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Consumption Taxes in the United States and Abroad

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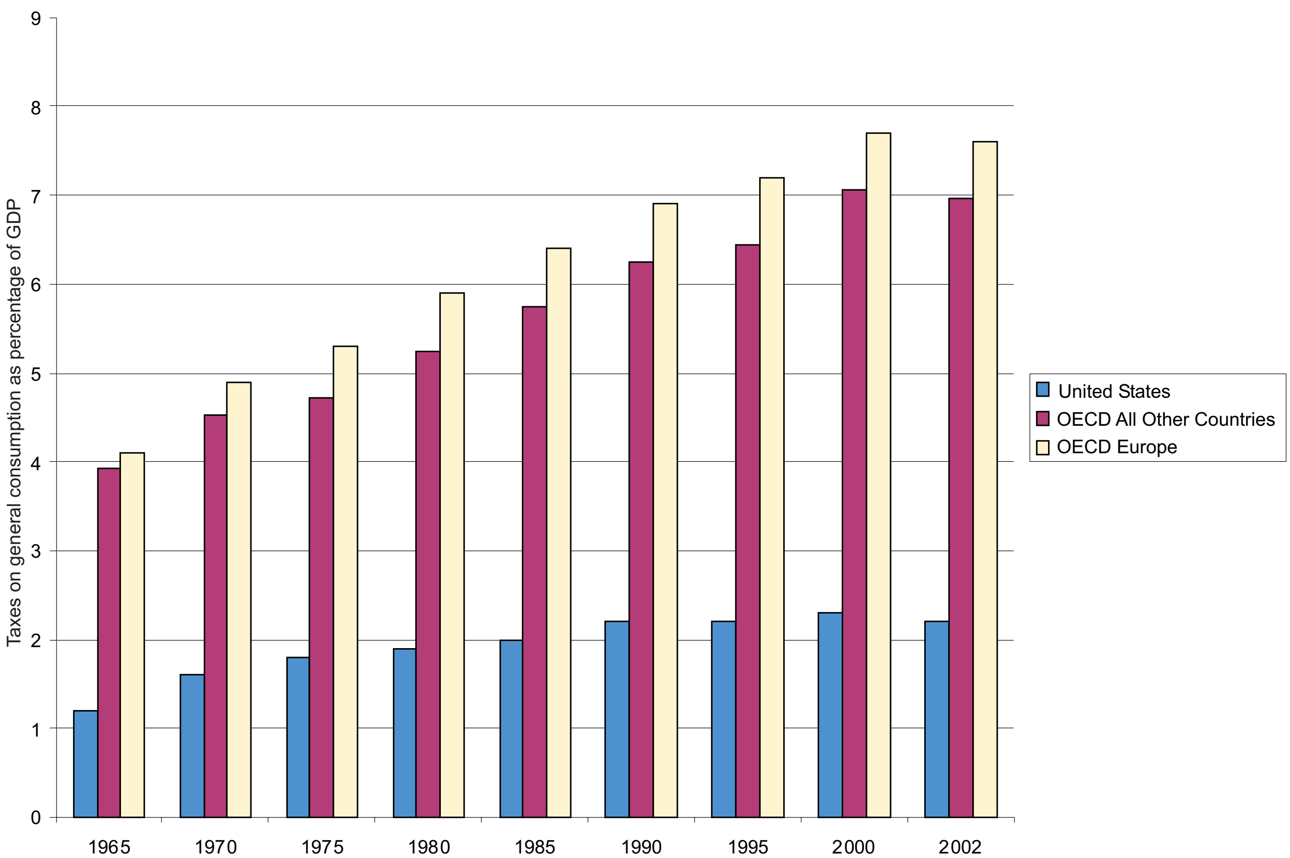
Taxes on consumption raise much less revenue in the United States than in other industrialized countries. In 2002 revenue from taxes on general consumption equaled 2.2 percent of gross domestic product in the United States, 7 percent for all other OECD countries, and 7.6 percent for European OECD countries. (All averages reported are unweighted, following OECD reporting procedures.) The U.S. figure was the lowest of any OECD country.

The differential is due in small part to lower taxation as a share of GDP (26.5 percent compared to 36.8 percent in other OECD countries), but more substantially to a lower share of consumption taxes relative to all revenues (8.2 percent in the United States, compared to 19.1 percent in other OECD countries). The vast majority of the shortfall is explained by the fact that the United States is the only OECD country without a VAT supplementing its income tax.

The United States' comparatively low taxation of consumption is not a new phenomenon. The differential has held since at least 1965. In fact, the growth in the ratio of consumption taxation to GDP between 1965 and 2002 was slightly higher in the United States (83.3 percent) than in other OECD countries (77.2 percent).



Source: OECD. "Consumption Tax Trends, 2004 Edition," Tables 3-1 and 3-2 and "Tax as Percentage GDP, 2004."