

Blogs - Finance - Mish's Global Economic Trend Analysis
Wednesday, January 4, 2012

Brussels Recommends Sucking Spain Dry with Increased VAT; France to Raise Sales Tax to Protect Jobs; Is There Any Point or Reason for the Eurozone?

Jan 04, 2012 - Political hacks are on a roll in Brussels. Spanish unemployment is 22.8%, yet Brussels recommends Spain hike its VAT.

Via Google Translate, please consider Brussels Again Recommend Rise in Spain's VAT

The European Commission hopes to discuss in the coming weeks with the new government of Mariano Rajoy new fiscal consolidation measures to compensate for the deviation from the deficit target in 2011 that could exceed even the 8% vs 6% agreed, and has advanced the VAT increase is one possibility among others.

"We were informed last week by the Spanish authorities of a sizeable deficit, which should be 6% in 2011 and might be about or more than 8% according to latest statistics we have received from Madrid. At the moment, we have no elements to confirm these figures. We are not in a position to state here that the figure will be higher or lower than 8%, "said at a news conference the European Commission spokesman, Olivier Bailly.

Asked whether Brussels remains the recommendation for Spain to raise the VAT, the spokesman insisted that "Spanish authorities are responsible for deciding planning to take other measures to offset the deficit diversion in order to meet the target of 3% in 2013 who are committed to comply ", but insisted that raise VAT is one of the recommendations of Brussels.

"We made several recommendations in the past, including last June. The VAT is one of them. There are many others," explained without going into details. Raising taxes in the midst of an economic depression (which Spain is in), is pure insanity. Tax hikes will suck dry the already slim chance of a Spanish recovery.

France to Raise Sales Tax to Protect Jobs

Eurozone economic insanity is staggering as this update on the "Social Vat" tax proves. Please consider France Plans To Raise Sales Tax, Following Germany's Lead

French President Nicolas Sarkozy's government said Tuesday that it would borrow yet another page from Germany's economic textbook in a bid to make France's products more competitive and finance the nation's wide-reaching and heavily indebted social-welfare system.

The proposal, which the government said would be implemented before this spring's presidential election, calls for reducing the amount companies contribute to the state-run

health-care and pension systems. To make up for the lost income, the center-right government would raise France's value-added tax--a levy similar to sales taxes in the U.S.--which is currently as high as 19.6%.

The government says the measure, often referred to as "social VAT," would act as a powerful tool to protect French jobs, which are increasingly being relocated to lower-cost countries.

French companies would enjoy lower labor costs, while imported products--which would share the higher VAT burden--would help finance France's welfare system. The country's state-run health-care and pension systems are expected to have recorded a combined deficit of EUR18 billion (\$23.3 billion) last year.

Social VAT "is good for France and it is good for jobs," French Labor Minister Xavier Bertrand told France 2 television.

Germany increased VAT to 19% from 16% in 2007 to shift part of the burden of social welfare onto consumers.

"Social VAT is antisocial because it is the consumer that will pay," Socialist Party spokesman Benoit Hamon said.

The French VAT proposal comes as Sarkozy struggles against rising unemployment, a slowing economy and a surging trade deficit that is projected to have reached EUR75 billion last year.

"We shouldn't talk nonsense," Jean-Claude Mailly, the secretary-general of Force Ouvriere, France's third-largest labor union, said on French radio. "It's not with one or two points of VAT that we will compete with Chinese products."

Moreover, as France can't get near China's labor costs, social VAT would be more of a competitive assault on France's euro-zone neighbors.

The measure is equivalent to a currency devaluation because it effectively increases the price of imports and decreases the price of exports. In the past, France repeatedly devalued the franc against the mark to make its economy more competitive.

If other countries followed suit, inflation would still be pushed up without any gain in competitiveness, said Eric Heyer, economist at the OFCE, the French economic think tank.

"We created a single currency to avoid competitive devaluations," Heyer said. Is There Any Point or Reason for the Eurozone?

"We created a single currency to avoid competitive devaluations". Indeed, that was one purpose wasn't it? The other purpose was to increase trade. Now France is imposing a sales tax specifically to protect French jobs from Spanish competition.

Just how is Spain supposed to pay back French and German banks if other European countries seek to block Spanish exports?

I suggest Spain should not even try. It is futile. Since, Spain is going to leave the Eurozone anyway, it would be better to do it sooner rather than later as these actions by France proves.