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**FOREIGN POLICY & DEFENSE**


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singular trauma they endured. Thus the resettled Indochinese in Western Europe still identify with refugees, and try to keep track of them. As for "host" governments, Benard is reminded of how the ancient Greeks viewed refugees: Each was "more than a stranger, less than a citizen."

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**ECONOMICS, LABOR & BUSINESS**


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**Taxes: VAT Next?**

"Worldwide Experience in Sales Taxation: Lessons for North America" by Malcolm Gillis, in *Policy Sciences* (Sept. 1986), Martinus Nijhoff, c/o Kluwer Academic Publishers Group, P.O. Box 322, 3300 AH Dordrecht, The Netherlands.

West Germany has one. So do Britain, France, and five other Common Market nations. In fact, notes Gillis, professor of public policy and economics at Duke University, the United States and Canada are among "the few industrial countries without a national sales tax."

U.S. critics of taxes on consumption (i.e. purchases)—rather than on earned income—have long denounced them as "regressive": The poor and the prosperous shoulder the same burden. Of course, income taxes, Gillis notes, present big problems too: In inflationary times, they can push middle-income taxpayers into higher brackets ("bracket creep"); and they are costly to administer and vulnerable to evasion. Hence, a national sales levy has generated interest in Washington.

The focus is on the "value added tax" (VAT), whose adoption by such egalitarian democracies as Denmark, Norway, and Sweden—among others—suggests that regression may not be a great problem.

In a VAT system, suppliers of goods, rather than buyers, pay the taxes. In the dominant type of VAT, taxes are calculated at each stage of a product's manufacture and distribution, but are only paid to the government by the final seller. Firms do not actually reckon the "value added" to a product by them; the tax is merely figured on total sales volume.

VAT systems sound complicated, Gillis says, but are not difficult to administer, and they can be tailored. To promote business growth, capital goods can be exempted; so can, say, medicine, to help the poor.

In European welfare states, VATs have been touted as a way to cut income levies. In the case of Denmark, the first country to adopt a VAT system (1967), 32 percent of government revenues in 1984 came from a 22 percent VAT. "Developing" nations value VATs as reliable income producers; in such countries as Mexico, Argentina, Morocco, Senegal, and South Korea, VATs provide one-fourth to one-fifth of total tax revenues.

The U.S. Treasury suggested a VAT in its 1984 tax reform proposal. Yet President Reagan staunchly rejects any form of consumption tax. Gillis concedes that introducing an American VAT might meet resistance from state governments (of which 45 levy sales taxes) and that conservatives would view a VAT as an expansion of federal power and a new "money machine" for the Big Spenders in Washington. Yet, Gillis concludes, in an age of huge federal deficits, "public discussion of this option will grow."