

RESEARCH ARTICLE

The Origins of a Fiscal Outlier: The Abandonment of a Federal VAT in the Nixon Presidency

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Abstract

Richard Nixon was the first president who examined the possibility of introducing a value-added tax (VAT) at the federal level in the late twentieth century. By 1970, his administration had considered recommending it alongside other domestic programs to overcome the criticism against the VAT's regressivity, potential conflict in the federal–state tax authority, and the fragmented decision-making authority between the executive and legislative branches of the government. However, in 1971, the Nixon administration shifted their policy priority toward gaining the middle-class political support by linking local property tax relief to a federal VAT. Although they combined the two measures with a rebate to obtain consent to and confidence in them from the “opponents” among the “internalists” of policymaking and societal actors, their attempt failed to accomplish it. As a result, Nixon abandoned the federal VAT. This abandonment was a missed opportunity to introduce a federal VAT, leading the United States to become a fiscal outlier among Organisation for Economic Co-operation and Development (OECD) countries: it has not yet implemented a national/federal VAT. Furthermore, this outcome marked the origin of certain historical characteristics of the American fiscal state: the use of tax expenditures, “fend-for-yourself federalism,” weak extractive capacity, and fiscal inflexibility.

Keywords: public finance; sociology of public finance; taxation; value-added tax; Richard M. Nixon

Introduction

On January 13, 1972, Richard M. Nixon (1972a) requested that the Advisory Committee on Intergovernmental Relations (ACIR) and the President's Commission on School Finance (PCSF) study the possibility of introducing a value-added tax (VAT) at the federal level. This request was part of his administration's objective to examine a reform of the public education financing system, which primarily depended on local property taxes. Ten months later, Nixon reportedly rejected using a VAT as a new revenue source because he came to believe that a VAT would generate excessive revenue too fast with no political pain, undermining federal spending discipline. Furthermore, a White House spokesman

noted that the administration's fiscal officials had been discouraging speculation for months that a VAT would be part of the administration's tax reform plan to be proposed in 1973. In the end, Nixon did not recommend a federal VAT during his presidency (NYT 1972a).

VAT is a tax levied on *the total value added in the nation by all business firms equal to the value of the total product of the economy*, or on *total value added that is the sum of total wages paid, interest and rent paid to individuals, and profit earned*. There are four primary VAT types: gross-product, income, wage, and consumption types. Consumption-type VAT has become a dominant national-level revenue instrument in European and other states worldwide in the post-World War II period. National/federal VAT is commonly "regarded" as the most popular type of sales or consumption tax imposed only on the value added to the product at each production stage. Many tax scholars (Auerbach and Hassett 2005; Evans et al. 2017: chap. 7; Friedman et al. 2021; Gale 2019: chap. 13; Graetz 2008), business groups (CED 2005), and taxpayer organizations (NTA 2009) have claimed that VAT has high revenue-raising ability, is more conducive to economic growth, savings, and international competitiveness than income taxes, and is easier to enforce and administer than (state) retail sales taxes. While welfare states that have introduced a VAT have succeeded in providing tolerant, direct social programs and overcoming backlash, even in the neoliberal era, welfare states that have depended on progressive taxation and redistributive social programs have faced challenges in sustaining such programs (Kato 2003; Prasad and Deng 2009; Steinmo 1993; Wilensky 2002). In terms of revenue collection, national/federal VAT represents about 20 percent of national tax revenue among Organisation for Economic Co-operation and Development (OECD) countries that have adopted VAT (OECD 2021: 27). A leading tax expert, Sijbren Cnossen, described the spread of VAT in the latter half of the twentieth century as "the most important event in the evolution of tax structure" (Cnossen 1998: 399).

The intellectual origins of VAT lie just as much in the United States as in continental Europe since the early twentieth century. Pointing out the fundamental flaws of the federal income tax, Thomas S. Adams, a pioneering and influential contemporary tax expert, recommended a small uniform tax on value added at each stage of the production process as the most efficient alternative to the federal business income tax (Adams 1917, 1921; Mehrotra 2013, 2019; Wells and Flesher 1999). Carl S. Shoup, a tax scholar at Columbia University, was labeled the "intellectual father of the value added tax" (Thirsk 1991: 133). He greatly contributed to the development of VAT in continental Europe and Latin America and to the introduction of what would have been the world's first VAT as a form of local business taxation in Japan in 1949, which was eventually abandoned (Brownlee et al. 2013). In the United States, interest in VAT resurfaced in the mid-to-late 1960s among business organizations and tax experts both inside and outside the Treasury Department and the Federal Reserve (James 2015: 343–45). In this intellectual context, Nixon requested the ACIR and the PCSF to research the possibility of introducing a federal VAT. However, Nixon eventually abandoned it in December 1972. Since his abandonment, the United States has never adopted a VAT at the federal level, making it the most prominent exception among OECD countries. Instead, the US federal government has relied heavily on progressive individual

income taxation that has contained numerous tax loopholes and preferences – popularly known as “tax expenditures” (Brownlee 2016).

The fact that the US federal government has no VATs means that it has failed in obtaining consent to and confidence in the legitimacy of VAT. Collecting taxes from their members is one of most important sources for states to derive their capacity to exercise control and put policy choices into practice. The research framework of “state–society relations” – focusing on relations between state (internalists) and societal actors of policymaking – have regarded that these relations affect the construction of an effective tax system and the state’s ability to implement policy goals (Hau 2015). Using the “state–society relations” framework, the scholars of “fiscal sociology” has regarded taxation as one of the most significant and enduring aspect of the state–society relationship and a broad political and social contract with which citizens must surrender their financial resources. Martin et al. (2009) and Mehrotra (2017) pointed out the importance of analyzing histories of states that have succeeded or failed in obtaining taxpayer consent to and confidence in the legitimacy of taxation by making citizens believe that taxation fairly reflects the cost of public goods and treats all of them equally. Delalande and Huret (2013) highlighted “social history of taxation” to examine how and why societal actors have (un)consented to state’s taxation. Furthermore, Kanter and Walsh (2019) suggested the integration of the perspectives of the fiscal sociology and the social history of taxation. Employing these perspectives of fiscal sociology literature, this article examines how and why the Nixon administration abandoned a federal VAT, leading the United States to become “a fiscal outlier” in the 1970s.

Previous studies on the American welfare state and public finance have attributed the lack of a federal VAT in the United States to (1) the federal–state division of taxing powers, (2) the fragmentation of decision-making authority between the executive and legislative branches of the government, (3) the opposition of conservatives and libertarians to the VAT as a “money machine” that might invisibly and efficiently enable the government to expand its expenditures with minimal political pain, and (4) liberal Democrats’ attack on the VAT’s regressivity (Eccleston 2007: 153–56; Gale 2019; Graetz 2008: 182–83; Prasad 2012; Schenk 2011: 52–63). Assuming these four points, previous studies discussing Nixon’s VAT have demonstrated that the Nixon administration intended to earmark the VAT for other domestic programs such as (1) a cut in the federal corporate income tax in 1970 to stimulate the growth and international competitiveness of the US economy, (2) the “federal revenue-sharing” plan (a measure intended to share part of federal tax revenues with state and local governments with no restraints on its use), and (3) local property tax relief to address the problem of inequitable school funding. These studies also described that the Nixon administration abandoned these plans because of opposition from Democrats against the VAT’s regressivity and negative responses from the Task Force on Business Taxation (TFBT) on the inflationary consequences of the VAT’s introduction, the ACIR on the public support for the plan, and the PCSF and state governors on the federal interference with state and local taxing power (Eccleston 2007: 165; James 2015: 340–43; Kato 2003: 125–7; Martin 2008: 79–83; Matusow 1998: 52–55; Michelmore 2013: 100; Prasad 2012: 120; Venters et al. 2012).

Refining the “state–society relations” framework’s category of policymaking “internalists” into the “proponent (the Nixon administration)” and “opponents (Republicans, Democrats, the PCSF, and the ACIR),” this article demonstrates two points neglected by the previous studies. First, by the end of 1970, the Nixon administration learned that they might obtain consent to VAT from both opponents and societal actors by combining it with rebate, negative income tax, and other domestic programs such as the federal revenue-sharing. Second, although the Nixon administration shifted their policy priority toward gaining the middle-class political support through local property tax relief tied to VAT, this choice resulted in undermining its legitimacy, despite their consideration to combine it with a rebate for the poor and middle-income class. The Nixon administration’s consideration was a “missed” opportunity to introduce a federal VAT by overcoming criticisms against VAT and convincing societal actors and “opponents” of its legitimacy. Nixon’s abandonment in 1972 resultantly led his successors to use tax expenditures and undermined the fiscal strength of the state and local governments. Without a federal VAT, the American fiscal state has kept depending on individual income taxation and tax expenditures, limiting its extractive capacity and the ability to provide public goods and services to obtain taxpayer consent to and confidence in the legitimacy of taxation.

Treasury research on a federal VAT, 1930s–Early 1960s

The examination of the possibility of a federal VAT had already begun in 1930s as an attempt to seek new federal revenue sources (Brownlee 2016: 106–07, 141, 145). Although the federal government had relied on high-rate progressive income taxation that included most middle-class wage and salaries while providing tax preferences which disproportionately benefited the wealthy, the Treasury, led by Carl S. Shoup, researched the possibility of a general retail sales tax or VAT with exemptions for basic needs – food, clothing, medical services, and dwellings – along with income tax credits to mitigate rises in the cost of living and the tax burden for low- and middle-income groups (DTR 1942 YNU/CSSC; Shoup 1942 YNU/CSSC; Harris 1949 NACP/OTPSF). They also investigated how to coordinate federal, state, and local taxes and other administrative considerations if a general sales tax or VAT were introduced (Campbell 1952 NACP/OTPSF; Lent 1952 NACP/OTPSF; Federal-state relations 1953 NACP/OTPSF; Pechman to Ecker-Racz 1952 NACP/OTPSF). After the consumption-type VAT was introduced in France in 1954, it gradually attracted interests of tax scholars, including Shoup and John F. Due, at the University of Illinois, as “the latest fiscal innovation of general scope” in the late 1950s (Due 1956: 123–37; Shoup 1955: 6–19).¹ Clara Sullivan, who submitted her dissertation at Columbia University under Shoup’s supervision in 1959, conducted a number of sessions on sales taxation and the nature and revenue importance of VAT in the project in the Harvard Law School’s International Tax Research Seminar by reviewing cases in Germany, France, Japan, and the US case which Adams had recommended in the 1920s (HLSIPT 1959 YNU/CSSC). As the most remarkable case, in November 1962, the Executive Commission of the European Economic

¹For the VAT’s introduction in France in 1954, see Sullivan (1965: 50–125).

Commission (EEC) recommended that its member countries should adopt a French consumption-type VAT to replace the “cascade” business “turnover” tax that had dominantly provided tax revenues while preventing completely free movement of goods within the EEC jurisdiction (Dale 1962).

Following these movements, in the early 1960s, Treasury staff recommended Stanley S. Surrey, Assistant Secretary of the Treasury for Tax Policy under John F. Kennedy and Lyndon B. Johnson, a thorough-going VAT research as part of a long-range research program directed toward comprehensive reform of the federal tax structure (Brazer to Surrey 1963 NACP/OTPSF).² Through the research, on the one hand, Treasury staff and consultants examined whether the introduction of a VAT to the federal tax system might provide economic neutrality that would promote capital formation and productivity, strengthen the international competitiveness of domestic industry, improve the balance of payments, and help stop the gold drain (Slitor 1963 YNU/CSSC; Stockfish to Surrey 1963 NACP/OTPSF). At this point, tax experts both inside and outside the Treasury were still at odds over whether they could convincingly support these possibilities and effects of the VAT as legitimate reasons to implement it (NBER and BI 1964).

On the other hand, Treasury staff and consultants coherently considered that the combination of VAT and income tax reforms to lower the rates of individual and corporate income taxes while eliminating unfair tax loopholes and preferences, particularly more comprehensive taxation of capital gains to prevent tax avoidance by the wealthy using corporate devices as tax shelters. They emphasized that this tax reform package was crucial to reduce the tax burden on the low- and middle-income classes and to maintain and enhance tax equity horizontally (the same tax liability for any taxpayer with the same level of income) and vertically (the appropriate sharing of tax burdens among different levels of income). Furthermore, the research suggested that increases in minimum standard deduction and welfare payments and the introduction of negative income tax (a tax system that provides each citizen with a cash amount equal to the difference between their own income and the threshold for tax liability if their income is lower than the threshold) would mollify the shift in tax burden and price increases that might otherwise induce serious hardship for wage earners and the poor (OTA 1965 NACP/OTPSF; Stockfish to Surrey 1964). Through the research in the 1960s, Treasury staff and consultants learned that a VAT would display the highest revenue-raising ability with the broadest tax base and the lowest tax rate. They also learned that they might overcome the classic argument against the VAT’s regressivity by coordinating its introduction with individual income tax reforms that aimed to enhance horizontal and vertical equity, simplify the entire federal tax system, lower tax rates, and implement exemptions and special rates on basic needs, such as food, housing, and medical services. Treasury staff and consultants discovered the possibility that the amalgam of these measures might provide a progressive federal tax system with sufficient extractive capacity to finance domestic programs to accomplish the desired economic, social, and welfare goals (Stockfish and Surrey 1965 NACP/OTPSF).

²For Surrey’s background and his federal tax reform efforts, see Mozumi (2018; 2022).

Varying views on VAT before Nixon's election

Tax experts inside and outside the Treasury were still at odds with the federal VAT's effects on investment and economic growth and legitimacy of implementing it in the late 1960s. As the Treasury's research was proceeding, Surrey was coming to doubt whether the federal government should adopt a VAT at that time (Surrey to White, Stone, and Brannon 1966 NACP/OTPSF). By contrast, organizations such as the Committee on Economic Development and other Treasury consultants such as Arnold C. Harberger, an economist of the University of Chicago, were coming to see a federal VAT as a key part of comprehensive tax reform (CED 1966; Harberger 1966). However, such a positive view faced with the argument that a federal VAT would be feasible and useful only for countries that had already implemented cascade or other single-stage sales taxes (Forte 1966). Surrey then invited Treasury consultants, including Joseph A. Pechman of the Brookings Institution, Due, Harberger, and Shoup, to a Treasury meeting scheduled on November 4, 1967, on tax policy planning (Surrey to CATPP 1967 NACP/OTPSF). At the meeting, they discussed the potential of a federal VAT, particularly the consumption-type one, as a new revenue-raiser and crucial measure for comprehensive federal tax reform. As a result, they reached an agreement that many issues remained about the adoption of the VAT, such as possible opposition to tax increases, negative income taxation, price rises, capital gains tax reform, and federal-state fiscal relations with respect to sales taxes and revenue-sharing from the federal government to states and localities to resolve the conflict in revenue resources (Summary, consultant meeting 1967 OTPSF/NACP). Thus, the Treasury determined to research these topics under their five-year research program on the fundamental federal tax reform and the legitimate implementation of the VAT (White 1967).

Despite the Treasury's decision, varying opinions on introducing a federal VAT were expressed in the ongoing debate among tax experts. Having traveled widely in Europe, Dan Throop Smith, who had been the Treasury's top tax expert during the Eisenhower administration and was believed to hold a similar position if Nixon were elected, had been sold on the VAT. He argued that VAT was an ideal revenue-raising method because he evaluated it as the most neutral economically. He also favored the General Agreement on Tariffs and Trade (GATT) rules because it allowed governments to subsidize exports through rebates of indirect taxes such as VAT but not for direct tax benefits. Smith argued that the United States had to consider VAT to maintain US corporations' international trade competitiveness since the EEC had decided to adopt VAT within a few years (Metz 1968). At a meeting of a taxation committee of the National Association of Manufacturers, George Champion, the chairman of the Chase Manhattan Bank known as a Nixon's close friend, maintained that this reform would be fair and equitable and would strengthen capital markets while reducing "punitive" individual income tax rates without reducing tax revenues (NYT 1968). Surrey opposed these ways of advocating and adopting a federal VAT. He stressed that "Much could be lost . . . in pursuing the 'will-of-the-wisp' of value-added taxation in an effort to improve our trade position" (TD 1968 NACP/OTPSF). What Surrey emphasized was that each tax policy should deal with each issue in appropriate fashion (TD 1968 NACP/OTPSF). Furthermore, the Chairman of the House Committee on Ways and Means

(CWM), Wilbur D. Mills (Democrat–Arkansas), also rejected using VAT as a measure to resolve foreign trade problems. Defining VAT as “similar in some respects to a sales tax” and as “one of the chief sources of revenue for States and cities,” Mills also expressed that he had never supported a federal sales tax (UNWR 1968).³ As a result, the 1960s research and discussions left a federal VAT as a subject for the Nixon’s administration.

VAT as a new revenue-raiser in 1969

After Nixon took office, his advisers held varying views on the administration’s tax policy. Nixon told the new Secretary of the Treasury, David M. Kennedy, and the new Assistant Secretary for Tax Policy, Edwin S. Cohen, that they should urgently improve the federal tax system while maintaining revenues (Nixon to Kennedy 1969 RMNL/WHCF/SF/FG).⁴ Within the administration, however, Paul W. McCracken, CEA’s new chairman, and its members, Herbert Stein and Hendrik S. Houthakker, believed that they should select only a few important items which they felt were reasonably confident (McCracken to Cole, Jr. 1969 RMNL/WHCF/SF/FG).⁵ The CEA’s economic strategy primarily aimed to curb inflation gradually by ensuring a budget surplus without a substantial rise in unemployment. To accomplish it, they considered taxing and spending based on the concept of “the high employment budget” – the difference between the balance of the actual budget and the high employment budget calculated on the assumption that the economy ran at a 4 percent unemployment rate.⁶ Based on this concept, the CEA primarily attempted to achieve a balanced budget and stabilize fiscal policy by separating decisions on the overall position of the budget from decisions on particular expenditures and tax structure questions (Stein 1996: 213–14). The Bureau of Budget, under its new director, Robert P. Mayo, trimmed the budget according to the CEA’s direction (Dale Jr. 1969).⁷ The Assistant to the President, Peter Flanigan, and the Counsel to the President, John D. Ehrlichman, also devoted to the administration’s domestic programs including VAT.⁸

Although Nixon’s first tax reform recommended on April 21, 1969 – consisting of base-broadening reforms to enhance tax equity both vertically and horizontally, rate cuts and smoothing, and the extension of temporary surcharge on individual and corporate income taxes – did not include VAT, his administration was simultaneously conducting in-depth VAT studies as a part of a “prologue to an agenda for our long-run study of tax reform” (Brannon 1969 NACP/OTPSF).⁹

³For Mills’s background, see Zelizer (1998).

⁴For Kennedy’s background, see Hershey (1996). For Cohen’s background, see Saxon (2006).

⁵For backgrounds of these CEA members, see Matusow (1998).

⁶Nixon’s staff also used the term “the full employment budget” to mean the same as the “high employment budget.” This article follows the same terminology, using the two terms interchangeably.

⁷Nixon restructured and renamed the BOB into the Office of Management and Budget (OMB) in 1970.

⁸Ehrlichman transitioned from Counsel to Assistant to the President for Domestic Affairs in November 1969.

⁹For details on Nixon’s structural income tax reform measures, see Mozumi (2022: 103–06). Outside Nixon’s Treasury and administration, Surrey, who had already left the Treasury and gone back to Harvard Law School, repeated the same argument against VAT proponents who had emphasized its possible positive effects on US exports and investments as he had outlined in the speech at the end of 1968. He also echoed the same argument as Forte (1966) had pointed out (Surrey 1969).

At the time, the Nixon administration viewed VAT as a possible measure to finance government programs while helping US businesses compete against imports (Taxes 1969 RMNL/WHCF/SMOFHS). Domestically, an economic squeeze induced by rising family budgets and college expenses affected both minority groups and the white working class nationwide (Shultz to Nixon 1969 RMNL/WHCF/SF/FG). Experiencing hardship, they clamored for state and local governments to implement more public services. However, debates about raising new revenues at state and local levels were marked by legislators' acute awareness that many taxpayers already regarded themselves as being taxed beyond endurance by previous state and local tax increases. Such states and localities witnessed "taxpayers' revolts" which called for more public services and "no new taxes" (van Gelder 1969: 38). In the face of the taxpayer's revolts, state legislatures implicitly hoped that "the Federal Government will ride to the rescue with revenue-sharing" (van Gelder 1969: 38). To deal with this situation, Nixon presented a plan for unconditional federal revenue-sharing funded by a percentage of federal individual tax revenue as a new approach of a "New Federalism." Meanwhile, he declared that he would pursue his welfare reform and a comprehensive new job training and placement program (Nixon 1969).

Nixon's suggestion for these domestic programs, combined with the budget hardship, led his administration to consider the possibility of recommending a federal VAT to finance them. On September 22, 1969, Nixon announced the establishment of the TFBT. He appointed a tax specialist in his former law partner, John H. Alexander, as the chairman of the TFBT. Nixon ordered them to assist his administration in studying the possibility of substituting corporate income tax with VAT partially for 1970 (OWHPS 1969 RMNL/WHCF/SF/FG). In the first draft of the TFBT's VAT statement, the TFBT's majority opined that the administration should not adopt a federal VAT. They viewed that the inevitable transitional difficulties would limit its benefits such as its possible ability to raise revenue for existing and new programs without penalizing or favoring labor or capital (Smith to TTF 1969 RMNL/WHCF/SMOFHS). Despite the TFBT's opinion, the Nixon administration requested the TFBT to keep researching VAT as part of broad tax reform efforts with echoing the same merits and measures to diminish VAT's regressivity that the Treasury's staff and tax experts had repeatedly considered since the Kennedy presidency (Cole, Jr. to Alexander 1969 RMNL/WHCF/SF/FG). The CEA viewed a possible tax increase, including the introduction of a federal VAT, as crucial "to make a transition to having a moderate budget surplus with the yield of the permanent revenue system" without deteriorating inflation and unemployment (Stein 1969 RMNL/WHCF/SMOFHS). Furthermore, Nixon's first tax reform proposal would likely be enacted as a tax cut in the long term. McCracken estimated that it would make the budget fall roughly \$6–7 billion short of probable outlays. He then suggested that the long-term revenue shortfall should be covered by new tax proposals including VAT (McCracken to Nixon 1969 RMNL/WHCF/SF/FI). Nixon's first tax reform, the Tax Reform Act of 1969 (TRA69) provided base-broadening reforms, such as cuts in tax preferences for capital gains. However, it was primarily enacted as a long-term tax reduction (Mozumi 2022: 109–09). On the day Nixon signed TRA69 into law, reporters asked Kennedy at a news conference whether Nixon was considering a VAT to compensate for the revenue

shortfall. He answered that it was “merely one of the areas that had been under study” (OWHPS 1969 RMNL/WHCF/SMOFHS). Nevertheless, Kennedy’s reply was publicly reported as implying that the administration had begun to develop a VAT proposal because they were convinced that balancing the following year’s budget required a tax increase (Farnsworth 1969).

VAT as a new, single revenue-raiser with “net progressivity” in 1970

Following this news, Nixon chose to follow the CEA’s attitude. On July 17, 1970, he recommended that Congress should examine welfare reforms, job training and placement programs, and federal revenue-sharing which would benefit the people with increasing revenue-raising measures to pay for the new program. He stated that he expected it would enable them to conciliate the Democratic Congress that was unreceptive to any additional tax proposals and to galvanize public support, particularly at the local level, by combining federal revenue-sharing, welfare reform, and a new job training with the VAT to fund them. Nixon simultaneously argued that the Democrat-controlled Congress had persistently, increasingly tended to approve expenditure increases that overshot the basic extractive capacity of the federal tax system. He warned that this tendency would intensify the large, painful inflation, and the anger of taxpayers against Congressional fiscal irresponsibility. Thus, Nixon maintained that “expenditures must never be allowed to outrun the revenues that the tax system would produce at reasonably full employment” as “one basic guideline for the budget” (Nixon 1970).

Following this Nixon’s statement, Nixon’s Treasury and the TFBT examined the adoption of VAT. The Treasury held a consultant’s meeting to discuss this option in terms of the importance of tax neutrality, relative merits of a wide range of alternative tax systems, need for new revenue, and tax administration. They invited tax experts who had vigorously researched VAT since the 1960s – including Harberger, Shoup, and Smith – in addition to Alexander. They favored a consumption-type VAT and evaluated it as easier to administer than income and gross-product types. To the consultants, Cohen maintained in the meeting that he had found during his research in European countries that the VAT had provided those countries with relative economic neutrality, and positive effects on economic conditions, international trade, and administrative complexity. He also stated that European countries had operated their VAT systems quite successfully and obtained public endorsement primarily because of its universality and general uniformity, great revenue-raising potential for financing increases in governmental services, and stimulative effect on exports. Learning from Cohen’s research experiences, the Treasury consultants agreed that the introduction of VAT should accompany individual income tax reform measures to boost the progressivity of the whole tax system. They also suggested that a VAT system could achieve progressivity if accompanied by exemptions, reduced tax rates, more redistributive government expenditures, and refunds to the poor from VAT revenue. Furthermore, they shared the view that using VAT revenues for federal revenue-sharing might enable the Nixon administration to overcome the federal–state conflict of taxing power over

general sales tax.¹⁰ In a published report in September 1970, the TFBT formally expressed their negative view of the substitution of corporate income tax with a VAT in view of its economic effects both domestically and internationally. However, the TFBT recommended that the Nixon administration “should turn to the value-added tax or to some other form of indirect taxation rather than to an increase in rates of the corporate or personal income tax” if they needed substantial additional federal revenue (TFBT 1970 RMNL/WHCF/SMOFHS).

Reviewing the Treasury consultants’ discussions and the TFBT’s report, on October 31, 1970, the White House ordered the Treasury to draft a detailed plan for a VAT as the prime potential of an additional revenue source for the next year (Shanahan 1970). In response to the White House’s order, the Treasury crafted their recommendation based on the consultants’ discussions. Cohen reported that consumption-type VAT seemed generally preferable for use in the United States. To sell it to Congress, Cohen recommended that Nixon should emphasize it as an indirect tax involving not only great revenue-raising potential to finance increased governmental services and benefits, but also universality, general uniformity, economic neutrality, and stimulating effect on exports under the GATT rules. Cohen also recommended that the Nixon administration should express that they would make appropriate considerations on the “net progressivity” involved in federal government expenditures and revenues, based on what he called “the case of Scandinavian countries,” through both income tax credits and the benefits of direct social expenditures (Cohen to Nixon 1970 RMNL/WHCF/SF/FI). In addition, Cohen touched on the combination of VAT with federal revenue-sharing to overcome the possibility of overlapping state sales taxes. The Nixon administration and his Treasury conscripted the consumption-type VAT as a useful tool in a major revision of the federal tax structure and as a means of providing a future revenue source to fund new federal programs. They also believed that it would be advantageous for the US domestic and international economy and useful as a part of a revision of intergovernmental fiscal relations provided by the federal revenue-sharing. Finally, they concluded that adopting the federal consumption-type VAT would be preferable to efforts to encompass state and local sales taxes as a means of improving the nation’s overall revenue structure (Cohen to Nixon 1970 RMNL/WHCF/SF/FI).

Nixon’s staff designed the administration’s federal VAT proposal based on the Treasury’s recommendation. They estimated that it would produce a net revenue addition of \$7–10 billion that could be coupled with specific tax reforms, such as depreciation reform, tax relief on tuition and childcare costs for working wives, integration of personal and corporate taxes, local property tax relief, and other outlays (Crawford through Flanigan to Shultz and Ehrlichman RMNL/WHCF/SF/FI). They also considered the combination of VAT with other tax reform measures, such as income tax credit for taxpayers earning up to \$8,500 or a refund to

¹⁰“Summary of Treasury Consultants’ Meeting on Value Added Tax, August 4, 1970,” Undated, Folder: Value Added Tax, Box 162, Alphabetical File, V-file: Value-Added Tax, CSSC, YNU. This memorandum was attached to Henry C. Wallich to Carl S. Shoup, August 13, 1970, Folder: Value Added Tax, Box 162, Alphabetical File, V-file: Value-Added Tax, CSSC, YNU.

25 million non-taxpayers, new expenditure initiatives, federal revenue-sharing, and property tax cuts in major cities (Flanigan to Ehrlichman and Shultz 1970 RMNL/WHCF/SF/FI). The Nixon administration appealed that this tax reform package would enable the federal government to fund their domestic programs and balance the budget for fiscal 1972 and 1973. Furthermore, they also claimed that it would enable states and cities to pay their debt service to deal with local problems, such as crime, education, slum housing, garbage management, and pollution, with more no-strings federal government funds (Dale 1970). The amalgam of these measures could possibly convince the VAT opponents of the legitimacy of their VAT proposal. The Nixon administration attempted to obtain their consent by resolving the conflict in the federal–state taxing authority and mitigating the VAT’s regressivity.

The Nixon administration’s middle-class politics and the federal VAT in 1971

Despite the Treasury’s research and the administration’s effort to develop a VAT proposal, Nixon (1971a) relegated it to “a possibility for the future” at the beginning of 1971. He declared on television that it was unrealistic to propose any new taxes because he was going to give Congress, particularly the CWM and the Senate Finance Committee (SFC), “a very full plate in other areas requiring their attention,” including welfare reform, new health programs, and federal revenue-sharing (Nixon 1971a). Before the SFC, the newly appointed Secretary of the Treasury John B. Connally Jr. stated that Nixon ordered him to examine “any possible tax,” including VAT, for a broad tax reform program (Naughton 1971a). However, when Nixon declared that he would recommend federal revenue-sharing as a measure to help states and localities mitigate taxpayers’ revolts against local property taxes, imminent fiscal crises, and ever-increasing state and local taxes, he stated that new funds for federal revenue-sharing would not be accompanied with a VAT but tied to “the federal personal income tax base” (Nixon 1971b).

This Nixon’s relegation was led by the recommendations of his staff who were concerned about how to overcome Democrat’s opposition to the VAT and to win the 1972 presidential campaign. They predicted that key Democrats in Congress would criticize the VAT as unfair and regressive and would take no action on it even if the administration attempted to implement it based on the Treasury’s November 1970 recommendation. They feared that the Democrats’ anticipated response would pull down approval ratings for Nixon during the presidential campaign of 1972. More importantly, Nixon’s staff viewed that “There is no way politically that we can defend the present tax structure” (Mozumi 2022: 110). Since TRA69 was legislated, Congressional Democrats had recommended that Nixon consider more tax reform proposals to “complete the job of loophole-plugging” (Mozumi 2022: 110–11). Despite its tax-cutting provisions, many middle- and working-class taxpayers also expressed their dissatisfaction with TRA69’s result on their tax burden (Mozumi 2022: 110–11). Charles W. Colson, Special Counsel to the President, pointed out that the Democratic candidate for the 1972 presidential election – Hubert Humphrey (Democrat–Minnesota) or George McGovern (Democrat–South

Dakota) – would attack this tax system severely as “welfare for the rich” (Colson to Haldeman 1971 RMNL/WHSE/CMF). He also warned that Nixon’s rivals would effectively “exploit” the dissatisfaction of millions of middle-class Americans by criticizing the existing federal tax structure (Colson to Haldeman 1971 RMNL/WHSE/CMF). When Nixon and his administration’s staff privately examined the possibility of implementing VAT, they unanimously viewed that it had to be accompanied by reforms of the federal income tax structure or the local property tax system for financing public schools (Haldeman 1971).

The Nixon administration gave Democrats another opportunity to attack them fervently with Nixon’s declaration of the sudden, unilateral cancellation of the international convertibility of the US dollar and gold on August 15, 1971. The declaration – made in the “Address to the Nation Outlining a New Economic Policy (NEP)” – aimed to realize a full generation of peace, create more and better jobs, halt rises in the cost of living, and protect the dollar from attacks by international money speculators (Nixon 1971c). In this address, Nixon recommended that Congress should consider providing an incentive for investments in new machinery and equipment that would create new jobs for Americans, a 10-percent Job Development Credit for one year, repeal of the 7-percent automobile excise tax, and acceleration of the personal income tax exemptions scheduled for January 1, 1972, to January 1, 1973. To offset revenue loss from these tax cuts and restrain inflation, Nixon (1971c) simultaneously ordered a \$4.7 billion cut in federal spending by 5-percent cuts in federal government personnel and foreign aid, and the postponement of the implementation of federal revenue-sharing for three months and welfare reform for one year. However, most Democrats attacked the program as inadequate, ill-timed, or “much too little and too late” (Weaver 1971: 17). They also criticized federal employment cuts and the recommendation of the delay of his revenue-sharing and welfare reform legislation as sacrificing the working class, small businessmen, and consumers (Weaver 1971). At the sixty-third annual Governors Conference, the Democratic governors called for Nixon to implement welfare reform, federal revenue-sharing, and temporary federal grants to the state and local governments (Apple 1971).

To convince these critics and the public that they would construct a government responsive to American people’s needs, Nixon’s aides outlined a strategy to deal with broad issues which had traditionally gone along with property ownership with which “all so-called Middle [class] Americans are concerned” – such as crime, property taxes, and social order. The Nixon’s aides believed that Nixon could appeal to them that “this Administration has done [much] to protect the income of the individual” through the NEP, tax reform, revenue-sharing, property tax relief, and Social Security increases. They predicted that this way of appealing to the public might mitigate the impact of taxation in the face of the middle- and working-class hardship, the brewing taxpayers’ revolts, and Democrat’s criticisms.¹¹ After the landmark case of *Serrano v. Priest* in California, similar suits emerged nationwide to point out significant discrepancies in communities’ capacity to fund public school

¹¹“The Report on Middle America,” Undated, Folder #5: Contested, 16–5, Box 16, WHSE, CMF, RMNL. It was attached to a memorandum from Jeb S. Magruder (the Committee for the Re-election of the President) to the Attorney General, November 2, 1971, Folder #5: Contested, 16–5, Box 16, WHSE, CMF, RMNL.

education through local property taxes and the inequality of its quality (Murray et al. 1998). Then, the White House identified school finance reform through federally financed school property tax relief as a key domestic thrust to carry out this strategy and convince the people (Ehrlichman to Connally 1971 RMNL/WHCF/SF/FI). Furthermore, a nationwide opinion survey conducted during the third week of September 1971 showed administration staff that local property taxes were the most disliked taxes, and many respondents demanded the relief of property taxes (Harper to Ehrlichman 1971 RMNL/WHCF/SF/FI). Therefore, on December 2, 1971, Nixon pledged to seek to overhaul property taxes and the whole system for financing public education to reduce the tax burden on property owners after receiving the PCSF's report in March 1972 (Naughton 1971b).

The predicted tax revenue shortfall in fiscal 1973 urged the Nixon administration to search for a way of financing local property tax relief. On December 3, 1971, Ronald L. Ziegler, the White House Press Secretary, declared that Nixon would submit a budget based on the "full employment budget" concept to Congress for fiscal 1973 that would set federal spending at roughly \$250 billion for the year beginning next July (Naughton 1971c). During a four-hour meeting between Nixon and key budget aides, however, Deputy Director of the OMB Caspar W. Weinberger asserted that increases in "uncontrollable" programs such as Social Security, welfare, and interest on the federal debt might make it difficult to hold spending to the ceiling (Naughton 1971c). This assertion led to the public speculation that there would be little money available to Nixon for major new programs unless Nixon sought tax increases including the adoption of a federal VAT in 1972 (Naughton 1971c). Still, the NEP's tax cut proposal, legislated as the Revenue Act of 1971 on December 10, provided larger tax cuts than Nixon had recommended on August 15.¹² This result further urged the Nixon administration to seek an additional revenue-raising measure to convince the middle class that the administration could accomplish federally financed local property tax relief while keeping government expenditures under the budget ceiling they had declared. Then, the Nixon administration determined to pick up VAT again. The administration also began planning to present the ACIR with emphasis on the tax reform aspects of the VAT proposal combined with the relief of local property taxes (Outline of possible presentation to ACIR 1972 RMNL/WHCF/SF/FI).

On January 13, 1972, Nixon and Vice President Spiro Agnew met with the chairman of the ACIR, Robert Merriam, the chairman of the PCSF, Neil McElroy, the Secretary of Health, Education, and Welfare (HEW), Elliot L. Richardson, and the Commissioner of Education of the HEW, Sidney P. Marland, Jr. to discuss the administration's plan. Nixon requested McElroy and the PCSF to examine (1) the impact on intergovernmental relations of a tax reform proposal that would replace residential school property taxes with federal VAT; (2) whether federal VAT would be the best substitute for residential school property taxes; (3) the adoptable size and nature of the VAT tax base; (4) measures to eliminate the VAT's regressivity, including income tax credit; and (5) the best means for ensuring that local school districts could retain control of basic educational decisions (Nixon 1972a).

¹²For the details of the Revenue Act of 1971, see Matusow (1988: 164–66) and Witte (1985: 176–79).

On January 20, Nixon requested that the ACIR research the same issues (Nixon to Merriam 1972 RMNL/WHCF/SF/FI). Nixon emphasized that this research should focus on the reform of local property taxes that were identified as burdensome for lower- and middle-income families and older Americans. On the same day, Nixon (1972b) declared that he would present to Congress an expansionary budget for fiscal year 1973 that would reflect the impact of new job-creating tax cuts, job-creating expenditures, welfare reform, and federal revenue-sharing to address the 6-percent unemployment rate, the deepening state and local fiscal crises, and demands for a more flexible and responsive government. Simultaneously, he strongly urged Congress to respect the spending guidelines along with the concept of the full employment budget (Nixon 1972c). The Nixon administration in 1970 had discussed VAT as a potential new revenue source while regarding accompanying domestic programs as a measure to diffuse criticism against the VAT. However, the Nixon administration shifted their policy priority at this point. In the face of fiscal restraint, the Nixon administration picked a federal VAT as a new federal tax earmarked to local property tax relief in order to obtain middle-class political support without increasing budget deficits and to avoid being accused of fiscal irresponsibility.

Nixon's abandonment of the VAT in 1972

The Nixon administration faced criticism from both Republicans and Democrats soon after Nixon's research requests. Democrats regarded VAT as the only new source being discussed at the federal level as "nothing but an elaborate sales tax" (NYT 1972b). Two Democratic presidential candidates, Senator Edmund S. Muskie (Democrat–Maine) and McGovern, sharply criticized the administration's plan to replace parts of the local property tax with VAT. Instead, they recommended loophole-closing tax reforms and defense spending cuts under the banner of no new taxes. They denounced the Nixon administration's consideration of the federal VAT as a kind of regressive national sales tax (Naughton 1972; Semple 1972). Members of both parties in Congress also accused the Nixon administration of refusing to concede the reality that the US citizens faced with the threat of a large tax increase (Shanahan 1972b). While parrying the criticism by stating that they did not have to implement a tax increase and that no decision had been made on the VAT, the Nixon administration continued devising a tentative plan to propose a combination of local property tax relief and a federal VAT. The administration's tentative plan included rebates of a part of VAT not only to poor families below a specified income level but also to those up to the upper-middle-income class. This rebate would take the form of negative income tax that would decrease as income increased and be phased out at a certain income level. Although the administration knew that this rebate plan would greatly reduce VAT revenue, they believed that it could blunt the opposition to VAT's regressivity and pass it through Congress. The Nixon administration also prepared this measure to argue that the VAT system would be mildly progressive (Shanahan 1972c).

The tentative plan failed to obtain consent not only from Democrats, but also from Republicans, conservatives, and schoolteachers. At the state level, for instance, Wendell R. Anderson, the Governor of Minnesota from the Minnesota Democratic-Farmer-Labor Party, attacked VAT as unfair and regressive (Strachan to Haldeman 1972 RMNL/WHSF/CMF). Humphrey claimed that Nixon would “try to slap a value-added or giant national sales tax on the people” if he were re-elected (Kehrli to Ehrlichman 1972 RMNL/WHSF/CMF). He argued that such a tax would increase the cost of goods and that Nixon might ultimately use it to reduce taxes of the wealthy. When the Nixon administration unveiled its ideas concerning the VAT to a cross-session of government officials from across the country on February 10, VAT critics ranged from a Democratic member of the CWM, Al Ullman (Democrat–Oregon), to labor unions such as the AFL-CIO and a conservative Republican Governor, Robert D. Ray of Iowa. Ullman objected to the invisibility of the VAT burden from customers’ sight. Ray noted that the administration’s tentative proposal would leave Iowa \$150 million short of the fund to finance education even with new federal aid and the VAT, forcing the state either to increase their sales tax or income tax. A conservative Democrat, Lawrence H. Fountain of North Carolina, complained that the Nixon administration had never demonstrated the need to institute a new federal tax to help states finance their schools. Indeed, discussions at the session revealed that the administration’s tentative plan would fall short of a full refund for VAT paid by the poor as they had previously indicated (Shanahan 1972d). Furthermore, at a hearing in the House about elementary and secondary education, the American Federation of Teachers affirmed its opposition to the VAT as Nixon’s attempt to tie education to a regressive, unfair method of taxation which would further advance his “soak the poor” philosophy (Venters et al. 2012: 50).

The PCSF and the ACIR were also negative on a federal VAT combined with local property tax relief. The PCSF’s report, submitted on March 3, 1972, recommended that state governments assume responsibility for fully financing all non-federal outlays for public elementary and secondary education by adopting a state-wide property tax levy at a significantly lower level. To aid the states in attaining this objective, the PCSF also recommended a general-purpose federal incentive grant to reimburse state’s part of the costs for raising the state’s share. However, the PCSF’s recommendation included no methods to fund it, including VAT. The PCSF concluded that these considerations would require them “to become involved in many considerations of intergovernmental relations and tax policies that would go beyond the problems of school finance” (PCSF 1972: 36–37, 65, 99). A poll mentioned in the ACIR’s report revealed that only 32 percent of the respondents agreed with the use of federal VAT to help reduce local property taxes. Furthermore, 44 percent felt that neither course of possible federal action should be pursued; 34 percent agreed that “the federal government should collect a value added tax on things other than food and similar necessities”; and 40 percent agreed that “the federal government can raise money by reducing special tax treatment for capital gains and cutting tax deduction allowances for charitable contributions, state and local taxes, medical expenses, etc.” (ACIR 1972). Thus, the ACIR concluded that Americans regarded the VAT approach as the next best

option after a broader-based federal income tax to raise substantial federal tax revenues (ACIR 1972).

The Nixon administration's attempt at a federal VAT no longer had any supporters. At the National Governors' Conference in Houston on June 7, all Republican and Democratic governors rejected the proposal. They believed that the federal VAT might provide direct competition for the 45 states that relied heavily on the general sales tax as a major revenue source. They also claimed the proposed VAT might accelerate the shift of federal taxation away from the principle of the ability to pay that had already been eroded by tax loopholes, even if the administration's plan included rebates through income tax credits (Weaver 1972). A Gallup survey revealed that 51 percent of the 1,614 adults interviewed nationwide in the spring of 1972 were against any national sales tax or VAT as a means of relieving local property taxes (NYT 1972c). McGovern repeatedly appealed to voters that Nixon would call for VAT in the form of a "regressive national sales tax" while leaving the loopholes wide open in the Internal Revenue Code (NYT 1972d). He claimed that this Nixon's direction would hit the working class, the poor, the old, and middle-income families the hardest (NYT 1972d). The people who McGovern argued might be hit by Nixon's VAT felt that their tax burden was too much even at that time. What they demanded of Nixon were cuts in government spending and their tax burden through expansion of personal exemption and welfare payments attached to the pursuit of a job based on "the idea that work has a value in society" (Rothman to Brown III 1972 RMNL/WHCF/SF/FI). The VAT was not on the people's list. They did not consent to it as a legitimate measure to fund the programs they demanded (Rothman to Brown III 1972 RMNL/WHCF/SF/FI).

Failing to obtain taxpayers' and policymakers' consent to the VAT and local property tax relief combination and convince them of its legitimacy, the Nixon administration had no choice but to abandon it. Special Assistant to the President for Media Analysis and Speech Writing, Patrick J. Buchanan, warned Nixon that it would be a political mistake if his administration persisted in attempting to add any new taxes, including VAT, even combined with a tax relief elsewhere. He feared that all citizens would see it as "Nixon's new tax" as McGovern had put it to them (Buchanan to Nixon 1972 RMNL/WHCF/CMF). On September 7, Nixon publicly promised not to request any federal tax increase for the rest of his administration. Ehrlichman also announced that the administration had become less favorably inclined to VAT (Shanahan 1972a). In a meeting to work toward basic decisions on tax reform policy to be announced late in the campaign or in the next State of the Union, participants – new OMB Director, George P. Shultz, the Chairman of the Federal Reserve, Arthur F. Burns, new Secretary of the Treasury, John Connally, Stein, and Ehrlichman – committed to the policy of "no new taxes" as the Democratic presidential candidates had argued. They agreed that VAT could not be enacted and put into effect the following year (Shanahan 1972e). Although federal revenue-sharing – renamed the "General Revenue-Sharing (GRS)" – was legislated on October 20, it was not accompanied by VAT. After a television network the CBS aired a special report on the Watergate break-in – McGovern called it the "thing . . . under a person like Hitler" – on October 27, it gained national attention (Greenberg 2003: 99, 159–60). Finally, Nixon reportedly rejected the possibility of VAT because he felt that such a program might break down discipline over federal

spending by its revenue-raising ability and political painlessness. Following Nixon's rejection, a White House spokesperson confirmed that VAT would not be part of the administration's tax reform that would be proposed in early 1973 (NYT 1972a). The impetus for a federal VAT finally vanished.

Concluding remarks: Aftermath of Nixon's abandonment of a federal VAT

In 1973, the Nixon administration shifted their tax policy focus to the avoidance of accusation that they would propose a tax increase by restraining the growth of budget outlays. When they faced with a speculation that his administration would recommend tax increases, they clearly ruled out any tax increases as "both unnecessary and undesirable" (CQA 1973: 264–69). This Nixon administration's declaration of "no tax increases" also ruled out the possibility of introducing a federal VAT. In a report that the ACIR compiled their research result of VAT, they publicly concluded that "there is no need" to enact a federal VAT as a new revenue source for local property tax relief (ACIR 1973). As the Nixon presidency was approaching its end, almost all people – politicians and citizens – were against raising taxes (Stein 1996: 256). Consequently, there was no significant tax legislation for financing government. During his presidency, Nixon failed to obtain taxpayer consent to the decision to finance the government by new taxes including VAT or to convince them of its legitimacy. With no new taxes, Nixon pursued fiscal restraint as "a course of essential budgetary discipline" (Friedersdorf to Armstrong 1973 RMNL/WHCF/SF/FI).

Nixon's abandonment of the federal VAT withdrew a fiscal endorsement for domestic programs that his administration had considered in conjunction with it – negative income tax and local property tax relief in addition to the GRS. On the one hand, amid the fiscal restraint after the Nixon presidency, Gerald Ford's tax reform of 1975 introduced the Earned Income Tax Credit (EITC) – a refundable income tax credit taking the form of negative income tax. With the lack of a federal VAT, the EITC has become a dominant redistributive measure. On the other hand, amid a wave of taxpayer revolts spread across the country in the late 1970s, many states began to offer local property tax relief while cutting public services. The local tax-cut movement limited local governments' revenue sources and led Ronald Reagan to carry out one of largest tax cuts in US history, the Economic Recovery Tax Act of 1981 (Martin 2008). It did not achieve the desired economic outcome but contributed to the explosion of the budget deficit. As a measure to resolve it, the Reagan administration integrated existing federal grants-in-aid into block grants while cutting their total amount and abolishing the GRS. This choice resulted in state and local fiscal hardship and the realization of "fend-for-yourself" federalism: Unlike other major federal states such as Australia, Canada, Germany, and Switzerland, US state and local governments – major public service providers of the American welfare state – have had no choice but to finance themselves with taxation and borrowing without receiving fiscal assistance or interstate fiscal equalization through unconditional federal grants or tax-sharing arrangements (Shannon 1987: 34–37). This fend-for-yourself federalism weakened the fiscal capacity of state and local governments to effectively address social issues through public services (Morgan and Davies 2008).

These results seemingly left fewer choices for most of Nixon's successors but to provide tax expenditures to benefit the public and gain political support. However, the use of tax expenditures has narrowed the tax base, consumed considerable federal tax revenue, complicated the federal tax system, functioned as "welfare for the wealthy," and made Americans believe that the government does not work for them (Faricy 2015; Howard 1997; Mettler 2018). The complexity of the federal tax system and its regressive redistributing effect of tax expenditures have led upper-middle- and high-income classes to believe that the poor and low-income classes have benefitted from the federal tax system and social programs without working and paying taxes although they have paid payroll, state sales, and local property taxes. Conversely, it has made low- and middle-income taxpayers believe that those with superior knowledge of navigating tax loopholes, particularly the wealthy, have avoided paying their fair share (Williamson 2017). These results have legitimized one of VAT opponents' arguments – the VAT introduction is inappropriate because the working and the middle class have paid almost as much as the rich because of regressive state sales taxes and payroll taxes. In addition to the "money machine" argument, this argument has somewhat legitimated another VAT opponents' argument that the VAT's regressivity and invisibility might force hardship or inequity onto the poor and the middle class, even if it is accompanied with partial offsetting measures such as rebates, exemptions, or reduced tax rates (Newman and O'Brien 2011: xxiv, 133–34; Saez and Zucman 2019: 184–87; Scheve and Stasavage 2016: 217; Zelenak 2013: 6–10).

Thus, the Nixon administration missed the opportunity to implement a federal VAT. The Nixon administration prioritized gaining political support from the middle-class by local property tax relief. They chose VAT as a measure to offset the potential state and local revenue losses provided by local property tax relief. Despite their design to combine the rebate with a federal VAT, the combination failed to overcome criticisms from societal actors and "opponents" among internalists of VAT policymaking and convince them of its legitimacy. This result left the United States a fiscal outlier among OECD countries, relying on the federal tax system with no federal VAT. This tax system has fallen short of generating the general tax revenue sufficient to finance government discretionary spending to address citizens' needs and socioeconomic situations flexibly.¹³ Instead, the American fiscal state has frequently used tax expenditures, consuming potential tax revenues, creating a perception of unequal treatment among citizens, and leading to conflict. This fiscal system has made it difficult for the American fiscal state to obtain consent to and confidence in the legitimacy of its fiscal policies, including the implementation of a federal VAT, both from policymaking internalists and societal actors such as taxpayers. As the literature of fiscal sociology such as Martin et al. (2009) and Mehrotra (2017) pointed out, this result and this article's historical narrative demonstrated us the importance of making citizens believe that taxation fairly reflects the cost of public goods and treats all of them equally.

¹³The federal government direct spending consists of "discretionary spending" for the programs annually appropriated and "mandatory spending" for the programs obligated by past legislations. Eugene Steuerle points out that the percentage of public revenue that remains available for discretionary spending after mandatory spending determines the flexibility of fiscal choices of today's legislators (Steuerle 2014).

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