NATIONAL REVIEW ONLINE

MAY 9, 2012 4:00 A.M.

Europe's Failed 'Austerity'

Tax hikes now and reform later haven't worked there, and they won't here.

By Michael Tanner

In the wake of French and Greek elections last weekend, the backlash against European austerity is now in full swing. Meanwhile, in the U.S., advocates of big government are insisting that the European debacle proves we must reverse our efforts to reduce debt and deficits. After all, Paul Krugman writes in the *New York Times*, "claims that slashing government spending would somehow encourage consumers and businesses to spend more have been overwhelmingly refuted by the experience of the past two years."

Given Europe's continued slow growth, Professor Krugman might have an argument to make — *if there actually had been any austerity in Europe over the last two years.*

It is true that Europe has not been engaged in the same sort of massive Keynesian spending that characterized, say, the Obama stimulus package. Well, that's not universally true. Portugal did try its version of stimulus spending: It pumped more than€2.2 billion into the Portugese economy in 2009, 1.25 percent of its GDP. The result was that economic growth stayed negative, while unemployment rose by roughly 3 million Portuguese workers. Recently, that country's finance minister told the *New York Times* that "it didn't turn things around, and may have made things worse."

At the same time, the rest of Europe was hardly "dismantling" the welfare state, as the *Washington Post*'s Eugene Robinson claims. Of course, given that the average EU government consumes more than half of a country's GDP, a bit of dismantling might be in order. But so far, European governments haven't even been willing to take a penknife to the welfare state, let alone an axe.

In France, for example, the so-called austerity largely consisted of raising taxes. There was a 3 percent surtax on incomes above €500,000, an increase of one percentage point in the top marginal tax rate (from 40 to 41 percent), and an end to the automatic indexation of tax brackets for inheritance, wealth, and income taxes. There was also a 5 percent hike in the corporate income tax on businesses with revenue of more than €250 million, as well as a hike in the capital-gains tax, and closure of several corporate tax breaks. And even though most of these tax hikes were aimed at the wealthy, the middle class did not get off free. There was an increase in the Value Added Tax (VAT) and the excise taxes on tobacco and alcohol.

That's an agenda that should gladden the heart of any tax-increase zealot — or even Paul Krugman.

True, there were some entitlement reforms and spending reductions. But they haven't actually occurred yet. For example, France will raise its retirement age from 60 to 62, but not until 2017! A cap would also be put on government health-care spending, starting next year. It is a little hard, therefore, to discern whether it is budget cuts that may or may not happen some day in the future, rather than tax increases today, that have slowed French economic growth.

Or take Britain, where the Tory-Liberal coalition recently suffered a drubbing in local elections, in part as a reaction to so-called austerity measures. Among the Cameron government's first "austerity" measures was to hike the personal income tax to 50 percent for those earning more than £150,000 a year. That measure managed to actually decrease income-tax revenues by £509 million. The U.K. did trim government payrolls and cut back on some government programs, but British government spending still consumes more than 49 percent of GDP. Government spending actually increased by £59.2 billion from 2009 to 2011.

Other European countries have taken the same approach: tax hikes today (especially) on the rich and promises of tiny benefit cuts in the dim and distant future. Spain imposed a “wealth tax” on citizens with €700,000 of assets, and a 7 percent income tax on those earning more than €300,000 per year; capital-gains taxes were also hiked. Italy imposed a “Solidarity Tax” of 3 percent on all taxpayers who earn more than €300,000. Greece increased taxes by nearly twice as much as it cut spending, including a 5 percent surtax on the wealthy. VATs were hiked nearly everywhere. And fuel, alcohol, and tobacco were also prime tax targets.

It should come as no surprise that all those new taxes, combined with a *lack* of spending restraint, has threatened to throw Europe back into a double-dip recession. Is it any wonder that French, Greek, and British voters were anxious to “throw the bums out”?

Wait, this sounds familiar. Tax hikes on the rich accompanied by vague promises of future spending restraint, while refusing to restructure entitlement programs. That sounds a lot like . . . Barack Obama.

Maybe the U.S. can learn something from Europe after all.

— *Michael Tanner is a senior fellow at the Cato Institute and author of* Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution.