



Paul Krugman and the plot against France

France is in the toilet, with a stifling fiscal burden, growing social unrest, and a deeply unpopular political class

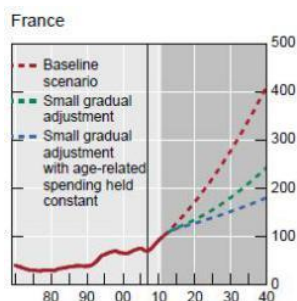
By: Daniel J. Mitchell – November 26, 2013

Every so often, when the temptation is too great, I'll comment on something written by Paul Krugman. When he botched his analysis of Estonia, for instance, I joined that nation's President in correcting some egregious errors.

And I periodically remind people that Krugman was wildly wrong to deny the scandalous shortcomings of the government-run health system in the United Kingdom. Today, however, I want to agree with Paul Krugman. He recently wrote that there's a "plot against France," and I think that's unambiguously true.

But we do have one small disagreement. Krugman thinks the plot is being carried out by right-wing ideologues who want to discredit France because it "committed the unforgivable sin of being fiscally responsible without inflicting pain on the poor and unlucky."

I think, by contrast, that the plot against France is being carried out by France's statist politicians.



Simply stated, it's almost as if the nation's political elite is trying to destroy the nation with a fiscal regime of reckless spending and punitive taxation.

And since France's "leaders" presumably are aware of the country's grim medium-term fiscal outlook, it certainly seems like they are scheming to impoverish their own people.

Let's look at some evidence of France's decline. Canada's *Financial Post* has an article about the growth of government dependency in France. Here are some of the horrifying details.

"More than half of the active French population is living off the state, according to figures in a new book by a tax lawyer seeking to explain why so many of his clients in private enterprise are leaving France.

...the author begins with France's or civil servants, of which there are 5.2 million and whose number has increased by 36% since 1983. These represent 22% of the workforce compared with a European average of 15%, leading him to conclude that France has 1.5 million too many "fonctionnaires".

"He then adds the 3.2 million unemployed people in France relying on state benefits, another 1.3 million taking low-income handouts, a further two million in the "parapublic" sector — majority state-owned companies — and more than a million people in state-funded associations such as charities. Under the current Socialist government, there are 750,000 state-subsidized jobs and the author includes a million people in the agricultural sector who rely largely on contributions from European Common Agricultural Policy subsidies."

Wow. I sometimes complain about growing dependency in the United States, but I guess we should count ourselves as being lucky that we're not as far down the path as France. The article continues with some observations about how the geese with the golden eggs are tired of being mistreated.

"The book is written in the first person, supposedly by a successful boss of a medium-sized company who decided to move abroad with his wife and children to avoid "being treated like an enemy because I make a good living". In fact, the narrator is a mixture of about 20 clients of Jean-Philippe Delsol, a tax advisor, who is also an author and administrator of the Institute for Research in Economic and Fiscal Issues, a think tank.

"Those fleeing France would only speak anonymously "to avoid reprisals from the tax authorities," he explained. ...The huge nanny state, he said, had "modified the very spirit of (French) society by turning everyone into fonctionnaires". ...soon "the system will no longer function as there will be less and less people working to support more and more people working less", he argued."

The last quote in the excerpt, by the way, is a real-world version of the famous set of cartoons about what happens when too many people decide to climb in the wagon.

But not everybody has the ability to escape France's tax net, and those that remain are protesting against a rapacious central government. A story from *France 24* discusses anti-tax riots. Here are some highlights.

"Protest organisers said 30,000 people, including hauliers, fishermen and food industry workers, had gathered in the town of Quimper in Brittany to demonstrate against an environmental tax on trucks and layoffs, even though the government had earlier in the week suspended the application of the so-called ecotax. Authorities estimate that 15,000 people joined in the protest. Some of the protestors pelted police with stones, iron bars and even pots of chrysanthemum, while others burned palettes.

"Police responded with water cannons and tear gas. ...protestors marched under banners such as "Right to work", "Bretons yes, sheep no" and "France is not a cash cow". Many also wore red caps, a symbol of the anti-tax campaign in Brittany in the 17th century. ...52-year-old mason Claude Sergent said the taxes "are killing us".

Even equestrians are agitated about the growing burden of the value-added tax. Here are some tidbits from a news report.

"Thousands of horse-lovers paraded their animals through central Paris on Sunday in a protest against a planned sales tax rise they say will put riding centers out of business and send horses to the slaughterhouse. ...Organizers of Sunday's protest say the EU-mandated rise of France's VAT to 20 percent as of January 1 – from the 7 percent reduced rate paid by equestrian centers today – will shut down a fifth of centers across France.

"Some 6,000 jobs will be lost, they estimate, and 80,000 horses will have to be sent to slaughter. "Riders, up in arms!" shouted protesters carrying signs reading "Sales tax at 20 percent – Death of Horses and Ponies". A guillotine was wheeled through the streets, its blade poised above a toy horse's head. Another horse effigy was mounted on a crucifix."

And since we're on the subject of the VAT, it's worth noting that the feckless Finance Minister is browbeating retailers in hopes that they will swallow the cost of a tax hike rather than passing it on to consumers. Here are key portions of a Reuters report.

"France's finance minister appealed to retailers' better instincts on Thursday, urging them not to pass on a rise in sales tax to shoppers in January as public frustration grows over a tax-heavy 2014 budget. Following violent anti-tax protests in western France, Pierre Moscovici said he would not abandon plans to raise value added tax by 0.4 percent on Jan. 1.

"But he would ask retail chains – already struggling with smaller margins than some of their European peers – not to raise their prices. Nobody has to reflect this (VAT hike) in their prices," he told RTL radio. "I think it's important to show virtuous behaviour, notably in the retail sector which along with the French people must display a civic spirit."

And let's not overlook the government's additional taxes on people who save. Here is some analysis from a column in the UK-based *Telegraph*.

"This was the face of a future French Tea Party, a political development that seems increasingly likely. Mr Hollande also had to "suspend" — a word that fills the French with unease, as it promises a stealthy return of the same measures whenever the fracas dies down — a 15.5 per cent retroactive tax on savings schemes that seemed tailor-made to infuriated his most natural voters. A Parisian barrister, himself not a Hollande voter, told me that his Portuguese-born cleaning lady, a single mother of five children, had sworn never again to cast her ballot for the president, as she did last year. "You work hard all your life, you do what's right, and then they come after the little bit you've managed to put aside for your retirement age?" she said.

"What kind of a Left-wing government is that?" ...Since the spending ministries do not really want to make hard cuts, the only way — or so he thinks — is through more taxes." The Laffer curve theory (too much tax kills tax revenue) does not seem to have made it to Bercy, the massive brutalist fortress built 20 years ago to accommodate the finance ministry's plethoric troops. ...An unchecked French civil servant

can think up some pretty outlandish tax ideas. ...The beginning of the week saw Mr Hollande's ratings plunge even lower than before, breaking records of unpopularity. Two separate polls have given him the worst ratings of any French president."

So let's sum up all these articles. France is in the toilet, with a stifling fiscal burden, growing social unrest, and a deeply unpopular political class. Does that sound like a nation that has been, in the words of Krugman, a role model of "fiscal responsibility"?

Krugman's response would be that the French government still has the ability to borrow at very low interest rates, meaning that there is faith among international investors that the nation is well managed.

I must confess that this is a strong point. It's possible to argue, of course, that the investors are wrong. After all, many investors thought Greece, Spain, Italy, etc, were in good shape before those nations suffered their fiscal crises.

My prediction, for what it's worth, that France will suffer a fiscal crisis. As I've already admitted, I don't pretend to know whether that crisis will start in 7 months or 7 years, but the underlying trend lines are unsustainable in the long run. This is a nation that violates my Golden Rule on a regular basis and that can't end well.

P.S. To elaborate, I don't think French politicians actually are plotting against their own country, just like I reject conspiracy theories that American leftists are deliberately trying to bring down the United States.

Instead, what we're witnessing is classic and predictable political behavior. Simply stated, politicians always have an incentive to buy votes with other people's money and they very rarely are willing to engage in genuine reform until a crisis actually happens.

P.P.S. For those who think that it is "compassionate" for government to provide an extensive array of services, I'll ask the same question I posed to a French audience earlier this year: Is there any evidence that the French government, which consumes 57 percent of the economy's output, provides more and/or better services than the Swiss government, which accounts for only 34 percent of GDP?

P.P.P.S. I've written that Obama will never be able to make America as bad as France. But as this Michael Ramirez cartoon illustrates, that doesn't mean he isn't trying.