Outline of

"Strategy for a Consumption Tax"

by

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I. Overview Thesis

A convergence of reasons -- our need to deal with a still out-of-control budget deficit, maintain lowered income tax rates and bring tax policy into the trade debate -- continues to support the case for a consumption tax and for a serious national debate thereon.

II. Public and Business Opinion

Surveys suggest that only 20-35% of the public really supports a federal consumption tax, but larger numbers of Americans support it in preference to an income tax increase, and still others rally to the idea of being able to tax imports.

Businessmen and business organizations are somewhat more supportive. A recent survey of corporate government relations executives found a large majority either supporting the consumption tax idea or favoring a dialogue on it.

But it's premature to launch the issue into the court of public opinion without further developing a number of important arguments.

III. The Deficit

The FY 1986 deficit will be close to $230 billion; the FY 1987 deficit is a good bet to be $180-200 billion; and if a recession comes in the next 18 months, the prospect could get even worse. There's no easy answer, but a consumption tax may be the only real solution.

IV. Income Tax Rate Pressure

If troubles lie ahead for the economy, and if the 1986 tax reform package gets some of the blame, then pressure for a substantial rise in income tax rates could develop. Summer polls show that the public is unenthusiastic and even skeptical about the Packwood-Rostenkowski package, and these doubts may have laid the groundwork for a turnabout in public fiscal psychology within a year or two. If so, development of the consumption tax idea could provide an important alternative direction for new revenue raising -- and it's a direction that would be less detrimental to U.S. capital formation and global competitiveness.

V. Trade

Some people in Washington think that the U.S. trade deficit crisis is so great that currency realignment and tougher trade law enforcement shouldn't have to handle the problem without new help from tax policy. A "border neutral" consumption tax like a VAT or a BTT -- rebatable against exports, levied on imports -- would give the U.S. a new policy lever. Western Europe already has a "border neutral" consumption tax system. Canada is moving that way. Even Japan has shown interest. So we may have to move that way, too.

VI. Relating U.S. Institutions to Those Elsewhere in the World

Over the last decade, the U.S. has been drawn into the world economy to an unprecedented degree. At the same time, many global institutions launched or blueprinted by the U.S. at the peak of our power after World War Two now seem less useful or workable -- the UN, the World Court, UNESCO, GATT, etc. Arguably, the U.S. is going to have to begin adjusting more to what the rest of the world does. Tax, trade and budget policy are part of that readjustment -- and a consumption tax should be, too.

VII. A Strategic Framework for Developing the Consumption Tax Issue

Any strategy must be flexible to allow for various outcomes in the economy. However, it seems reasonable to assume that if the economy booms in the next few years under the new tax code, and if the budget deficit eases accordingly, Congressional and public support for a consumption tax will be thin. Good arguments will fall on unlistening ears. Unfortunately, the most plausible strategy for a consumption tax lies in a 1987-88 economy that develops in a way to underscore the fiscal, tax and trade problems noted in sections III, IV and V. If this happens, the political climate is likely to be quite different, too --and any realistic strategy will have to contemplate that. But in the meantime, it's not too soon to open a technical and educational dialogue.