 million people now required to file federal income tax returns would no longer have to do so.

Graetz would replace the lost revenue with a value-added tax (more below) combined with a rebate mechanism to relieve the regressivity on those with low incomes and also replace refundable tax credits for the poor. A recent analysis of the Graetz plan by the Tax Policy Center concluded that it could be done in a deficit-neutral manner with a VAT rate of 12.4 percent – well below the rates that prevail in Europe.[13]

The Conservative Case for a VAT

In a recent column, Reuters columnist Reihan Salam, a political conservative, argued that the Graetz plan is the perfect way to accomplish tax reform while simultaneously dealing with the concerns of many conservatives that some 47 percent of tax filers now have no federal income tax liability.[14] Said Salam:

> Conservatives hate the idea of new taxes. But imagine if every time you bought a cup of coffee, it said on the receipt that you had also just paid a 12.3 percent consumption tax to the federal government. Instead of paying your taxes once a year, you would pay taxes every time you made a purchase. What better way to remind people of all of the money government spends, and all of the money government spends foolishly, than to make them pay for government several times a day?[15]

Nevertheless, conservatives are the principal opponents of a VAT even though many support a very similar proposal called the FairTax that would replace all federal taxes with a national retail sales tax such as those in almost all states. The problem with the FairTax is that it will never work administratively, whereas the VAT has worked well for decades in many countries economically similar to the U.S., such as Britain, Canada and Australia.[16]

For many years, official Republican Party platforms have opposed a VAT for the United States. The 1992 platform said such a tax in Europe "has resulted in higher prices, fewer jobs and higher levels of government spending."[17] The 2008 platform said, "In any fundamental restructuring of federal taxation, to guard against the possibility of hypertaxation of the American people, any value added tax or national sales tax must be tied to simultaneous repeal of the Sixteenth Amendment, which established the federal income tax."[18] The 2012 platform repeats the same language.[19]

Fear that a VAT might come on top of the income tax and hence constitute some sort of double taxation is only one of many conservative objections to a VAT.[20] (No country imposing a VAT has ever abolished its corporate or individual income taxes, although excise and other taxes were often replaced.)

The irony is that the VAT is probably the best tax ever conceived from a conservative point of view. As a broad-based tax on consumption, it creates less economic distortion per dollar of revenue than any other tax – certainly much less than the income tax. Moreover, there is a long history of conservative support for consumption-based taxation dating back at least to the philosopher Thomas Hobbes. In *Leviathan* (1651), he argued that consumption was what people took out of society while saving added to society's wealth. Therefore, consumption was the best base for taxation while saving should be exempt.[21]

Alexander Hamilton, among others, also emphasized that taxing consumption was the method of taxation most consistent with freedom because people could more easily reduce their consumption than their incomes. As he put it in Federalist 21:

> It is a signal advantage of taxes on articles of consumption, that they contain in their own nature a security against excess. They prescribe their own limit; which cannot be exceeded without defeating the end proposed, that is, an extension of the revenue. When applied to this object, the saying is as just as it is witty, that, "in political arithmetic, two and two do not always make four." If duties are too high, they lessen the consumption; the collection is eluded; and the product to the treasury is not so great as when they are confined within proper

> and moderate bounds. This forms a complete barrier against any material oppression of the citizens by taxes of this class, and is itself a natural limitation of the power of imposing them.[22]

This view has been endorsed by virtually every tax theorist from Hamilton and David Hume in the 18th century, to John Stuart Mill and Alfred Marshall in the 19th century, Irving Fisher and Nicholas Kaldor in the 20th century, and Martin Feldstein and many others today.[23]

A VAT would address a common conservative concern about the growing percentage of the population that pays no federal income taxes. In 2011, 46 percent of all returns had no federal income tax liability according to the Tax Policy Center.[24] It's unrealistic to think that income taxes will be imposed on such people once they have become exempt. A VAT would be a way of getting all Americans to pay for the federal government's general operations.

Back in the early 1980s, practically every leading conservative economist supported a VAT for the United States. Norman Ture, one of the godfathers of supply-side economics, and Murray Weidenbaum, chairman of the Council of Economic Advisers under Ronald Reagan, wrote many articles, books and papers supporting the VAT. The conservative American Enterprise Institute published a book in 1987 saying that the VAT was the key to deficit reduction.[25]

Perhaps the strongest evidence that the VAT was considered *the* conservative tax reform is that it is the foundation of the flat tax, which is still supported by practically every conservative tax reformer.[26] The flat tax, originally devised by Hoover Institution scholars Robert Hall and Alvin Rabushka, is a subtraction-method VAT with one twist; businesses are permitted to deduct cash wages paid from the base on which they calculate the VAT. Workers pay the same rate on their wages less only a personal exemption. The purpose of this adjustment is to create transparency so that everyone sees the tax they are paying, and to redress its regressivity.

This is not the only case of conservatives supporting a VAT when it suited them to do so. When former California Gov. Jerry Brown, a Democrat, proposed a VAT plus a flat rate income tax in 1992, this was widely hailed by supply-side economists such as Arthur Laffer and Gary Robbins.[27] Similarly, conservatives have recently embraced a proposal that would have replaced California's state income tax with a VAT.[28]

In Congress, Rep. Paul Ryan, Republican of Wisconsin, chairman of the House Budget Committee and the Republican Party's nominee for vice president in 2012, received high praise from conservatives for his "Fiscal Roadmap" plan that would eliminate the national debt by slashing spending. But its first version would also have replaced the corporate income tax with what he called a Business Consumption Tax that is, again, a type of VAT. Sen. Jim DeMint, Republican of South Carolina, generally considered to be the most conservative member of the Senate, cosponsored this legislation.[29]

Nevertheless, whenever a VAT for the U.S. is suggested, conservatives are the first to denounce the idea. It is an article of faith among them that the VAT is a money-machine that must be fought to the death. The *Wall Street Journal*, for example, continually rails against it on the grounds that if we were ever to adopt such an insidious form of taxation we would very quickly become just like Europe, as if the entire continent were one big Gulag instead of a place where by and large the people are just as free and prosperous as Americans.[30]

Debunking the Money Machine Myth

In the 1970s, there was talk of a VAT for the U.S. Richard Nixon was sympathetic to the idea.[31] But eventually conservatives decided that the VAT's greatest virtue – its efficiency; i.e., its ability to raise revenue at a very low deadweight cost (the burden over and above the revenue collected due to discouraged output) – was a defect rather than a virtue. Their fear is that a VAT would raise too much revenue, too easily.[32] Better to raise taxes as painfully and inefficiently as possible, they concluded, in order to limit the government's tax take. At a press conference on February 21, 1985, Ronald Reagan cemented conservative opposition to the VAT, saying it "gives government a chance to grow in stature and size."[33]

There are two key points about the money-machine argument.[34] First, it is often implied that the trend of the VAT is continuously upward. This is factually wrong. According to the OECD, 7 of the 33 countries with a VAT have cut VAT rates: Canada, Chile, the Czech Republic, France, Ireland, Israel, and the Slovak Republic. And some countries, such as Australia and Korea, have never increased their VAT rates. The average VAT rate in OECD countries is barely above what it was in 1984: 17.75 percent then versus 18.5 in 2011.

In this respect it should also be noted that the VAT rates commonly referred to are statutory rates that don't necessarily tell us anything about the effective tax rate. Conservatives just assume that the VAT covers everything and has the same structure in every country. In fact, every country with a VAT exempts many items and usually imposes lower rates on some things and higher rates on others. The rates one tends to see, such as those cited above and in Tables 3 and 4 below, are the basic rates that apply to most things that a VAT covers. But the share of consumption covered by the VAT varies enormously from one country to another, as shown in Table 2.

Table 2: VAT Efficiency (percentage)

Country	VAT/GDP	VAT Base/Consumption
Japan	2.6	69
Australia	3.8	51
Germany	6.2	50
Canada	3.1	50
France	7.1	45
United Kingdom	6.5	43
Italy	6.1	39

Source: International Monetary Fund, *From Stimulus to Consolidation: Revenue and Expenditure Policies in Advanced and Emerging Economies* (April 30, 2010): 38.

Another problem with the money-machine argument is that it fails to note the critical impact of inflation on fueling higher VAT rates in the 1970s. At that time it was absurdly easy for governments to raise VAT rates because they were hardly noticed – what was another one percent rise in the tax rate when the general price level was rising at double-digit rates? Furthermore, to the extent that inflation was a function of budget deficits, higher taxes were a plausible means of reducing it. In the Keynesian model, higher taxes are inherently anti-inflationary because they reduce purchasing power.

Therefore, I think it is essential that any money-machine analysis distinguish between those countries that adopted VATs before the great inflation of the 1970s and those adopting VATs in the era of relative price stability that we have seen since that time. I have done so in Tables 3 and 4. They show that to the extent that there is a valid money-machine argument it is only in the countries that were able to piggyback on inflation to ratchet up their rates in the 1970s. VAT rates show little evidence of a ratchet effect during the era of price stability.

Table 3: VAT Rates in OECD Countries Establishing VATs Before 1975 (ranked by year of inception)					
	Country	**Initial Rate**	**Year**	**2012 Rate**	**% Increase**
1	Denmark	10	1967	25	150
2	France	16.66	1968	19.6	17.6
3	Germany	10	1968	19	90
4	Netherlands	12	1969	19	58.3
5	Sweden	11.11	1969	25	125
6	Luxembourg	8	1970	15	87.5
7	Norway	20	1970	25	25
8	Belgium	18	1971	21	16.7
9	Ireland	16.37	1972	23	40.5
10	Austria	16	1973	20	25
11	Italy	12	1973	21	75
12	U.K.	10	1973	20	100
	Average	**13.3**		**21**	**58**

Table 4: VAT Rates in OECD Countries Establishing VATs After 1975 (ranked by year of inception)					
	Country	**Initial Rate**	**Year**	**2012 Rate**	**% Increase**
13	Korea	10	1977	10	0
14	Mexico	10	1980	16	60
15	Turkey	10	1985	18	80
16	New Zealand	10	1986	15	50
17	Portugal	17	1986	23	35
18	Spain	12	1986	18	50
19	Greece	16	1987	23	44
20	Hungary	25	1988	27	8
21	Iceland	22	1989	25.5	16
22	Japan	3	1989	5	66.7
23	Canada	7	1991	5	(29)
24	Czech Rep.	23	1993	20	(13)
25	Poland	22	1993	23	4.5
26	Slovak Rep.	25	1993	20	(25)
27	Finland	22	1994	23	4.5
28	Switzerland	6.5	1995	8	23
29	Australia	10	2000	10	0
	Average	**14.7**		**17**	**15.8**
Sources: EU, IMF, OECD, Deloitte, PricewaterhouseCoopers, and national sources					

Political Realities of the Tax System

In my opinion, opposing a VAT means implicitly supporting our current tax system, which imposes a deadweight cost equal to a third or more of revenue raised – at least five percent of GDP – according to various studies.[35] This is insane. The idea that raising taxes in the most economically painful way possible will hold down the level of taxation and the size of government is obviously false. It just means that the total burden of taxation including the dead-weight cost is vastly higher than it needs to be. If we raised the same revenue more sensibly we could, in effect, give ourselves a tax cut by reducing the deadweight cost.

A common conservative argument is that holding down taxes will somehow starve the beast and automatically lead to lower spending. Not only is there no evidence supporting this belief, recent research argues that it is perverse. By reducing the tax-cost of spending, starve-the-beast theory has actually caused spending to rise.

Those who oppose big government would do better to concentrate their efforts on actually cutting spending. Holding down taxes or insisting that we keep a ridiculously inefficient tax system because that will give us small government is juvenile and bad for the country.[36] If people want small government, there are no shortcuts. Spending has to be cut. But if spending isn't cut, then I believe that we must pay our bills. I think it's better to do so as painlessly and efficiently as possible.

Those who complain most about the VAT generally oppose all tax increases no matter how large the budget deficit is. They imagine that the fiscal crisis their opposition to higher taxes will help to create will lead to massive spending cuts that would be politically impossible otherwise. This cannot happen, however, because Congress is never going to enact a large deficit reduction package that has no tax increases; historically, such packages have aimed for a 50-50 split between spending cuts and revenue increases.

Moreover, polls consistently show that Americans support a deficit reduction package that includes tax increases and spending cuts over a spending cuts-only approach by better than a 2-to-1 margin. And the trend is away from the latter. According to Gallup, the percentage of people favoring only spending cuts has fallen from 20 percent in 2011 to only 10 percent in 2012. The percent of those favoring equal balance between tax increases and spending cuts rose from 32 percent to 45 percent.[37]

Additionally, when the crunch comes there will be a heavy premium on near-term budget savings, which tends to put entitlements off the table, since significant changes to these programs necessarily need to be phased in. And given that defense and homeland security make up such a large percentage of discretionary spending, it's virtually impossible to achieve sufficient savings by cutting only domestic programs. Therefore, as a practical matter, higher revenues will have to be a major part of any budget deal crafted under crisis conditions.

Unless there is already in place an alternative to existing taxes, Congress will have no choice except to raise income tax rates. Since those who oppose a VAT also tend to be obsessive about holding down tax rates, especially the top rate, they must ask themselves which is worse: a broad-based consumption tax or confiscatory income tax rates? When that day comes, I think they will choose the former. But that option may not exist unless we act soon to adopt a VAT because it takes two to three years to put it in place.[38] Since in a crisis revenue will be needed immediately, a VAT will effectively be off the table.

Finally, conservative opponents of a VAT must ask themselves what their true goal is. Is it to raise growth and economic prosperity because low taxes generally support those objectives, or is it a dogmatic belief that taxes must never be raised regardless of the circumstances? Unless one believes that budget deficits have no effect on growth and prosperity, one has to accept that there are times when higher taxes are the lesser of evils and can in fact stimulate growth. Conservatives like to pretend that the 1982 and 1993 tax increases never happened, but the obvious fact is that growth was stimulated in both cases because they led to lower interest rates, lower expectations of inflation, and less crowding out in financial markets.

Unfortunately, it is my observation that ideological dogmatism, rather than serious analysis, underlies the vast bulk of opposition to a VAT among conservatives. When, eventually, economic conditions force them to live in the real world, instead of a fantasy world where the budget can be balanced by abolishing Medicare, I think they will support a VAT just as European conservatives did.[39] The longer they wait to do so, the greater the economic pain we will have to go through before conservatives bow to reality and support a VAT.

Even though I think we should enact a VAT as soon as possible, I am under no illusion that it is remotely feasible under current political and economic conditions. But those conditions will inevitably change if projections of future federal deficits are even close to correct and if economists' beliefs about the impact of deficits are remotely true. They mean that sometime in the not-too-distant future we are going to see significantly higher inflation and interest rates than we have today. At some point – I don't know when – they will pass a political threshold and politicians can start to talk honestly about the sorts of fiscal actions that will be necessary to bring inflation and interest rates down to tolerable levels.

Even then, I don't anticipate that a VAT will be among the first options that will be considered. What I expect is that when there is the inevitable flare-up in financial markets as bond prices crash, the dollar takes an unexpected dip, the price of oil shoots up, or whatever unexpected calamity takes place, Congress and the White House will solemnly vow to cut the deficit because it will be the one thing that everyone will be able to agree upon that might help and at least won't hurt. They will go out to Andrews Air Force Base and after weeks of intense negotiations announce that a deal has been struck to deal with the crisis.

Republicans will inevitably agree to some modest tax increases, Democrats will agree to trim Medicare and Medicaid, and both sides will promise that discretionary spending will be slashed. But after the low-hanging fruit has been picked clean, deficits continue to rise and financial markets once again suffer some turmoil we will, after perhaps 10 years of unsuccessful efforts to get our finances under control, eventually reach a point where a VAT is politically viable. Republicans will finally be brought around to it by using the revenue to offset many of the ad hoc tax increases that will have been previously enacted, with a little left over for deficit reduction. This way they can rationalize their surrender to the inevitable as a tax reform rather than a tax increase. But in fact it will simply be a retroactive tax increase.

Based on the experience in other countries, I estimate that a U.S. VAT could realistically tax about a third of the gross domestic product, which would raise close to $53 billion per percentage point.[40] If we adopted Europe's average VAT rate of 21 percent, we could raise $1.1 trillion per year in 2012 dollars. Even if all this revenue were used to fund tax reform in a revenue-neutral manner it would be worth doing. There are any number of glaring problems with the Tax Code, such as the Alternative Minimum Tax, that will require significant revenues to fix permanently.

As David Ignatius of the *Washington Post* recently put it, "By ruling out a VAT when it could keep the federal deficit in check, politicians have all but guaranteed that the debt crisis, when it comes, will be more damaging. But by then, everyone will be clamoring for a VAT, so it will be safe to endorse it."[41]

Although some liberals have periodically been attracted by the VAT's revenue potential, none have made a serious effort to enact one since House Ways and Means Committee Chairman Al Ullman, D-Ore., floated the idea in 1979 and was defeated the following year – a loss that was widely attributed to his support for it. Forever afterward, Ullman's name has been invoked as proof that a VAT is politically suicidal. In the words of Congressman (later Senator) Byron Dorgan, D-ND, "The last guy to push a VAT isn't working here anymore."[42]

Politicians are also mindful that foreign leaders imposing VATs often suffered electoral defeat as a consequence. After enacting a VAT in Japan in 1986, Prime Minister Yasuhiro Nakasone was defeated the following year largely because of it. Prime Minister Brian Mulroney imposed a VAT in Canada in 1991, and it was considered the major factor in his 1993 defeat. Although Prime Minister John Howard survived enactment of a VAT in Australia in 1998, his party suffered major losses as a consequence.

However, several factors may now have changed that could make a VAT in the U.S. politically viable. There is widespread recognition that the federal debt is on an unsustainable course. Yet there is no significant political support for sharply cutting major entitlement programs such as Medicare. Republicans tried to make this an issue in 2012 by putting Rep. Paul Ryan on their ticket. He is best known for a budget plan that would essentially abolish Medicare and replace it with a voucher program. Barack Obama's victory and Democratic gains in the Senate mean that such options are off the table, probably permanently.

As Harvard economist Larry Summers once explained, the reason the U.S. doesn't have a VAT is because liberals think it's regressive and conservatives think it's a money machine. We'll get a VAT, he said, when they reverse their positions.[43]
I myself long opposed the VAT on money machine grounds.[44] I changed my mind when I realized that there was no longer any hope of controlling entitlement spending before the deluge hits when the baby boomers retire; therefore, the U.S. now needs more revenue, and a VAT is the best way to achieve this.

Endnotes

[1] Tax Policy Center, "Historical Source of Revenue as Share of GDP: Receipts by Source as Percentages of Gross Domestic Product: 1934-2017," Tax Facts, April 2012.

[2] The annual reports of the National Taxpayer Advocate are a good source of details on the problems of tax complexity.

[3] Alan J. Auerbach and Joel Slemrod, "The Economic Effects of the Tax Reform Act of 1986," *Journal of Economic Literature* (June 1997): 589-632; Bruce Bartlett, "TRA 1986: Much Ado About Nothing?" *Tax Notes* (Oct. 17, 2011): 359—61.

[4] Bruce Bartlett, "The Roots of Tax Reform, Part I," *Tax Notes* (Dec. 20, 2010): 1387-88.

[5] Bruce Bartlett, "The Roots of Tax Reform, Part II," *Tax Notes* (Jan. 24, 2011): 473-74.

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[8] See Robert P. Inman, "Presidential Leadership and the Reform of Fiscal Policy: Learning from Reagan's Role in TRA 86," NBER Working Paper No. 4395 (July 1993).

[9] See Tax Policy Center, "How Hard Is It to Cut Tax Preferences to Pay for Lower Tax Rates?" (July 10, 2012); Congressional Research Service, "The Challenge of Individual Income Tax Reform: An Economic Analysis of Tax Base Broadening" (March 22, 2012).

[10] See: Gallup, "Americans Oppose Eliminating Income Tax Deductions" (April 15, 2012).

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[12] Michael Graetz, *100 Million Unnecessary Returns* (New Haven: Yale University Press, 2008). See also: Michael Graetz, "100 Million Unnecessary Returns: A Fresh Start for the U.S. Tax System," *Yale Law Journal* (Nov. 2002): 261-310; "How to Shrink the IRS and Grow the Economy," *The American Interest* (Nov./Dec. 2011); Testimony before the House Ways & Means Committee (July 26, 2011).

[13] Tax Policy Center, "Using a VAT to Reform the Income Tax" (Jan. 2012).

[14] Tax Foundation, "The Fiscal Costs of Nonpayers" (Sept. 19, 2012).

[15] Reihan Salam, "Actually, Conservatives Should Favor Even Fewer People Paying Income Tax," Reuters (Sept. 20, 2012).

[16] For details on why the FairTax is unworkable, see Bruce Bartlett, Testimony before the House Ways & Means Committee (July 26, 2011).

[17] Republican Party Platforms: "Republican Party Platform of 1992," August 17, 1992. Online by Gerhard Peters and John T. Woolley, The American Presidency Project.

[18] Republican Party Platforms: "2008 Republican Party Platform," September 1, 2008. Online by Gerhard Peters and John T. Woolley, The American Presidency Project.

[19] Republican Party Platforms: "2012 Republican Party Platform," August 27, 2012. Online by Gerhard Peters and John T. Woolley, The American Presidency Project.

[20] In fact, simply repealing the 16th Amendment would not be sufficient to eliminate the income tax. See: Joseph J. Thorndike, "Why Repealing the 16th Amendment Probably Wouldn't Matter," *Tax Notes* (Sept. 17, 2012): 1369-71.

[21] Dudley Jackson, "Thomas Hobbes' Theory of Taxation," *Political Studies* (June 1973): 175-82.

[22] Hamilton's witty saying originated with satirist Jonathan Swift, who also influenced a long line of tax theorists. See Bruce Bartlett, "Jonathan Swift: Father of Supply-Side Economics?" *History of Political Economy* (Fall 1992): 745-48.

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