EUROPE'S FATAL AFFAIR WITH VAT

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With The Marshall Plan the U.S.A. undertook to help rebuild western Europe and Japan, with great success. "Social Democracy" was the slogan, to enlist proletarians in the common struggle against the Red Menace, which so quickly replaced the fascist menace of wartime. Former belligerents buried the dulled hatchets of nationalism. French leaders like Jean Monnet and Robert Schuman proposed a United States of Europe, to include the old Axis Powers, but not the USSR or its allies. France needed Germany to stop the USSR, and Germany was too big and robust for France to let go its own way again.

Initial steps like the European Coal and Steel Community and European Common Market grew to become the European Union. The 1957 Treaty of Rome created the European Community (EC), aka "The Common Market". In 1990 a commission led by former French Finance Minister Jacques Delors broached a single currency, a step short of political union. French President Francois Mitterand forced the Euro on a reluctant Germany as the price for France's support of German reunification after the Berlin Wall fell in 1989. The Maastricht Treaty of 1992 created the European Union (EU). The EU adopted the Euro. Soon the EU doubled in size, to 27 nations, including 8 former members of the Soviet bloc. France as the leader rode high. Germany's size and economic strength has now passed leadership partly to her.

Meantime, by 1954 the tide had turned back toward the attitudes of *l'ancien régime* with its taxes on merchants and their customers. Maurice Lauré, an engineer turned taxman, got France to adopt VAT "to meet a fiscal crisis" (although that kind of spin accompanies most political moves). VAT had political and administrative attractions, but economically speaking is only a variant form of sales tax. France introduced the first national VAT in 1954. It was not general, but destined to become so. President René Coty, not a name to remember, was the last President of the fractionated 4th Republic, but Laurés VAT was declared a success. Charismatic Charles de Gaulle succeeded Coty, founded the 5th Republic, and presided from 1959-69. A fabled war hero, he could get what he wanted, and was President in 1963 when a Common Market committee on tax "harmonization" issued the landmark (Fritz) Neumark Report that found the French VAT to be superior to Germany's cascading turnover tax. The Committee agreed to make VAT the basis of tax harmonization within the growing EU. In 1968 France changed its VAT from partial to general.

VAT spread quickly around Europe. The EC required member states to adopt VAT to enter the EU. Latin America also went along. In a second push around 1990, some industrial states like Canada, Australia, Switzerland and Japan came on board too, along with many "developing" economies in Africa and Asia, until today some 140 nations use VAT. They were pushed along The U.S.A. has played an anomalous role. The Shoup Mission to Japan in 1949 had tried to pioneer VAT there, although in vain. U.S.A.I.D. has spent huge sums promoting and subsidizing VAT in small nations. Only the U.S.A. itself has rejected VAT. Evidently there is a wide gap between our international representatives and the voters at home. By now, all "developed" nations except the U.S.A. have national VATs. Many leading U.S. economists are urging the same for the U.S.A., chiding us for backwardness. Many prominent economists are pushing parallel proposals as well, under forms like "the flat tax".

A united Europe with a harmonized tax system and common currency would seem to have realized the fondest dreams of founding fathers Schuman and Monnet. And yet, ...

Meantime mobile international capital is seeking security in U.S. Treasuries, in spite of our notorious flirtation with national bankruptcy. Here I advance a thesis that our LACK of a national VAT is a major source of U.S. fiscal strength vis-à-vis Europe; and that established standard-brand U.S. economists are seriously derelict in failing to point this out. Austrian-School economists are also derelict by failing to stress how VAT distorts the structure of capital, a topic in which they have special insight.

4. Europe after VAT: Troubles and Setbacks

Today in 2013 Europe is staggering. Many of its nations face bankruptcy. Its stronger members and institutions they dominate seek to impose "austerity" on the resentful weaker members. Its banks hold mostly its government's securities, crowding out small businesses that create most jobs. Its unemployment rates are breaking records. Its tax collections fall ever farther behind the needs, threatening both the governments and their bank-creditors with insolvency. Real estate manias in nations like Spain and Ireland, new to the perils of prosperity, have collapsed, bringing banks down with them.

Unemployment

In September, 2012, the unemployment rate was 10.4% in the Euro area, and 23,3% for youths aged 15-25 Patterns diverge across nations, with the highest youth unemployment rates in Greece (55.6% in July), Spain (54.2%), Ireland (34.5%), Italy (35.1%) and Portugal (35.1%). Those are catastrophic numbers. Even in France, a pillar of European Union where VAT got started, the rate is 27.9%. Sturdy lowland and Baltic nations (continued on page 6)