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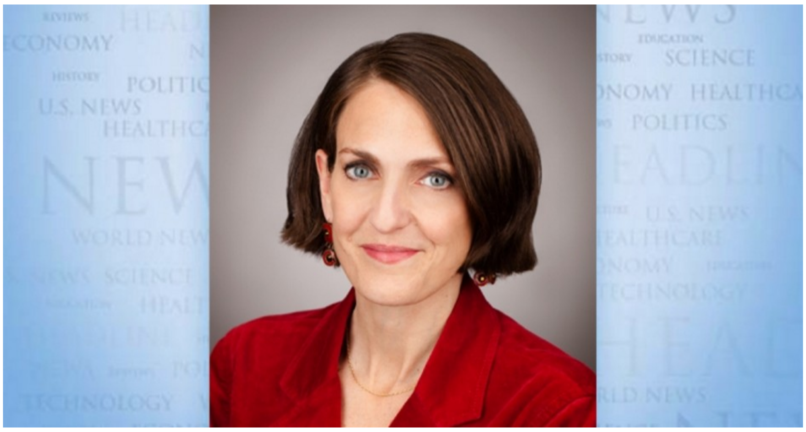
Is the US on the Path to French-style Economic Sclerosis?



There is a lot of debate over President Donald Trump's record after his first 100-plus days in office. Defenders of the president point to his successful efforts on deregulation, the successful appointment to the Supreme Court of Neil Gorsuch and his steadfast desire to implement substantial tax reform. Critics point to his insistence on counterproductive immigration and trade policies, an incoherent foreign policy, and his overall lack of policy acumen. One thing is for sure, however: The United States is headed toward French-style economic sclerosis if Washington continues its reckless spending spree.

My native France is an economic mess. It might sound wonderful to some that the French are "entitled" to health care, can retire at age 60, have to work for only 35 hours a week and get "free" education. But this spending comes at a cost; 57 percent of the French economy (as measured by the gross domestic product) is spent every year by the government. To pay for it, you need more taxes — and not just high marginal income tax rates and payroll taxes. The French also pay a 20 percent value-added tax, pay a 33.33 percent corporate income tax and have hundreds of other punitive revenue-generating measures.

French policymakers have responded to the resulting sluggish economic growth and persistently high unemployment by making the market for labor horrifyingly inflexible and insulating workers from the competitive market forces that generate long-term prosperity. This results in stubbornly high unemployment rates, mounting debt and the exodus of intelligent French brains to other countries with brighter economic prospects. The mood has become so grim that more than 10 million French voters just turned to the National Front party of Marine Le Pen for hope.

Although Le Pen lost to centrist Emmanuel Macron, little will change unless major reforms are made to the debilitating French welfare system, which pays people not to work while providing handouts for everything from the rent to subway tickets. It's admittedly hard for me to be optimistic, given how ingrained government dependency is in France. But my bigger concern is that the United States is on the same path — even if there's a substantial reduction in red tape here and Trump is able to implement reforms to a tax code that currently suffocates job producers and disincentivizes working, savings and investment. Although we can still pat ourselves on the back for not having fully embraced France's combination of big government and low growth, any hope for 3 or 4 percent annual economic growth that Trump officials are relying on will fade if federal spending — and its byproduct, debt — isn't curtailed.

Unfortunately, there remains scant evidence that the Trump administration is interested in pursuing the measures necessary to bring federal spending and debt under control. Trump never misses a chance to tout his alleged deal-making prowess, but his administration's first budget negotiation just ended with higher spending and Democrats getting most of what they wanted. Then there's the American Health

Care Act (already being labeled “Trumpcare”), just passed in the House. Despite what its apologists claim, even if it were to be signed into law as is, it wouldn’t get rid of Obamacare. Sure, Trumpcare would cut taxes, but as we’ve seen in the past, tax cuts don’t last long if spending continues to flow unabated.

Indeed, if critics are correct, Trumpcare could end up making health care in this country worse. That outcome would most likely translate into more government spending (including potentially massive bailouts), and promised cuts to Medicaid could actually turn into an expansion of a program that is already a budgetary problem at both the federal level and the state level. Oh, did I mention the not-so-small problem of the fact that Social Security and Medicare are consuming an ever greater share of budgetary resources? The president says he remains committed to leaving those programs untouched, which would be the height of fiscal irresponsibility.

Should all of this blow up on Trump and the GOP, the predictable response from Democrats and their allies on the left would be to push for more wealth-destroying taxes, including the implementation of a value-added tax on top of the current tax morass. It could also mean more pressure to achieve the left’s dream of a completely government-run single-payer health care system.

Vive la Trump? Definitely not yet.

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.