EUROPE'S FATAL AFFAIR WITH VAT

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agenda and academic satrapies of their own, like our own Federal Reserve System. The details are complex and interwoven, constantly discussed in media reportage and new books beyond our need to rake over here. Like most bureaucracies they tend to aggrandize and perpetuate themselves and freeze in place, as generations of libertarians preach. Perhaps the preachers and their exegetes overstate it. A major recent shift is evident. Control has shifted from Social Democrats to Conservatives representing bankers and other lenders. A critic describes them as the "giant Goldman-Sachs squid". The metaphor is exaggerated, but a useful mnemonic of where power now lies.

In 1998 the OECD was pressuring errant nations to raise tax rates. It campaigned against tax regimes it stigmatized as "harmful" because they might attract mobile capital. Today in 2013 raising income taxes is off the table, unthinkable, unmentionable, a solecism. The prevailing dogma is that raising tax rates would only choke recovery and lower the tax base, as Laffer once warned. The focus is on "austerity", meaning to lower spending on social programs, and force down wage rates. Protesters in debtor nations see The Troika and its appanages as a hydra-headed cartel of bankers and Germans to reduce them to debt slavery. Conspiracy theory and paranoia? More likely what we see is just the unconscious or semi-conscious comity of people with common interests working in harmony. Either way the results are much the same.

One thing the old and the new EU agencies share in common is making an ideal of tax "uniformity" among nations. Sales-taxers have long seen their need for the same ideal within nations or even big states. For example in 1955, California sales-taxers invoked the doctrine of "uniformity": if only every city raised the sales tax, no retailer or buyer could escape it by fleeing to a city without one. Accordingly, our Legislature encouraged local sales taxes statewide. The State collects it, and returns it to each municipality of origin. A central power can overcome interjurisdictional tax competition, as Europe's Troika agencies are attempting now. Thus, EU was the necessary pre-condition for VAT. The two have grown together, as shown earlier herein.

Why do lender groups come to the aid of debtors approaching peonage? It is a survival mechanism found in nature. Most parasites stop short of destroying their hosts because each needs the other. Most predator populations leave behind a saving remnant of their prey to supply the next generation of their food supply. Mankind most consciously saves both the seed corn and the breeding stock for future generations. Thus lender groups have an interest in keeping borrowers solvent enough to repay the principal of debts, while also risky enough to have low credit ratings calling for high interest rates. Lenders also want to discourage debtors from seeking other lenders, and maintain a united front to discipline debtors who default.

The idea that Europe has reached the limit of its taxable capacity is nonsense in the light of history. The Cold War wound down from 1989. Today the U.S.A., the only nation with no VAT, bears the cost of policing and defending Europe, and most of the world too. Europe for centuries before now poured its treasures into a series of internecine wars from which the EU has rescued it. Europe now enjoys a colossal Peace Dividend, one of the biggest and longest in history. The idea that this should lead to national bankruptcies is absurd and ridiculous on its face. The alternative hypothesis is that Europe's woes are endogenous. A major cause, as shown earlier, is heavy reliance on VAT – the main tax to which Laffer's warnings might apply – and the lack of substantial taxes on property or its income. The evidence of Europe's solvency and untapped taxable capacity is the high level of its land prices compared with ours. International buyers are paying record-smashing figures for homes in world-class neighborhoods like Woodside and Los Alto Hills, San Mateo County, for example, because our prices, steep as they look to us, are still cheaper and the quality of life may be better than in counterpart regions of Europe (LAT 1-29-13, p.B5).

The bottom line is that Europe is strangling itself with VAT, while the U.S.A., for all its many serious faults, is surviving better without one. We still cling to the remnants of a property tax system inherited from earlier times when we led the world in real production and real per capita income, making us a magnet for immigrants from the world – from the "wretched refuse" kind to the most talented, both of whom strengthen us when we offer them chances to work and invest productively. We have an income tax system that, while riddled now with counterproductive loopholes, still prohibits the tax-depreciation of land and occasionally succeeds in taxing the unearned increment of land values. We still find some investment "loopholes" that were designed constructively to reward real income-creating investing
in new capital. Let us pray that the python of VAT never wraps us in its coils; let us work to make that prayer come true.

Appendix I: How Gigantism in Banking Reinforces the Bias Against Turnover

The following is an excerpt from Stacy Mitchell, "How State Banks Bring the Money Home", *Nation of Change.org*, Sept 15 2011.

One of the most significant, but least noticed, consequences of the rapid and dramatic consolidation of the banking industry over the last decade is how much it has hindered the U.S. economy's ability to create jobs. To begin to understand this, take a look at each end of the banking spectrum. On one end are the nation's 6,900 small, locally (continued on page 12)