EUROPE'S FATAL AFFAIR WITH VAT

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are not immune: rates in Belgium are 18.0%, Denmark 14.2%, Finland 18.9%, Luxembourg 18.6%, Sweden 23.4%. Central European Hungary, Poland, and the Czech Republic have high rates, too.

In Latvia wages are so low, and jobs so scarce, that she has that she has lost about 10% of her labor force to emigration, even as Christine LaGarde, Olivier Blanchard and other faces of the establishment proclaim it a success story. Mexico, guided by the IMF into NAFTA and neo-liberalism, stagnates while its oil riches keep its taxes low, it houses the world's richest person (Carlos Slim), criminal gangs take over whole provinces, and desperate poor pound on the doors to the U.S.A., and slip through cracks in the fences of our country, which finances the world's military without having any VAT at all.

Debts, Public and Private

The debts of Greece, Italy and Spain are in the headlines, but many "stronger" nations also owe more than their revenues can well handle. Greece owes $315 b, but here are the debts of some "strong" nations, in billions of $: Finland, 101; Austria 230; Belgium 374; Netherlands 427; and France 1,835. Even Germany, supposedly the EU's economic bulwark, began showing signs of stagnation in the 1990s, leading to the sarcastic epithet "The German Disease". Its debts are highest of all, at 2,086. Germany's "Miracle" seems slowly to be following an Olsonian pathway from unity and strength-through-defeat to disunity and weakness-through-success. Germany's claimed debt of about $2.1 trillions is rigged downwards by omitting huge pension obligations, estimated to add another $3 trillions to the total.

Some banks in greatest danger include Banco Santander (Spain), Credit Agricole (France), Commerzbank (Germany), Dexia S.A. (Belgium, and of course Bank Ireland. Germany's DeutscheBank, biggest in Europe, is not much stronger than Commerzbank.

Governments' creditors are mostly banks, but these in turn are bailed out by the same governments to whom they lend, a spiral winding only downwards until and unless European governments raise tax rates – and find a way to do so without stifling tax bases. The whole structure rests, finally, on tax revenues, lacking which it is just a house of cards. However, most tax bases fall when they are needed most, and the VAT base is falling fastest. In Greece, for example, public revenues have fallen 5% in the last year, while VAT revenues have fallen 15%. As credit ratings fall, required interest rates rise, so debt service rises, deficits rise, and debts keep growing, a disastrous vicious spiral. The resistless expansion of the EU stopped late in 2012 when Bulgaria refused to adopt the Euro for fear it would be called on to bail out even weaker nations.

Pop Keynesians may see this as a virtue: deficit finance is the way to spend our way out of recessions. That idea from 1936 would seem to have died with the Stagflation of the 1970-79, and again with the deficit-fueled crash of 2008, but it keeps returning. The unanswered question now is, who will lend when both borrowers and lenders lack the will and the ability?

How did Europe and its fellow VAT nations reach this sorry state?

5. Excess Burdens from VAT

The idea keeps resurfacing that a sales tax is made neutral by virtue of being "general". Many great economists have refuted it, only to be inundated by floods of lesser voices in mass textbooks.

Retail sales taxes, however "general" or universal in their apparent coverage, tax capital for turning over. Turnover is measured by the sales/capital ratio, which is highly variable among different firms, products, locations, stages of the cycle - and tax regimes, which economists influence. Sales taxes depress it heavily. This is not a mindless grouch at all taxes, for we need public revenues, and some taxes have positive effects. This is a rifle-shot at sales taxes, of which VAT is one.

To repeat for emphasis, retail sales taxes, however "general" or universal in their apparent coverage, tax capital for turning over. Turnover means replacement; and replacement sustains demand for labor. Replacement does not just depend on sales, it anticipates them, and thereby generates the consumer incomes that finance them: turnover is the autonomous variable that takes the lead in the otherwise circular and now vicious circle of macro-economics in which employers wait for consumers, while consumers wait for employers to hire them. Turnover is measured by the sales/capital ratio, which is highly variable among different firms, products, locations, stages of the cycle - and tax regimes, which economists influence.

Sales taxes depress turnover heavily, and thus shrink their own base. Arthur Laffer discredited this idea by letting his patrons apply it to ALL kinds of taxes; Murray Rothbard mistakenly applied it just to the property tax, the one major tax to which it does NOT apply because it taxes capital and land for standing still, not for turning over. These errors should not blind us to the truth in applying the idea to VAT and other sales taxes that "shoot anything that moves". In the lingo of public finance, they are contingent on "taxable events". Standard textbooks and learned papers tell us that a truly general retail sales tax, unlike an excise tax, is neutral as between one commodity and another. A national tax is also neutral between locations, since it is the same in one region as another. Those conditions are never approached in practice, but in the sales-tax canon that merely (continued on page 7)