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The Allure of Value-Added Taxes: Examining the Pros and Cons

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by Murray L. Weidenbaum and Ernest S. Christian, Jr.

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This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series provides a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities. Publications include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

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CENTER FOR THE STUDY OF AMERICAN BUSINESS

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Introduction

For years, economists have debated the respective merits of income and consumption bases for taxation. The United States uses consumption-based taxes far less than most other developed Western nations. In 1985, the 23 members of the Organization for Economic Cooperation and Development obtained an average 30 percent of their revenue from taxes on consumption (see Table 1). For the United States, the ratio was 18 percent.

Many people believe that it is fairer to tax individuals on what they take from society, rather than on what they contribute by working and investing. In the nineteenth century, classical economist John Stuart Mill made this point in advocating the exemption of saving as part of a "just" income tax system. In the 1940s, American economist Irving Fisher argued that the income tax involved double taxation of saving and distorted the choice of individuals in favor of consumption. According to this view, not only is the income tax unjust, it encourages consumption and leisure at the expense of thrift and enterprise.

The U.S. Treasury actually proposed a "spendings tax" in 1942 as a temporary wartime measure to curb inflation. The proposal was quickly rejected by Congress. A major political argument against the expenditures tax -- then and now -- is that the exemption of saving would favor the rich who are better able to save large portions of their incomes. Proponents of an expenditures tax respond that it can be made as steeply progressive as desired. Moreover, the recent trend in income taxation in the United States has been away from progressivity and toward a flatter, more proportional revenue structure. The 1981 and 1986 tax acts are striking cases in point. Another objection to the consumption base is that it would favor the miser over the spendthrift, even when both have similar spending power or ability to pay. The response offered to this argument is that consumption uses up the resources available to the nation, while work and saving add to these resources.

In practice, much of the impact of shifting to a consumption base would depend on how the tax is structured. The two major alternatives are an expenditures tax levied on total purchases within an accounting period and a value-added tax collected on each purchase.

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Table 1

PERCENTAGE DISTRIBUTION OF TAX REVENUES IN SELECTED COUNTRIES BY MAJOR SOURCE, FISCAL YEAR 1985

Country	Income Taxes	Social Security Taxes	Taxes on Consumption	All Other
Austria	54%	0%	33%	13%
Australia	26	32	33	9
Belgium	41	33	24	2
Canada	44	13	32	11
Denmark	55	4	34	7
Finland	50	9	37	4
France	17	44	29	10
Germany	35	36	26	3
Greece	17	35	43	5
Ireland	34	15	45	6
Italy	36	35	25	4
Japan	46	30	14	10
Luxembourg	45	25	24	6
Netherlands	26	44	26	4
New Zealand	69	0	23	8
Norway	40	21	37	2
Portugal	29	26	43	2
Spain	28	42	26	4
Sweden	42	25	26	7
Switzerland	41	32	19	8
Turkey	45	5	44	6
United Kingdom	39	18	31	12
United States	43	29	18	10
AVERAGE	40%	26%	30%	4%

Source: American Council for Capital Formation.

In theory, the base of the two taxes is the same -- the value of goods and services purchased. The yields could be similar.

An Expenditures Tax

An expenditures tax would be collected in much the same manner as the income tax. The annual taxpayer return would continue to be the heart of the collection system. Only one major change would be made; the portion of income that is saved would, in effect, be exempt from taxation.

Having so recently curtailed deductions for saving, it is unlikely that Congress will reverse course and exempt all saving by shifting to an expenditures tax.

For a while, the United States was moving toward an expenditures tax, albeit indirectly and in modest steps. The establishment of Individual Retirement Accounts (IRAs) enabled many federal taxpayers to defer paying taxes on amounts saved and invested in an IRA (up to $2,000 a year). Also, the first $100 of dividends received by a taxpayer was excluded from gross income. The Tax Reform Act of 1986, however, greatly reduced the incentives for investing in IRAs and eliminated the dividend exclusion. Having so recently curtailed deductions for saving, it is unlikely that Congress will in the near future reverse course and effectively exempt all saving by shifting to an expenditures tax.

A Value-Added Tax

Attention has shifted to forms of national sales taxes, notably a value-added tax. Such a consumption-based tax could be levied in addition to the currently collected taxes (although substitutions are possible). After having lain dormant for nearly a decade, interest in a value-added tax in the United States has reemerged primarily because of the conjunction of two economic factors -- budget and trade deficits.

Sources of Revenue for Deficit Reduction

There are political and economic proponents of additional federal tax revenues who want to use such revenues for two *inconsistent* policy objectives -- reducing the federal budget deficit and satisfying pent-up demand for new or increased domestic spending programs. Both pressures are well understood, although the latter is not spoken of in public very often.

Although less clearly understood, it is also likely the case that we are near the end of the era in which the income tax can provide major new revenues to the federal government. As the result of recent tax reforms, primarily in 1986, the base of the income tax has been broadened just about as much as is politically possible.

Income tax rates were drastically reduced in 1986 primarily as the direct result of a strong political force which is still at work. High marginal rates of tax, which were born in a war-time era and designed to apply to the rich, were being applied to a broad range of people in the newly affluent middle class who certainly do not consider themselves to be "rich." Having substantially reduced tax rates twice in the 1980s, it will be exceedingly painful for the Congress to reverse course and reimpose high rates of tax on income. The appetite for low tax rates was whetted, not satisfied, when the old idea of steeply "progressive" rates was effectively discarded almost without comment.

As a potential revenue raiser, the sheer *size* of a value-added tax base is unequaled by the current income tax base or payroll tax base, each of which has been severely limited by political judgments over several decades. The value-added tax base roughly corresponds to the total output of goods and services in the economy plus imports and minus exports. For example, a comprehensive value-added tax base in 1987 might have amounted to approximately $2.5 trillion.[1] That year a value-added tax of 3.5 percent on the comprehensive base could have raised approximately the same revenue as the present corporate income tax with its generally applicable rate of 34 percent. A value-added tax of about 16 percent could have raised about the same revenue as the present individual income tax which applies 15 percent and 28 percent rates.

Computing a Value-Added Tax

An expenditures tax can be calculated via a "top down" approach, building on the records that are already available to provide the data needed for enforcement of corporate and personal income taxes. In contrast, a value-added tax (VAT) represents a very different way of collecting a general tax on consumption. It is, in effect, a sophisticated and comprehensive sales tax which avoids the double counting otherwise inevitable when the same item moves from manufacturer to wholesaler to retailer. In total, a VAT should be equivalent in yield to a single-stage sales tax levied at the retail level.[2]

A firm's value-added is the difference between its sales and its purchases from other firms. As shown in Table 2, value-added can also be estimated by adding labor and capital inputs supplied by the firm itself -- represented by wages and salaries, rent and interest payments and profit.

In practice, the collection of the VAT may not be as simple as it is in concept.

A variety of approaches has been suggested for collecting the new tax. The most familiar is the invoice and credit method (see Table 3). Under this approach, the tax is computed initially on a company's total sales and the firm is given credit for the VAT paid by its suppliers. To a substantial degree, the VAT would be self-enforcing.

In practice, the collection of the VAT may not be as simple as it is in concept. That would be the case if certain transactions were exempted (such as food) and if non-profit institutions and government enterprises were treated differently. Exemptions are no minor matter in terms of the administrative complexity that they generate. In France, a long and extensive debate occurred over whether or not Head and Shoulders anti-dandruff shampoo was a medicine (tax-exempt) or a cosmetic subject to the full VAT. Food eaten away from the business at which it was purchased may be tax-exempt. What happens if a McDonald's sets up tables outside of the restaurant?[3]

The "Business Transfer Tax" Proposal

While budget deficits and trade policy may increase the political and economic interest in a value-added tax, the introduction in 1985 of the Business Transfer Tax (BTT) proposal by Senator William Roth, a senior member of the Senate Finance Committee, generated concerns that such taxes might *not* have the financial effects on businesses and consumers which have long been assumed. The substance and *structure* of the proposed BTT attracted attention and in some cases generated considerable alarm.

As a generic value-added tax computed by the basic subtraction method (without the more familiar invoice and credit mechanisms), the BTT raised some doubts about the traditional analysis of value-added taxes. Could it be that consumption taxes in general -- or at least this particular consumption tax -- might *not* be passed along in full to consumers? Could ardent business proponents of consump-

Table 2

TWO METHODS OF COMPUTING VALUE ADDED IN PRODUCTION AND DISTRIBUTION

Item	Raw Materials Producer	Manu-facturer	Whole-saler	Retailer	Cumulative Total
Purchases of inputs	--	$100	$500	$800	$1,400
Value Added:					
Wages	$60	$275	$200	$100	$635
Rent	10	25	40	50	125
Interest	10	50	25	25	110
Profit	20	50	35	25	130
Total Value Added	$100	$400	$300	$200	$1,000
Sales of output	$100	$500	$800	$1,000	$2,400

Note: Value added can be estimated in two ways:
(1) Deducting purchases from sales of output ($2,400 - $1,400 = $1,000) or,
(2) Adding inputs by the firm itself (excluding inputs supplied by others) ($635 + $125 + $110 + $130 = $1,000).

tion taxes find that they had actually been promoting a tax which becomes just one more *business* cost rather than a tax that is borne solely by consumers? Coupling the BTT proposal with the fact that the Canadian government was also discussing a subtraction method value-added tax at that time resulted in a period of substantive study by business executives, as well as professional analysts, of the real-world effects of such taxes.

Pros and Cons of a VAT

Reasons for Favoring a Value-Added Tax

Proponents of a VAT contend that it is economically neutral, because ideally it would be levied at a uniform rate on the entire consumption base. It does not distort choices among products or methods of production. Thus, shifting to more capital-intensive and

Table 3

COMPUTING THE VAT USING THE CREDIT METHOD

Item	Raw Materials Producer	Manu-facturer	Whole-saler	Retailer
Sales of output	$100	$500	$800	$1,000
Less purchases	-0	-100	-500	-800
Value added	$100	$400	$300	$200
Tax on total sales	$10	$50	$80	$100
Credit on purchases	--	-10	-50	-80
Tax liability	$10	$40	$30	$20

Note: Assumes 10 percent VAT on a consumption basis.

perhaps more profitable methods of production does not influence the tax burden. Nor is the allocation of resources across product markets, and industry lines affected. In these regards, the VAT is far superior to the existing array of selective excise taxes. In addition, advocates of a VAT point out that, in contrast to an income tax, there is no penalty for efficiency and no subsidy for waste.

One argument in favor of the United States adopting a VAT is that so many other nations have adopted this form of taxation. It fits in better than other taxes with the growing international character of production. The VAT has become one of the revenue workhorses of the world. Virtually every important country in Europe imposes the tax, and it has spread throughout the Third World.[4] France has used value-added taxation since 1955, and other members of the European Common Market have done so since the late 1960s or early 1970s. Japan's 3 percent consumption tax will take effect on April 1, 1989. If Canadian proposals to implement income and sales tax reforms while enacting border-adjustable value-added taxes are adopted, the United States will be left as the only major industrialized democracy which does not utilize a tax system that allows imports to be taxed at the border and exports to leave the country free of such tax.

At first blush, a VAT would seem to help reduce this nation's presently large trade deficit. However, many economists believe that fluctuations in exchange rates would largely offset these initial effects and result in little change in the balance of trade.

Basis of Opposition

Opponents of a VAT offer an extensive list of shortcomings. They contend that a VAT, like any consumption-based revenue source, is inherently regressive. Those least able to pay face the highest overall burdens. Such regressivity can be softened by removing food and medicine from the VAT base or by making refunds to low-income taxpayers, but these variations make the collection of the tax more complicated. It would also provide some opportunity for people in the underground economy to avoid paying taxes.[5]

Assuming a VAT is included in the price of purchases, it registers in all of the price indices and, hence, exerts an inflationary force on the economy. The counter-argument is that this is only a one-time effect (occurring when the tax is enacted or increased). Also, the inflationary impact could be offset by appropriate changes in monetary policy, albeit at times with an adverse effect on the levels of production and employment. Opponents also charge that a VAT would invade the area of sales taxation, traditionally reserved for state and local governments.

Imposition of a VAT in the United States is said to require establishing a new tax collection system by the federal government and new recordkeeping on the part of taxpayers. The Treasury Department, based on European experience, believes it would need 18 months after enactment to begin administering a VAT.[6]

Other Fundamental Issues

Any debate about value-added taxes quickly sparks renewed discussions of many long-standing, fundamental issues of tax policy such as the saving rate in the United States by both individuals and corporations, the relative burden of tax borne by capital and labor, taxes on individuals versus taxes on corporations, the relative burden of tax on one type of business compared to another, and the effects of the tax system on international trade. Affecting all of these issues are two recurring questions. Who pays the tax? Who bears the economic incidence?

For example, the anticipated boost to personal saving resulting from a value-added tax rests on the assumption that such a tax is borne by consumers and thus will make consumption relatively more expensive than saving. But if the tax is *not* borne primarily by con-

sumers and is, instead, a proportional tax on the output of labor and the output of capital, will there be a boost to personal saving? Would corporate saving be enhanced if this proportional tax on labor and capital were substituted for the corporate income tax, which presumably is borne primarily by capital? Conversely, would the increase in the relative cost of labor prove to be a source of regressivity, even if a value-added tax is not assumed to be passed on to consumers?

The issue of taxing corporations versus taxing individuals takes on a unique character when considering a value-added tax. In the income and payroll tax contexts, the corporation is the entity which writes the check to the government, and no effort is made to allocate such taxes to individuals as shareholders or employees of the corporate payors. But in a value-added context, the corporation writes the check while individuals as consumers are assumed to be bearing the burden. Why does this distinction exist?

The anticipated boost to personal saving resulting from a value-added tax rests on the assumption that such a tax is borne by consumers.

Collecting certain taxes from corporations and then pretending that such tax burdens are *not* actually borne by individuals (either as shareholders, employees or consumers) is a lamentable political process which should have been abandoned long ago. In an era in which hundreds of billions of dollars of *individuals'* pension funds, IRAs, insurance policy assets and personal investments are in the form of corporate stocks and bonds, it is difficult to understand the argument that *people* are not bearing the cost of the tax on corporate profits. Perhaps a free-wheeling debate about the nature of the relationship between incidence and payment of value-added taxes could at least lead to similar considerations with respect to income and payroll taxes.

There is a burgeoning concern within the business community that a value-added tax may weigh more heavily on some lines of business than others. Do these concerns arise because managers see their businesses (i.e., their shareholders) as paying the tax or because they think that their customers would pay it?

The possibility of exempting certain goods from a value-added tax presents the most stunning example of how important it is to consider very carefully the question of who pays the tax and who bears the economic incidence. Assume, for example, that the value-added tax is a tax on producers of goods or services, comparable in that respect to the present corporate income tax and payroll taxes. If a value-added tax were substituted for present taxes and if certain commodities such as food and medicine were exempted from tax, the result would be essentially the same as exempting the producers of those commodities from the corporate income tax and payroll tax. How would that affect the flows of investments to, and the values of stock in, taxable and nontaxable companies?

To the extent that international trade advantages can be obtained by substituting a border-adjustable value-added tax for some existing tax, any favorable change in the trade price of goods will depend heavily on whether the value-added tax has the same or similar incidence as the tax it replaces. The presumption that a value-added tax would have a favorable effect on trade does not mesh easily with the presumption that such a tax is paid in full by consumers.

Macroeconomic Effects

On the basis of expected 1990 levels of economic activity, a one percent VAT would yield approximately $20-40 billion in federal revenue (depending on the coverage of the tax). Thus, at a five percent rate, the VAT might virtually eliminate the $150 billion annual deficit in the federal budget. Even with exemptions for food, housing, and medical care, the estimated annual receipts from a five percent VAT would be approximately $60 billion.

However, fiscal flows of such magnitude likely would generate a variety of other impacts on the economy. For example, these estimates of the yield of the VAT assume that the Federal Reserve will follow an accommodating monetary policy, with a somewhat inflationary effect.

Because the withdrawal of such a substantial amount of purchasing power would act as a depressant on the economy, a tax of that magnitude likely would be phased in over a period of time. One econometric analysis concludes that the economy would grow about one percent more slowly for each percent of VAT and that inflation would be one and a half to two percent higher during an initial adjustment period.[7]

In policy terms, the institution of a VAT in the United States in the 1990s should properly be viewed in contrast to likely alternatives:

- Increases in income tax rates;
- Reductions in general outlays for defense and entitlements; or
- Continued high levels of deficit financing.

Each of these three alternatives would be accompanied by substantial burdens or costs, although they would differ from those generated by the imposition of a consumption-based tax such as a VAT. Reversal of the 1980s trend toward lower marginal income tax rates would reduce the incentives to work, save, and invest. Substantial further reductions in military and civilian spending might, depending on individual value judgments, impair the achievement of vital national objectives -- such as protecting the national security or maintaining the living standards of the elderly. Continued high levels of deficit spending would bring their own set of drawbacks, ranging from high real interest rates to upward pressure on the dollar and thus on the foreign trade deficit.

Outlook

Taxpayers may prefer a low-rate VAT to the income tax if their apparent attitude toward sales taxes is any indication. Yet, politicians fear VAT because they fear it is regressive. Companies marketing consumer products fear that the higher prices will reduce their sales and profits. Conversely, companies selling capital equipment and business services tend to take a more sympathetic attitude toward this form of government revenue, which would lighten the tax burden on their customers and, hence, tend to expand their markets.

Some observers of national policymaking are reluctant to support any new tax on the assumption that the added revenues would make it harder for members of the Congress to turn down proposals for ambitious new government spending programs. In their view, the budget deficit likely would change little.

Selective Excise Taxes

Considerable support exists for a partial move toward federal consumption or sales taxes, which would be accomplished by linking the tax to an important policy objective. For example, some propose an energy tax to help slow down the rising imports of oil. A $5 a barrel oil import fee would raise about $17 billion in 1990. A more ambitious measure to dampen energy demand -- a $5 a barrel tax on domestic and imported oil -- would yield approximately $21 billion in the same year. One argument against such selective taxes is that they discriminate against a single form of energy, petroleum. A comprehensive five percent tax on all domestic energy consumption, in contrast, is anticipated to bring $16 billion a year into the U.S. Treasury.

More modest tax proposals include raising the federal excise rate on beer and wine to equal the rate on distilled spirits -- a $6 billion revenue-raiser in 1990. Doubling the tax on cigarettes from 16 cents to 32 cents a pack would yield $3 billion. Finally, linking the tobacco and alcohol excises to the rate of inflation would increase Treasury revenues $1 billion a year by 1990. Clearly, the federal government does use selective sales taxes to raise revenue, although not to the extent that state and local governments do. Nevertheless, the annual yield of federal excises is substantial. As shown in Table 4, this form of taxation produced over $32 billion in revenue for the Treasury in the fiscal year 1987.

Also, in the case of a comprehensive VAT, linkage to a popular expenditure program would make passage more likely. Suggestions include initiatives on education, health care, and investment.[8]

Value-Added Tax as a Substitute

Although the current political interest in a value-added tax has arisen primarily from its potential to raise revenues to reduce the federal deficit, the *substitution* of a value-added tax for all or portions of existing income and payroll taxes is also a possibility. In fact, the most recent proposals in the United States have explicitly included such proposals.

In 1980, H.R. 7015 was introduced by Rep. Al Ullman. It provided for individual and corporate income tax rate reductions, liberalized depreciation rules, expanded retirement savings provisions and reduced Social Security taxes, all of which were offset by a 10 percent tax applied to a moderately-narrow value-added base (which excluded food, housing, medical care, farmers, fisherman, mass transit, interest and exports).

In 1985, Senator William Roth introduced S. 1102, which called for a credit against Social Security tax liabilities based on Business Transfer Tax (BTT) liabilities under a five percent rate applied to a base similar to the earlier Ullman proposal. The bill also included a sense of the Senate provision which called for using the net BTT revenues (after the Social Security credit) to reduce individual tax rates and to provide increased individual saving incentives. In February 1986, Senator Roth outlined explicit income tax rate reductions and investment-related provisions which would be funded by revenues from an eight percent BTT (after the Social Security credit) applied to a much broader base than his earlier proposal.

In 1986, Rep. Richard Schulze introduced H.R. 4598, which called for repealing the corporate minimum tax and enhancing the capital recovery provisions with revenues from a seven percent Business Alternative Minimum Tax. Credits would be allowed

Table 4

REVENUE FROM FEDERAL EXCISE TAXES
Fiscal Year 1987

Source	Amount (in billions)	Percent of total
Alcohol	$6.0	18%
Tobacco	4.8	15
Highway:		
Gasoline	8.7	
Diesel fuel	2.8	
Tires, etc.	1.8	
Subtotal	13.3	41
Airports and airways	3.0	9
Telephone	2.5	8
All other	2.9	9
	$32.5	100%

Source: *Budget of the United States Government, Fiscal Year 1989*.

against the corporate income tax and Social Security liabilities.

Substitution of a value-added tax for some portion of existing taxes seems a likely feature of any legislation for several reasons. Politically, the process of enacting a new tax is all but certain to require the building of a coalition from diverse interests. The "cost" of blending such diversity could well include reductions in existing income or payroll rates and/or re-enactment of prior income tax provisions which were repealed or restricted in 1986. Economically, the incidence debate could produce pressures to compensate in some way for the burdens of the new tax. It is interesting to speculate about the diversity of proposals which could arise -- payroll tax cuts, low income credits, corporate rate cuts, capital formation provisions -- depending on one's perspective.

Too Much Revenue: Is There Any Restraint?

The value-added tax is widely perceived as an almost unlimited source of federal tax revenue. That is true only in the sense that a relatively low rate of value-added tax -- compared to the present high rates of corporate and individual income taxes -- would raise substantial amounts, if applied to a comprehensive base. Despite this theoretical revenue potential, there are obvious practical restraints, not the least of which is the percentage of GNP that may be extracted in taxes without stifling the economy.

Consider the possibility that Congress merely enacts a generic value-added tax which is paid by the producers of goods or services in proportion to the value that is added by each and that is understood to be the substantial equivalent of the present corporate income tax and payroll tax. Having in mind that corporate income taxes are already approximately one-third of corporate profits (as computed for income tax purposes), is it realistic to suppose that such a value-added tax would be imposed to extract another one-third or that the value-added tax rate might be increased another percentage point or two so that the combination of corporate income tax and value-added tax payments would equal or exceed corporate profits?

The short-term outlook is for a substantial increase in the tax burden levied on private corporations.

Alternatively, assume that the popular view prevails and the value-added tax is considered to be a tax on consumption. Two commonly-voiced concerns would immediately come to the fore. One is that the value-added tax is a "money machine" which can readily be increased a percentage point or two almost unnoticed in the general mix of price fluctuations, state sales taxes, etc. The other concern is that any consumption tax is a major burden on consumers which may cause political revolt and could be enacted only at great political danger to all incumbents. Both concerns are expressed by opponents, but it is difficult to see how both can be correct.

Summary

In any event, the short-term outlook is for a substantial increase in the tax burden levied by the federal government on private corporations. Specifically, as a result of the Tax Reform Act of 1986, corporate income tax payments in 1990 are expected to reach approximately $130 billion -- double the 1986 total and more than triple the amount collected by the Treasury in 1983.

The corporate tax increases in the 1986 law -- coupled with the more modest revenue bills passed in 1982 and 1984 -- more than offset the substantial corporate income cuts enacted in 1981 as part of the supply-side Economic Recovery Tax Act. Total corporate income tax payments to the federal government in 1991 are estimated to reach about $140 billion, or 40 percent more than they would have been had the pre-1981 tax law remained in effect.

The impact of taxation on business is most uneven. Increasing reliance on consumption taxes would likely hit consumer-oriented companies particularly hard. However, a VAT would likely be a lower burden on a highly profitable industry than a simple rate increase on corporate profits. In contrast, increasing excise taxes selectively could wind up pitting one industry group against another, with substantial incentive for businesses to use the political process to achieve advantages or avoid disadvantages.

In short, the yawning federal deficit is reviving interest in another round of tax "reform." Recent tax changes designed to be "revenue neutral" have shifted the tax burden from the low-saving sector (families and individuals) to high-saving sector (businesses). Some form of VAT is thus likely to be debated and perhaps inaugurated in the near future. The economic impacts of such a shift in the basis of taxation must be carefully examined beforehand. Winners and losers are unavoidable in any major tax change, but Congress should obtain a clear understanding of its benefits and costs before embracing a major new revenue source.

Notes

1. For this general purpose, the comprehensive base is computed as the total amount of personal expenditures ($2,966 billion) less the values of all housing services ($469 billion), which totals $2,497 billion. Sources: *Economic Report of the President* (February 1988), Tables B14 and B104.

2. Charles E. McLure, Jr., "The Tax on Value Added: Pros and Cons," *Value Added Tax: Two Views* (Washington, D.C.: American Enterprise Institute, 1972), pp. 1-68; Charles E. McLure, Jr., "Value Added Tax" in Charls E. Walker and Mark A. Bloomfield, editors, *New Directions in Federal Tax Policy for the 1980s* (Cambridge, Mass.: Ballinger Publishing Co., 1983), pp. 185-213.

3. J. Gregory Ballentine, "The Administrability of a Value-Added Tax," in Charls E. Walker and Mark A. Bloomfield, editors, *The Consumption Tax: A Better Alternative?* (Cambridge, Mass.: Ballinger Publishing Co., 1987), p. 297.

4. McLure, "Value-Added Tax," p. 186.

5. See Joseph A. Pechman, "A Consumption Tax Is Not Desirable for the United States," in Walker and Bloomfield, *The Consumption Tax*, pp. 271-74; and George N. Carlson, "A Federal Consumption Tax," in ibid., pp. 275-95.

6. For a negative evaluation of the British experience, see John Blundell, "Britain's Nightmare Value Added Tax," *Heritage Foundation International Briefing* (Washington, D.C.: Heritage Foundation, June 13, 1988), pp. 1-11.

7. Joel L. Prakken, "The Macroeconomics of Tax Reform," in Walker and Bloomfield, *The Consumption Tax*, pp. 117-66.

8. Tax Policy Options," *Capital Formation* (May 1988), p. 3.