

EUROPEAN AND THIRD WORLD TAXES (2006)

Abolishing tax on work and taxing consumption does not take away from the Third World the advantage they have over us Economically, a country increases its internal wealth by exporting. The foreign exchange paid to the exporting country helps to increase its Gross Domestic Product.

That is what is happening in China, for example. The money paid by the purchasers of Chinese goods goes into China.

For a long time Belgium increased its wealth by exporting, and this is happening still today. Already in the 19th century Belgium sold iron for the construction of railways in America, China and elsewhere.

Today, Belgian beer is sold as far afield as Japan.

On the international level, it is often considered that low salaries are the main attraction for company migration.

The chart below amply shows that they are far from being the primary cause.

What enables Chinese companies to make fat profits is above all the absence of social charges in China.

And that leads to companies leaving Europe, where labour is too expensive.

Price pattern for the same product made in Europe and China

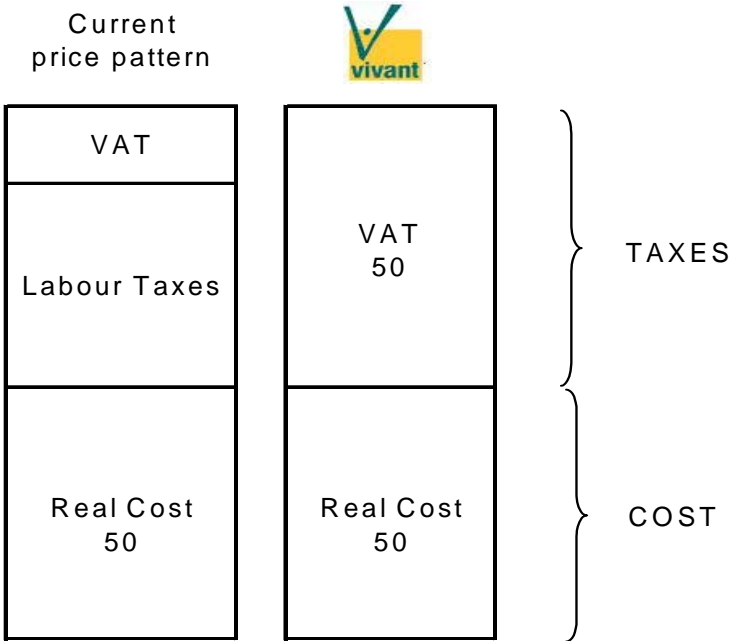
Europe	China
VAT	VAT
Employer Tax	Employer Tax
Income tax	Profit
Payroll Tax	
Profit	
Amortization	
Net salary	Amortization
Raw materials	Net salary
	Raw materials

These fat profits enrich the country, but mainly a privileged class, which is now beginning to invest even in Europe (e.g. Vilvoorde in Belgium).

It is not at all sure that this money is of benefit to the average Chinese citizen.

VIVANT’s programme advocates, at the European level, funding our welfare system by way of consumption, thus freeing work from social charges. This “social VAT” varies according to the product so as, as the chart below shows, **to keep the selling price at the same level as before.**

For products manufactured in Europe
the selling prices in the store remain unchanged



This does indeed have consequences for China (Third World).

In effect, the European selling price does **not change**. On the other hand, the price of goods from China, taxed like the goods from Europe (for like goods are taxed alike regardless of where they come from), may well go up if the Chinese producer keeps **his profit margin**. His goods then become less competitive. VIVANT’s programme implies a reduction not in the already low rate of pay of the Chinese worker but **in the manufacturer’s profit margin**.

Some people are worried that this method of taxation would deprive Third World countries of the advantage they at present have over us and thereby jeopardise their development (see notes 1 and 2).

But this is more apparent than real: for who benefits from **these enormous profits**? Chinese development would be better served by reducing profit margins and raising the purchasing power **of the Chinese people**.

It is also a mistake to think that Europe will **always be rich** and therefore able to finance the development of some rich Chinese.

Is it certain that in a few years’ time China will have a welfare system similar to those of the rich countries? And that **Europe should bear the brunt and contribute to China’s development by continuing to import vast quantities of their products**? And that the whole population of the

country will benefit from the enrichment of Chinese corporations? Just because some Chinese regions (designated by the Party) are developing better than others?

Is it not rather the case that such thinking is a simplistic extrapolation which overlooks the fact **that China is not a democracy?** And that China's success also owes much to **the reduced purchasing power of Europeans**, who are happy to buy cheap goods that keep inflation down and interest rates at minimum levels so that they can borrow (or over-borrow)?

Another point: China needs oil. The Chinese are not champions of ecology or energy conservation, and fuel prices are going up, **further eroding the purchasing power of Europeans**. Inflation could well go up, and interest rates with it, thus further reducing the purchasing power of Europeans who have taken out loans and so will have to reimburse more.

Isn't there another way of handling things?

There are two ways of making a country richer, and they are complementary:

1. By exporting.
2. By increasing citizens' purchasing power - source of work and wealth.

And how is purchasing power to be maintained? **By growth of internal and external trade.**

This makes **the regulatory role** of the WTO necessary, so long as it does not authorise state subsidies that make competition between rich countries and poor countries unfair.

Take away from developing countries their possibility to export and you impoverish them, and **allowing** the development of a privileged class at the expense of social justice is no better. The European agriculture policy, with its extensive subsidies, skews the rules of fair competition and slows down development in the Third World. In a previous article we demonstrated the bad consequences of the subsidy system, which, once in place, is **very difficult to take away**.

(See note 3: "**Subsidise? Yes, but what?**")

At present, **the capitalist system has to be piloted**; if not it will destroy itself, **for robots** are increasingly replacing workers everywhere (even in China). A surfeit of cheap labour on **offer brings down the incomes** of the working classes and of the population as a whole.

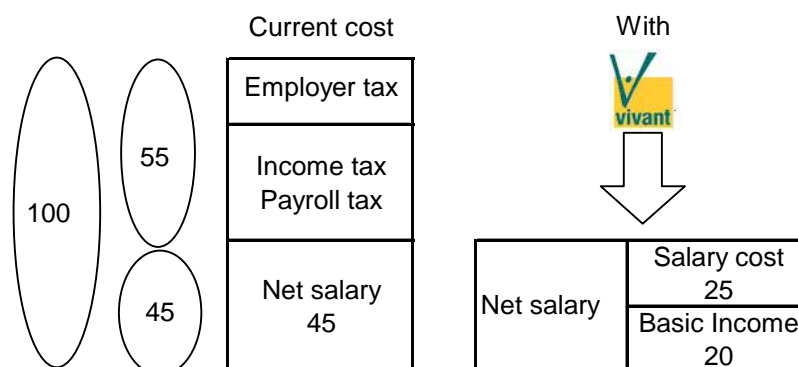
The capitalist system can survive only if purchasing power is spread throughout the population.

The Basic Income (see notes 4 and 5), a new parameter, **reconciles the ideal of solidarity with the free market**.

It constitutes both **a subsidy** to employment and **a support** of purchasing power in the fight against poverty.

When combined with the abolition of taxes on work, the Basic Income preserves the European welfare system and prepares the Third World for financing its own welfare system through consumption.

Pattern of Labour cost



In the end, trade between parties that are too unequal **leads to poverty**; trade between partners on a basis of reciprocity brings development and wealth.

Countries in the North have **an interest** in seeing that countries in the South should develop. If they don't, there is a risk that Europe should turn into a fortress of well-being (and for how long?) **under permanent siege from hordes of immigrants**.

Globalisation presents **an opportunity** for poor countries as long as it is **conducted in another way**.

It presents **an opportunity** for everyone because trade between different peoples, on a basis of **reciprocity**, is favourable to peace and economic prosperity.

In the long term, if globalisation is conducted wisely it should be possible to replace the force of arms with that of the Law.

Talk of **a world parliament** and of world legislation having regard for regional differences is not entirely utopian: it will become necessary if we want to keep our stake in the world.

For its part, VIVANT has a contribution to make to this great undertaking: it offers neither more nor less than a fairer distribution of wealth together with the techniques for achieving it.

Globalisation that will bring good requires wise but realistic management that avoids pompous conflicts and keeps its eye on, and can point others to, the Common Good.

By funding welfare systems in Europe and the Third World through consumption a stable structure of purchasing power and of fairer wealth distribution can be **put in place**.

And the globalisation that seems so problematic today will be replaced by a world-wide structure of socio-economic links at the individual and collective level.

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