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Cut the VAT now!

The two biggest Czech news stories today are the layoffs at the TPCA car factory in Kolín and the huge shortfall in VAT receipts. Taken together, they're reason for the cabinet to scrap its plan to raise the two VAT rates by 1 percentage point next year to 15% and 21%. Czech exporters are starting to see their sales deteriorate, and Czech consumers are responding to the worsening economic situation by sharply reducing their spending. As we've said before, raising VAT in such a situation is a fatal mistake. The latest numbers show that Miroslav Kalousek has utterly failed (again) to anticipate the impact of his policies. We propose LOWERING both VAT rates to a level that stimulates sales, supports employment, and minimizes the drop-off in tax receipts. Our back-of-the-envelope calculation produces rates of 7% and 15%. But of course for this to work, the politicians would also need to quit stealing so much.