France provides a lesson in how not to cut a deficit [1]

Written by **Chris Harlow** [2] | Friday 7 September 2012

The French government seems determined to drive out its wealthiest and most productive citizens. President Hollande is striving forward with his anti-rich campaign, setting a target ofraising €7.2 billion through taxes and levies on high earners, wealthy households and big corporations [3]. Steadfastly ignoring evidence that suggests imposing high taxes on the most productive and those who are most able to move abroad will be at best inefficient, at worst ruinous, he proudly boasts of the huge revenues he expects to bring in.

One big idea is toraise the top rate of income tax [4] for those earning above €1m p.a. to 75%. European Affairs Minister Bernard Cazeneuve defended against the notion that high earners and spenders will simply move out of the country by stating that there are ?French bosses who are patriots? and ?there is a range of measures we will take in favour of business, measures that will support investment and encourage business to stay in France.? Leaving out the odd notion that businessmen and wealth creators put patriotism above financial security, why not encourage businesses to stay by not taxing them and the people that run them? This would have the double benefit of not trying to redistribute the collected taxes into businesses that the government think are best for the people rather than those that the people think are best for the people. Cameron gleefully offered to roll out the red carpet for French ?tax refugees? (to which French Labour Minister Michel Spain rather weakly reposted that rolling out a red carpet over the channel would ?risk taking on some water?).

This August, France became the first EU country toimpose a financial transactions tax [5] for publicly traded businesses with a market value above €1bn, deciding that the originally proposed 0.1% wasn?t high enough and doubling it to 0.2%. FTTs are supposed to reduce incentives to destabilise the market through speculation, but in realityincrease volatility [6] and reduce price discovery and liquidity on the market. Further, unilaterally implemented FTTs will not raise the revenues expected due to tax avoidance strategies by traders and businesses. A prime example is Sweden in the 1980s, which imposed a 0.5% (later 1%) FTT on all purchases and sales of equity. This resulted in a mass exodus of between 90-99% of Swedish traders to London and the tax was eventually abandoned as it did not raise the revenues expected.

Not only is Hollande driving out domestic productive individuals and businesses, it seems he would also like to discourage wealthy tourists from contributing to the national economy. The French Constitutional Council has approved atax on foreigners with second homes in the country [7], raising capital gains tax on the sale of second homes from 19% to 34.5% and raising the rate rented home owners have to pay from 20% to 35.5%. The extra capital gains tax mirrors the tax on French residents that they pay in exchange for the social benefits they receive from the state; note that foreign homeowners will not receive these

benefits, which is believed by some to make the tax discriminatory and therefore against EU law. Because of the ?social? nature of the tax, those affected may not be covered by the UK-France double tax treaty, which prevents individuals from paying income and capital gains taxes twice. Again, revenues collected from this move won?t be nearly as high as the predicted €50m, as foreign homeowners will just relocate elsewhere.

Other easy sources of revenue come from a €2.3bn levy on wealthy households and €1.1bn in one-off taxes on large banks and energy firms. All of this comes amid bizarre schemes such as temporarily cutting fuel taxes for three months and hypocritical policies such as bailing out ailing bank Dexia and guaranteeing the debts of non-systemic mortgage lender Credit Immobilier de France. Scapegoat policies against the wealthy might win Hollande votes from the disenchanted poor, but they won?t help them get back on their feet in the long run.

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