

FEBRUARY 29, 2012, 1:40 PM

Spain Moves To Top of Tax Table

By Stephen Fidler

Soon after it took office, the new government of Prime Minister Mariano Rajoy raised income taxes to curb a swelling budget deficit. We have [written before](#) that the by-now conventional wisdom, supported by the International Monetary Fund and others, is that cutting government spending is a more effective way to squeeze budget deficits than raising taxes. Mr. Rajoy's right-leaning government nonetheless chose to raise taxes "temporarily," apparently because it was viewed as socially more equitable than the alternatives.

The tax increases, write Spanish economists Juan Ramón Rallo, Ángel Martín Oro and Adrià Pérez Martí in a [paper](#) published today for the free-market Cato Institute, have left Spaniards paying among the highest income tax rates in Europe.

"Following the tax increase, Spanish individuals will be paying one of the highest personal income tax rates in Europe. For instance, from 2012 onwards, only Sweden and Belgium, with 56.4% and 53.7%, respectively, will have a higher top marginal income tax rate than Spain, which stands at 52%. However, if one takes into account local surcharges imposed by some Spanish regional governments, the top marginal rates rise further. In Catalonia, for example, the top tax rate is 56%."

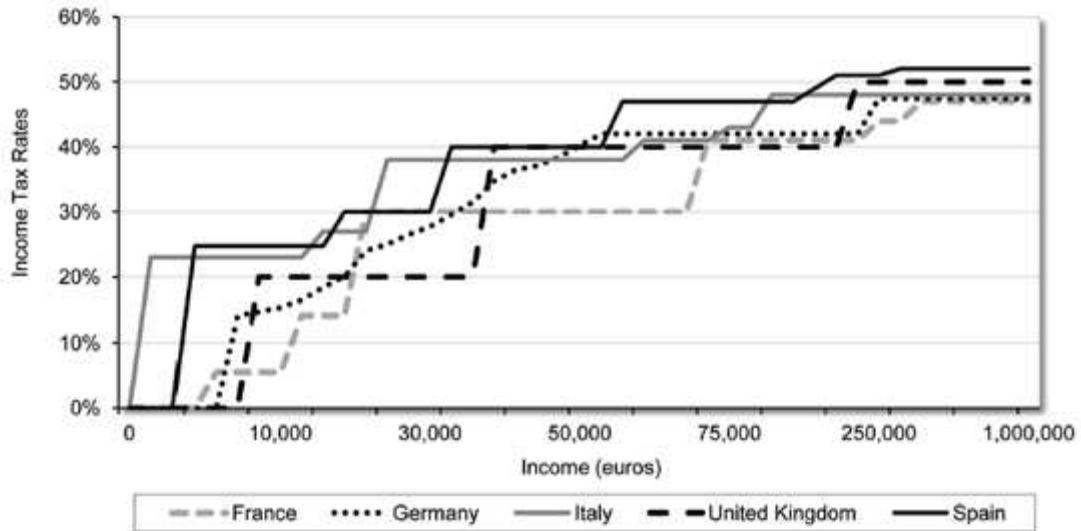
For just about any income, Spanish tax rates are higher than in France, Britain, Italy and Germany, they say, adding:

"All of those countries enjoy a considerably higher income per capita than Spain and thus can more easily withstand higher taxes than a poorer country. With Rajoy's tax hike, Spain suffers from the worst of both worlds: very high taxes combined with decreasing income and employment levels. At 23%, Spain has the highest unemployment rate in the European Union."

The approach will hit growth in a year where the economy is already expected to contract by 1.5%, the economists say.

The issue is that the government has refused to tackle the tougher task of curbing public spending, they suggest. “The real problem behind Spain’s dire public finances is not an insufficient level of government revenues; rather, it is a problem of excessive spending.”

Figure 1
Personal Income Tax Rates in Selected European Countries



Source: Observatorio de Coyuntura Económica, Instituto Juan de Mariana.